



Response to FINRA File Number SR– FINRA–2024–007:	FINRA / SEC References:
<p data-bbox="100 379 1182 411"><i>It is assumed that for SEC 10c-1a Cash Driven &amp; Triparty Securities Loans are out of scope:</i></p> <p data-bbox="147 451 403 483"><b>1. <u>Cash Driven SL's:</u></b></p> <ul data-bbox="241 491 1624 1305" style="list-style-type: none"><li data-bbox="241 491 1624 555">a. Companies should book the trades to the template that best fits (REPO) and annotate the trade agreement in Field 2.09 (Master Agreement Type) under which it is governed</li><li data-bbox="241 563 969 595">b. The SFTR Repo template allows for security substitutions.</li><li data-bbox="241 603 1624 1305">c. Trade structures such as that outlined below present a unique problem, they are considered 'Cash[1]driven' securities loans whereby a larger Cash transaction is booked against multiple smaller Securities transactions. From a regulatory perspective these will be considered "Reverse Stock Loans". Some features of Reverse Stock Loans are outlined below: They will generally feature a relatively large cash sum They will have multiple smaller securities positions They are 'cash-driven' which means that changes in exposure are managed by changing the amount/value of outstanding securities each day Note that this differs from a Borrow vs Cash or Borrow vs Cash-pool as in those cases exposure is managed by changing the outstanding Cash amount each day This behaviour means the securities should be treated as collateral 1. Given that the multiple securities components and single cash component are part of the same trade structure, they must be reported under a single UTI. The problem this presents is that this cannot be done using the 'SLEB' reporting structure. This is however allowable using the 'Repo' reporting structure. Thus, a Reverse Stock Loan should be reported as below: Loan side – The full cash amount should be reported on a single UTI (NEWT) Collateral side – All individual securities should be reported as individual components of collateral (COLUs) under that same UTI 2. Suggested reporting is below: The Cash Loan is reported as a NEWT on UTI123 Security 1 is reported as a COLU on UTI123 Security 2 is reported as a COLU on UTI123 Security 3 is reported as a COLU on UTI123 Why the Repo template is required over the SLEB template It is not possible to report a reverse securities loan under SFTR using the loan and collateral data fields dedicated to securities lending by the RTS and ITS on-transaction reporting and the Validation Rules. One obstacle to reporting reverse securities loans as securities loans arises from the fact that the SFTR reporting framework implicitly assumes, in the case of a transaction reported as a securities loan (Table 2, field 4, Type of SFT = SLEB), that any cash is identified as collateral while any security is identified as a loaned security.</li></ul>	<p data-bbox="1664 379 2029 842">Cash Driven &amp; Triparty Securities Loans are not per se mentioned in the FINRA Proposed Rules or indeed the SEC Final Rules, however, these are SFT transactions that are executed by member firms and when regulations come into play Cash Driven &amp; Triparty securities loans often get missed leaving firms lost as to what to do in terms of compliance.</p> <p data-bbox="1664 882 2029 1058">Both of these points here were sent to Ranada at BBH who is writing up the main points for ISLA Americas to be filed with the SEC by Friday 5<sup>th</sup> July 2024.</p>



- d. The problem here is that the framework allows only one loaned security to be reported per transaction (Table 2, field 41, Security Identifier), whereas reverse securities loans typically involve multiple security issues.
- e. It would be incorrect to try to resolve this problem by breaking up reverse securities loans into separate transactions each involving one security, which was one suggestion, as this approach would misrepresent the legal structure of the transaction and would also produce a set of apparently unrelated transactions. Many of these could be terminated at different times, as they could be substituted, obscuring the true term of the exposure agreed by the parties. This approach would also be prohibitively complicated in view of the typical frequency and size of changes to the securities.

**2. Triparty SL's:**

- a. All the above points are appropriate for Triparty SL's too.
- b. The use case in question is a cash driven transaction documented under GMSLA facilitated by triparty collateral.
- c. As it is documented under a GMSLA we believe the loan could be technically made up of the allocated collateral for the day and could be in scope for CAT, TRACE or MSRB.
- d. These types of transaction should be considered as Repo (as they are economically more aligned to repo) as per SFTR regulatory reporting.