



Response to FINRA File Number SR– FINRA–2024–007:	FINRA / SEC References:
<p data-bbox="100 379 873 411"><i>Clarity required around the “definition” of the word “Customer”</i></p> <p data-bbox="100 451 1321 483">We would like clarity on and further guidance on ‘customer’. As it is written, ‘customer’ appears twice:</p> <p data-bbox="100 523 1635 738">The first time is when requiring the parties to a trade to identify themselves: (1) Page 6 of FINRA Proposed Rules 117 pages - If known, the legal name of each party to the covered securities loan, other than the customer from whom a broker or dealer borrows fully paid or excess margin securities pursuant to § 240.15c3-3(b)(3) (“Rule 15c3-3(b)(3)”) of the Exchange Act, Central Registration Depository (“CRD”) or Investment Adviser Registration Depository (“IARD”) Number, market participant identification (“MPID”), and the LEI of each party to the covered securities loan, and whether such person is the lender, the borrower, or an intermediary between the lender and the borrower;</p> <p data-bbox="100 778 1624 882">The second time, when determining whether the inventory flag is required: (2) Fields 42,43 and 46 source of Loan - If the person lending securities is a broker or dealer and the borrower is its customer, whether the security is loaned from a broker’s or dealer’s securities inventory to a customer of such broker or dealer;</p> <p data-bbox="100 922 1630 1345">The explanations then go further into this: “Wholesale market,” while loans from a broker or dealer to the end borrower occur in what is referred to by market participants as the “Customer market” (sometimes also known as the “retail market”). Obtaining a securities loan often involves an extensive search for counterparties by brokers or dealers. Brokers and dealers are the primary borrowers of securities; they borrow for their market making activities or on behalf of their customers. Brokers and dealers who borrow securities typically re-lend those securities or use the securities to cover fails to deliver or short sales arising from proprietary or customer transactions. While the identities of the ultimate securities borrowers are usually unknown, anecdotally, hedge funds rank among the largest securities borrowers and access the lending market mainly through their prime brokers. Brokers and dealers may also lend securities that are owned by the broker or dealer, customer securities that have not been fully paid for (i.e., have been purchased with a margin loan from the broker or dealer), and the securities of customers who have agreed to participate in a fully paid securities lending program offered by their broker or dealer. Other securities lending transactions are often facilitated by a third party. Custodian banks have traditionally been the primary lending agent or intermediary and lend securities on behalf of their customers for a fee.</p>	<p data-bbox="1664 379 1971 451">Page 6 of FINRA Proposed Rules 117 pages.</p> <p data-bbox="1664 491 2016 563">Fields 42,43 and 46 Source of Loan.</p>



Questions that require further guidance:

1. Is the use of 'customer' the same in both these scenarios?
2. If it is the same in both scenarios, how is a customer identified? Is a broker lending to another broker considered a customer of the lending broker?
3. What rule can I give my developers to ascertain that the definition and rules associated to 'customer' are defined correctly?
4. Looking at fields 42,43 and 46 this seems like SFTR where the SEC / FINRA are looking to capture margin loans done by Prime Brokers, is this a correct understanding?