UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

DIVISION OF
TRADING AND MARKETS

March 30, 2026

Francis Garritt
CEO and President
ISLA Americas
500 Office Center Drive, Suite 400
Fort Washington, PA 19034

Robert Toomey
Managing Director and Associate General Counsel
Securities Industry and Financial Markets Association
120 Broadway, 35th Floor
New York, NY 10271

Re: Rule 15c3-3 Reserve Formula

Dear Messrs. Garritt and Toomey:

In your letter dated March 30, 2026 ("Letter"), ISLA Americas ("ISLA") and the Securities Industry and Financial Markets Association ("SIFMA") requested that the staff of the Division of Trading and Markets ("Division") not recommend enforcement action to the Securities and Exchange Commission ("Commission") regarding Rule 15c3-3 under the Securities Exchange Act of 1934 ("Exchange Act") if a broker-dealer pledges customer margin equity securities as collateral for equity securities borrowed to cover customer short sales or make delivery on customer fails to deliver, and includes a debit under Item 11 of the customer Reserve Formula[1] for the market value of such equity securities borrowed to cover customer short sales or make deliver on customer fails to deliver.[2] ISLA and SIFMA state that granting its request will improve liquidity in securities lending markets, which would be of particular importance in stressed market environments, and provide beneficial owners and agent lenders with an additional, important risk management tool for their respective securities lending programs. ISLA and SIFMA further state that it will reduce operational risk.

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1 See 17 CFR 240.15c3-3a.

2 In your Letter you also requested analogous treatment for the PAB Reserve Formula. See 17 CFR 240.15c3-3a.

At present, a broker-dealer that borrows securities to deliver on customer fails to deliver or to cover customer short sales and collateralizes such borrow with cash or U.S. Treasury securities may include a debit under Item 11 of the customer Reserve Formula. However, we understand that some firms enter into a series of transactions where the firm (i) loans customer margin equity securities in a stock lending transaction and receives cash; and (ii) pledges the cash as collateral and borrows securities that are used to cover a customer short sale or customer fail to deliver and includes a debit under Item 11 of the customer Reserve Formula in the amount of the cash pledged. Under the approach outlined in your Letter, a broker-dealer could pledge customer margin equity securities (that are also Russell 1000 or S&P 500 equity securities) to collateralize a customer equity security borrow to cover a short sale by a customer or to make delivery on a customer's security fail to deliver. Under these circumstances (and subject to additional steps to be taken by the broker-dealer, discussed below),[3] you propose that a broker-dealer be permitted to include a debit in the customer Reserve Formula for the market value of the equity security borrowed.

Your Letter states that broker-dealers will develop and build internal controls to perform a separate allocation (the "equity for equity allocation") consisting of the customer equity collateral used to borrow equity securities to cover customer shorts or deliver on customer fails.[4] These controls will be utilized each day and documented in writing.

Your Letter states that a broker-dealer pledging customer margin equity collateral will include a credit under Item 3 of the customer Reserve Formula in the amount of the market value of the equity securities loaned or pledged. Finally, your Letter states that a broker-dealer will make available to the staff of the Commission and to its designated examining authority ("DEA") the internal controls and accompanying documentation governing the equity for equity allocation.

Based upon the representations in your Letter, the Division will not recommend enforcement action to the Commission under Section 15(c)(3) of the Exchange Act and Rule 15c3-3 thereunder if a broker-dealer includes a debit item under Item 11 of the customer Reserve Formula or PAB Reserve Formula under the following circumstances:

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3 Commission Order 34-105108 ("Order") designates a diversified basket of customer margin securities or PAB account securities that are Russell 1000 and S&P 500 equity securities as permissible collateral for borrowing equity securities from certain customers (and subject to additional conditions set forth in the Order) pursuant to paragraph (b)(3) of Rule 15c3-3. A broker-dealer utilizing this letter will comply with that Order, to the extent applicable.

4 Broker-dealers will develop and build a separate equity for equity allocation for PAB securities. Your letter represents that the PAB equity for equity allocation will work in the same manner as the customer equity for equity allocation and will operate pursuant to the same circumstances that you describe for the customer equity for equity allocation.

(1) (a) (i) A broker-dealer pledges a customer equity security as collateral to an equity security borrowed to cover a customer short sale, or to make delivery on a customer fail to deliver, or an equity security borrow that allocates to a customer account; or (ii) a broker-dealer pledges a PAB equity security as collateral to an equity security borrowed to cover a PAB short sale, or to make delivery on a PAB fail to deliver, or an equity security borrow that allocates to a PAB account. The amount of the debit under Item 11 of the customer Reserve Formula or PAB Reserve Formula, respectively, should be the market value of the equity security borrowed where the broker-dealer can evidence that such equity security pledged allocates to a customer or a PAB long position, as applicable and is a Russell 1000 or S&P 500 equity security (collectively, "eligible equity collateral") pledged to the lender. If any equity security that satisfied the criteria for customer or PAB eligible equity collateral when it was pledged ceases to be customer or PAB eligible equity collateral (e.g., it ceases to be a Russell 1000 or S&P 500 equity security), the broker-dealer has five business days to substitute other collateral that qualifies as eligible equity collateral or close out the stock borrow;

(b) (i) the broker-dealer loans a customer equity security and receives in an equity security as collateral, irrespective of whether the security loan is made to a customer or a counterparty other than a customer, and the collateral received is used to cover a short sale by a customer or to make delivery on a customer's security fail to deliver or a, or the collateral received allocates to a customer account; or (ii) the broker-dealer loans a PAB equity security and receives in an equity security as collateral, irrespective of whether the security loan is made to a customer or a counterparty other than a customer, and the collateral received is used to cover a PAB short sale or to make delivery on a PAB fail to deliver, or the collateral received allocates to a PAB account. The amount of the debit under Item 11 of the customer Reserve Formula or PAB Reserve Formula, respectively, should be the market value of the collateral received.

(2) (a) When a security is received as collateral to a securities loan the broker-dealer includes: (i) in Item 3 of the customer Reserve Formula the market value of the security loaned (including any amounts by which the market value of the security loaned exceeds the value of the collateral received) that allocates to a customer long position; or (ii) in Item 3 of the PAB Reserve Formula, the market value of the security loaned (including any amounts by which the market value of the security loaned exceeds the value of the collateral received) that allocates to a PAB long position;

(b) when a security is pledged as collateral for a security borrow, the broker-dealer includes: (i) in Item 3 of the customer Reserve Formula, the market value of the security pledged that allocates to a customer long position; or (ii) in Item 3 of the PAB Reserve Formula the market value of the security pledged that allocates to a PAB long position.

(3) The broker-dealer performs daily customer Reserve Formula and PAB Reserve Formula computations and marks to market daily all non-cash Item 3 credit and Item 11 debit items in the customer Reserve Formula and PAB Reserve Formula, respectively.

(4) The broker-dealer develops and builds internal controls to perform a customer equity for equity allocation and PAB equity for equity allocation that are utilized each day, documented in writing, reasonably designed to ensure that such allocations are consistent with the circumstances set forth herein, and that there is no cross-over between the customer Reserve Formula and PAB Reserve Formula with respect to the equity for equity allocations.

(5) Upon request, a broker-dealer will make available to the staff of the Commission and to its designated examining authority the internal controls and accompanying documentation governing the equity for equity allocation.

The Division staff position is based strictly on the facts and circumstances stated in your Letter. Any different facts or circumstances may require a different response. Furthermore, this response expresses the Division staff's position regarding enforcement action under Rule 15c3-3 only and does not purport to express any legal conclusions on the questions presented. This Division staff position does not extend to Regulation SHO, including Rules 203 and 204. The Division staff expresses no view with respect to any other questions that the proposed activities may raise, including the applicability of any other federal or state laws, or self-regulatory organization rules. This position is subject to modification or revocation by the Division staff at any time.

Sincerely,

Raymond A. Lombardo
Assistant Director
Division of Trading and Markets

March 30, 2026
Mr. Michael A. Macchiaroli
Associate Director
Division of Trading and Markets
Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549

Re: Request for a Commission Order Designating Certain Equity Securities as Collateral a Broker-Dealer May Provide When Borrowing Customer Securities and Related No-Action Relief From the Division of Trading and Markets Regarding the Rule 15c3-3 Reserve Formula.

Dear Mr. Macchiaroli:

On behalf of their respective members, the International Securities Lending Association Americas and the Securities Industry and Financial Markets Association (the "**Associations**") hereby request **(i)** that the Securities and Exchange Commission ("**SEC**" or "**Commission**") adopt an amendment or supplement to its existing order under paragraph (b)(3) of Rule 15c3-3 under the Securities and Exchange Act of 1934 (the "**Exchange Act**") to deem certain equity securities as collateral meeting the requirements of Rule 15c3-3(b)(3) when borrowing equity securities from customers on the conditions described below and **(ii)** written assurance that the staff of the Division of Trading and Markets (the "**Staff**") of the Commission would not recommend enforcement action under Rule 15c3-3 if, in connection with such borrowing and pledging, a broker-dealer includes a debit under item 11 of the customer Reserve Formula for the market value of such equity securities borrowed on the additional conditions described below.

I. Background.

Rule 15c3-3(b)(3) provides that a broker-dealer is not deemed in violation of Rule 15c3-3(b)(1) (the "**possession or control requirement**") with respect to fully-paid or excess margin securities borrowed from any customer provided that the broker-dealer and lender enter into a written agreement that meets the conditions specified in the rule, including (among other things) specifying that the broker-dealer:

> Must provide to the lender, upon the execution of the agreement or by the close of the business day of the loan if the loan occurs subsequent to the execution of the agreement, collateral, which fully secures the loan of securities, consisting exclusively of cash or

United States Treasury bills and Treasury notes or an irrevocable letter of credit issued by a bank as defined in section 3(a)(6)(A)-(C) of the Act or such other collateral as the Commission designates as permissible by order as necessary or appropriate in the public interest and consistent with the protection of investors after giving consideration to the collateral's liquidity, volatility, market depth and location, and the issuer's creditworthiness.

In 2003, the Commission issued an Order Regarding the Collateral Broker-Dealers Must Pledge When Borrowing Customer Securities, Rel. No. 34-47683 (Apr. 16, 2003) (the "**2003 Collateral Order**") allowing broker-dealers that borrow fully-paid or excess margin securities from customers to pledge a wider range of collateral than was previously permitted under Rule 15c3-3(b)(3). In issuing that order, the Commission considered whether the risks of customer losses associated with permitting the new types of collateral were sufficiently small relative to the additional benefits that the additional types of collateral will provide, and added several categories of permissible collateral based on their high quality and liquidity.[1]

In light of the 2003 Collateral Order, broker-dealers today can pledge cash, U.S. Treasury Securities, irrevocable letters of credit issued by banks, and certain types of other government securities, government-sponsored enterprise securities, securities issued or guaranteed by certain unilateral development banks, mortgage-backed securities, foreign-sovereign debt securities and foreign currencies when borrowing customer securities, but not equity securities. At the same time, broker-dealers can both: (i) use equity securities (including customer margin equity securities that are not "excess margin securities," and broker-dealer "PAB account" securities) to obtain cash and then (ii) loan cash against equity securities or otherwise use such cash to collateralize a fully-paid equity securities borrow, including with the same counterparty. In effect, in order to both receive and deliver equities in connection with financing transactions, broker dealers can use this "two-transaction model" today to effect transactions that could be effected more simply were broker-dealers permitted to provide customer or PAB equity securities as collateral when borrowing equity securities from a customer.

II. Order Request

The Associations ask the Commission to issue an additional collateral order to designate baskets of marketable equity securities ("**Eligible Equity Collateral**"), as eligible collateral meeting the requirements of Rule 15c3-3(b)(3) under the conditions described below. The Eligible

[1] The Associations note that the 2003 Collateral Order did not alter the requirement that a broker-dealer borrowing any securities to effectuate a customer short sale or to deliver on a customer's fail to deliver may take a debit under Item 11 of the reserve formula only where the broker-dealer uses cash, "qualified securities," or a secured letter of credit to secure the borrowing of securities. See 17 CFR 240.15c3-3a (Item 11).

Equity Collateral would be highly liquid (as evidenced by the fact that the securities comprising Eligible Equity Collateral are treated as marketable securities under the Net Capital Rule) and high-quality collateral. Permitting the use of Eligible Equity Collateral would also add liquidity to the securities lending market and would be risk reducing in several important ways:

- It would reduce operational risk for broker-dealers and their customers/and counterparties, by reducing the number of transactions --and the related legal documentation, operational processes, netting operations, and books and records—required in order to effectuate transactions to both receive and deliver equity securities in a broker-dealers customer business;

- It would facilitate counterparty credit risk management relating to collateral volatility risk, by permitting broker-dealers and their counterparties (*e.g.*, institutional securities lenders) to exchange equities that are more positively correlated than would be equities vs. existing eligible collateral;

- It would provide counterparty security lenders additional alternatives to cash collateral, which would permit them to manage reinvestment risk and potentially provide greater asset value transparency than some cash reinvestment options;

- It may also reduce counterparty and/or custody risk by expanding the use of securities collateral that can be more readily segregated than cash; and

- It would reduce systemic risk for the above reasons and by reducing reliance on the repo market for liquidity and on cash-reinvestment programs, which may drain liquidity during stressed market conditions.

In addition, permitting use of Eligible Equity Collateral would reduce regulatory costs arising from the "two-transaction model" necessitated by Rule 15c3-3 today, which is consistent with Administration priorities.[2]

The ability to pledge Eligible Equity Collateral would only apply in cases where the securities borrowed consist of equity securities (as defined under Rule 3a11-1 under the Exchange Act). Moreover, the principal and/or agent lenders and the borrowing broker-dealers would agree to maintain concentration and diversification standards to their reasonable satisfaction to further reduce the risk of the pledged Eligible Equity Collateral.

[2] See, Exec. Order 14192, "Unleashing Prosperity Through Deregulation" (January 31, 2025).

More specifically, the Associations propose that the exemption be subject to the following conditions:

1. Eligible Equity Collateral can only be provided as collateral when borrowing fully-paid or excess margin equity securities (as defined in Rule 3a11-1 under the Exchange Act) from a sophisticated securities lender (a "**Qualified Institutional Securities Lender**")[3] that is:

    a. A qualified institutional buyer ("**QIB**") as defined in Rule 144A under the Securities Act of 1933 (a "**QIB Lender**");

    b. An entity that owns and invests on a discretionary basis at least $100 million of securities of issuers that are not affiliated with that entity (a "**Securities Investor Lender**"); or

    c. A principal lender represented by an agent lender that is a bank (as defined in Section 3(a)(6) of the Exchange Act) that has, as agent, outstanding loans of securities with an aggregate value of at least $100 million (exclusive of the broker-dealers' activity with the agent lender) (an "**Agent Lender**").

2. Whenever Eligible Equity Collateral is provided to secure a borrow of securities that are denominated in a different currency, the minimum collateralization would be increased by 1% if the securities borrowed are denominated in Euro, British pound, Swiss franc, Canadian dollar or Japanese yen, or by 5% if the securities borrowed are denominated in another currency. For this purpose, an equity security would be deemed to be denominated in the currency of the jurisdiction of the primary exchange on which such security is listed and traded.

3. Eligible Equity Collateral pledged by the broker-dealer must be held at a bank (as defined in Section 3(a)(6) of the Exchange Act) or a broker-dealer.[4]

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[3] In determining whether a prospective lender is a Qualified Institutional Securities Lender, the Associations request that a broker-dealer be entitled to rely on reasonable representations from the prospective lender or its agent as to whether it satisfies these criteria. The Associations further request that if a broker-dealer that provided Eligible Equity Collateral to a lender that it reasonably believed satisfied the criteria of being a Qualified Institutional Securities Lender subsequently learns that the lender does not satisfy such criteria, the broker-dealer be permitted to treat such lender as a Qualified Institutional Securities Lender for five business days. By the end of the fifth business day, the broker-dealer must either substitute other eligible collateral for the Eligible Equity Collateral or hold in possession or control the equity securities borrowed from the lender that was formerly a Qualified Institutional Securities Lender.

[4] In determining whether this condition is satisfied, the Associations request that a borrowing broker-dealer be entitled to rely on reasonable representations from the prospective lender or its agent.

4. "Eligible Equity Collateral" is defined as a basket of equity securities that are included in the Russell 1000 and/or S&P 500 index.[5]

5. Any security pledged to a Qualified Institutional Securities Lender that qualified as Eligible Equity Collateral for such lender when it was pledged would remain Eligible Equity Collateral for five business days from the date such security ceases to meet the requirements. By the end of the fifth business day, the broker-dealer would be required to either substitute other eligible collateral for the Eligible Equity Collateral or hold in possession or control the securities borrowed that no longer constitute Eligible Equity Collateral.

III. No-Action Relief

At present, a broker-dealer borrowing any securities to effectuate a customer short sale or to deliver on a customer's failure to deliver securities may take a debit under Item 11 of the reserve formula only where the broker-dealer utilizes cash, "qualified securities" or a secured letter of credit to secure the borrowing of securities.[6] Due to this limitation, broker-dealers using Eligible Equity Collateral to borrow securities would effectively be restricted from using the equity securities borrowed for their intended purpose as doing so would generate reserve requirements under the formula.

The Associations accordingly request that the Staff not recommend enforcement action if a broker-dealer providing customer margin securities that are Eligible Equity Collateral to a Qualified Institutional Securities Lender as collateral for equity securities borrowed to effectuate customer short sales or make delivery on customer failures includes a debit in Item 11 of the customer reserve formula provided it takes several other steps to provide for proper reserve account allocations and balancing. Specifically, a broker-dealer using collateral permitted by the order and taking debits in Item 11 would be required to (i) perform customer reserve calculations daily, as provided in Rule 15c3-3(e)(3)(i)(B) (which may be on a voluntary basis) and (ii) establish and maintain internal controls to perform a daily allocation of customer equity collateral used to borrow equity securities to cover customer shorts or deliver on customer fails (which may be part of its broader allocation process) which (a) have been reasonably designed to provide that the Eligible Equity Collateral used are comprised solely of customer equity securities (and there is no cross-over between the customer Reserve Formula and PAB Reserve Formula (if applicable) with respect to such equity for equity allocations) and (b) require the broker-dealer to promptly remediate any delivery of proprietary or any other securities as Eligible Equity Collateral by either

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5 The Associations request that an exchange traded fund comprised of an unleveraged basket of long Russell 1000 equity securities and/or S&P 500 equity securities also qualify as Eligible Equity Collateral.

6 See, e.g., Rule 15c3-3a (Item 11)/01 (Securities Borrowed for Customer Transactions) *available at* http://www.finra.org/sites/default/files/sea-rule-15c3-3-interpretations.pdf.

making a substitution of securities delivered or removing the relevant portion of the debit. A broker-dealer using collateral permitted by the order and including a debit in Item 11 would also be required to include a credit in Item 3 in the amount of the market value of the securities pledged.[6] The internal controls would be used daily and documented in writing and such controls and accompanying documentation would be made available to the staff of the Commission and the broker-dealer's designed examining authority on request.

Similarly, a broker-dealer providing Eligible Equity Collateral to a Qualified Institutional Securities Lender as collateral for equity securities borrowed to effectuate PAB account short sales or make delivery on PAB account fails to deliver would be able to include a debit in Item 11 of the PAB account reserve formula for the market value of Eligible Equity Collateral under parallel requirements to provide that the securities delivered are limited to PAB account equity securities, to promptly remediate situations where other securities have been delivered and to take corresponding credits in Item 3.

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Thank you for your attention to our request. Should you have any questions or want to discuss further, please do not hesitate to contact Francis Garritt, ISLA Americas at (215) 815-2400 or Robert Toomey, Securities Industry and Financial Markets Association at (212) 313-1124.

Sincerely,

Francis Garritt
Francis Garritt
ISLA Americas Association

Robert Toomey
Robert Toomey
Securities Industry and Financial Markets Association

[6] The Associations understand that the Commission may provide for the same treatment when a broker-dealer loans customer or PAB equity securities and receives in customer equity securities as collateral which is used to make delivery on a customer or PAB short sales or fail to deliver.