SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-105108]

Order Regarding the Collateral Broker-Dealers May Pledge When Borrowing Customer Securities

March 30, 2026.

I. Introduction

Section 36 of the Securities Exchange Act of 1934 ("Exchange Act") authorizes the Securities and Exchange Commission ("Commission"), by rule, regulation, or order, to conditionally or unconditionally exempt any person, security, or transaction, or any class or classes of persons, securities, or transactions from any provision or provisions of the Exchange Act or any rule or regulation thereunder, to the extent that such exemption is necessary or appropriate in the public interest, and is consistent with the protection of investors.

Paragraph (b)(1) of Rule 15c3-3 under the Exchange Act requires a broker-dealer to promptly obtain and thereafter maintain the physical possession or control of all fully paid securities and excess margin securities carried by the broker-dealer for the account of a customer.[1] Broker-dealers frequently borrow equity securities from institutional investors to make deliveries on failed transactions or short sales. In order to use the borrowed securities (i.e., not maintain them in physical possession or control), paragraph (b)(3) of Rule 15c3-3 provides that the broker-dealer, among other requirements, must fully collateralize the loan with cash or United States Treasury bills and Treasury notes or an irrevocable letter of credit issued by a bank

[1] 17 CFR 240.15c3-3(b)(1). "Fully paid" securities are securities carried by a broker-dealer for which the customer has paid the full purchase price in cash. 17 CFR 240.15c3-3(a)(3). "Excess margin" securities are securities carried by a broker-dealer for the account of a customer that have a market value in excess of 140% of the debit balance in the customer's account. 17 CFR 240.15c3-3(a)(5).

as defined in section 3(a)(6)(A) through (C) of the Exchange 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.

By this Order, and subject to the conditions discussed below, the Commission will permit broker-dealers that borrow fully-paid or excess margin equity securities from certain types of institutional investors to pledge a basket of Russell 1000 and/or S&P 500 equity securities ("Eligible Equity Collateral"). The Eligible Equity Collateral was selected based on its liquidity, volatility, and market depth. Further, the issuers of Eligible Equity Collateral are U.S. companies with the largest public share and market capitalization. Moreover, there is ample public financial information available about the issuers of Eligible Equity Collateral. By designating this highly liquid collateral as permissible for the purposes of paragraph (b)(3)(iii)(A) of Rule 15c3-3, the Order is consistent with the rule's objectives, which are designed to ensure that securities borrowings from customers remain fully collateralized.

The Commission considered several factors in deciding whether to designate Eligible Equity Collateral as permissible under paragraph (b)(3) of Rule 15c3-3 and in establishing the conditions that lenders must meet to receive such pledged collateral. The Commission's primary consideration was to limit the risks of lender losses associated with permitting this new category of collateral. In this regard, the securities comprising the Eligible Equity Collateral are treated as securities with a ready market under the broker-dealer net capital rule.[2] In addition, the securities are included in the Russell 1000 and/or S&P 500 equity securities indices. This means

[2] See 15 CFR 240.15c3-1(c)(11).

the companies issuing the securities have large market capitalizations relative to other types of issuers and, therefore, deeper markets for their securities. Moreover, the institutional investors lending equity securities and the broker-dealers pledging Eligible Equity Collateral must agree to maintain concentration and diversification standards with respect to the pledged Eligible Equity Collateral. Finally, paragraph (b)(3) of Rule 15c3-3 requires that the collateral provided by a broker-dealer fully secures its obligation to a customer, and that the value of the loaned securities and the collateral be marked to market daily to meet this requirement. The daily marking to market and over-collateralization should serve to address fluctuations in value.

Designating as permissible the use of Eligible Equity Collateral will add liquidity to the securities lending markets and reduce operational risk by allowing broker-dealers to directly use the Eligible Equity Collateral as collateral for securities loans.

For the forgoing reasons, the Commission finds that this exemption is appropriate in the public interest, and consistent with the protection of investors.

II. Conclusion

Accordingly, IT IS ORDERED, pursuant to section 36 of the Exchange Act, that, Broker-dealers may pledge, in accordance with all applicable conditions set forth below and in paragraph (b)(3) of Rule 15c3-3, Eligible Equity Collateral when borrowing fully-paid or excess margin equity securities from Qualified Institutional Securities Lenders. For these purposes:

A "Qualified Institutional Securities Lender" is any person that is:

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

2. 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

3. 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-dealer's activity with the agent lender) (an "Agent Lender").

In determining whether a prospective lender is a Qualified Institutional Securities Lender, the broker-dealer may rely on representations from the prospective lender or its agent as to whether it satisfies these criteria, provided such reliance is reasonable under the circumstances. If a broker-dealer that provided Eligible Equity Collateral to a lender that satisfies these criteria subsequently learns that the lender does not satisfy the criteria, the lender shall remain a Qualified Institutional Securities Lender for five business days after the date such lender ceases to meet the requirements. By the end of the fifth business day, the broker-dealer must either substitute other eligible collateral that complies with paragraph (b)(3) of Rule 15c3-3 to replace the Eligible Equity Collateral or return the borrowed securities to the lender.

"Eligible Equity Collateral" means a diversified basket[3] of long customer margin securities or securities carried for the proprietary account of a broker-dealer ("PAB") that are Russell 1000 and/or S&P 500 equity securities.[4]

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[3] The parties will maintain concentration and diversification standards to their reasonable satisfaction with respect to the pledged Eligible Equity Collateral.

[4] An exchange traded fund composed of unleveraged long S&P 500 or Russell 1000 equity securities may also be Eligible Equity Collateral.

Any equity security pledged to a Qualified Institutional Securities Lender that satisfied the foregoing criteria when it was pledged shall remain Eligible Equity Collateral for five business days after the date such security ceases to meet the requirements. By the end of the fifth business day, the broker-dealer must either substitute other collateral that complies with paragraph (b)(3) of Rule 15c3-3 to replace the Eligible Equity Collateral, or return the borrowed securities to the lender.

Any pledge of Eligible Equity Collateral when borrowing fully-paid or excess margin securities from Qualified Institutional Securities Lenders shall be subject to the following additional conditions:

1. Broker-dealers pledging Eligible Equity Collateral must provide collateral in an amount that exceeds the minimum collateralization requirement in paragraph (b)(3) of Rule 15c3-3 (100%) by 1% if the securities borrowed by the broker-dealer are denominated in, Euro, British pound, Swiss franc, Canadian dollar or Japanese yen, or by 5% if the securities borrowed by the broker-dealer are denominated in another currency. For this purpose, an equity security is deemed to be denominated in the currency of the primary exchange on which such security is listed and traded.

2. 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. The broker-dealer may rely on representations from the lender or its agent as to whether this condition is satisfied, provided that such reliance is reasonable under the circumstances.

3. The broker-dealer pledging the Eligible Equity Collateral must agree with the Qualified Institutional Securities Lender that both parties will maintain concentration and diversification

standards to their reasonable satisfaction with respect to the pledged Eligible Equity Collateral. The broker-dealer may rely on representations from the lender or its agent as to whether this condition is satisfied, provided that such reliance is reasonable under the circumstances.

By the Commission.

J. Matthew DeLesDernier,

Deputy Secretary.