

Introduction

Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act” or “SEA” or “Exchange Act”),¹ the Financial Industry Regulatory Authority, Inc. (“FINRA”) is, as required by SEA Rule 10c-1a, filing with the Securities and Exchange Commission (“SEC” or “Commission”) a proposed rule change to adopt the new FINRA Rule 6500 Series (Securities Lending and Transparency Engine (SLATE™)) to (1) require reporting of securities loans; and (2) provide for the public dissemination of loan information.

ISLA, on behalf of our members, have undertaken an initial review of both the [FINRA Rule proposals](#) and the [Draft Participants Specifications](#).

The document is intended for an upcoming meeting of the [ISLA Regulatory Reporting Group](#) and should be considered as an unvalidated draft working document, not for wider or public circulation (see [Disclaimer on page 8](#)).

1. Overall Summary of FINRA Proposed Rules - 10c-1a:

1. 6 main lifecycle events:
 1. **New LOAN Event** – Used to report the terms of an Initial Covered Securities Loan. **x44** Sequence options (trade validation rules)
 2. **Pre-Existing Loan Modification Event** – Used to report a modification to a loan that was not previously required to be reported to the system. **x45** Sequence options (trade validation rules)
 3. **Modification** – Submitted to report a change to the terms of a previously reported loan. **x34** Sequence options (trade validation rules)
 4. **Cancel** – The Loan Cancellation Event is used to remove a single event from the system. A New Loan Event may not be cancelled; it must be deleted or corrected. **x12** Sequence options (trade validation rules)
 5. **Correction** – A Loan Correction Event is used to replace fields on a prior reported event. **x48** Sequence options (trade validation rules)
 6. **Delete** – The Delete Loan Event is used to delete an entire loan and all of its child events (modification, correction, etc). A deletion cannot be cancelled. **x9** Sequence options (trade validation rules)

Row Labels	Count of LCE/Table:
Correction	48
Pre-Existing Loan Modification	45
New Loan Event	44
Modification	34
Cancel	12
Delete	9

- Summary:
 1. Total of x192 Sequence options / fields (trade validation rules) that equates into x66 Conditionality Options (Required x14, Conditional x17, Optional x35 = x66) resulting in x48 actual fields.
 2. Reason for 192 sequence options turning into x66 Conditionality Options resulting in x48 actual fields is that across the 6 lifecycle events **Options / fields** are “repeatable”.
 3. This is like SFTR being repeatable but there is a **subtle** difference between how the **48 Fields vs. the 6 lifecycle events vs. the 66 conditionality options vs. the Details** which are required to populate the fields work under FINRA.
 - The subtlety is a challenge in how FINRA has put together the draft participant specification rules thinking of the above bullet point and how easier it is to navigate the SFTR trade validation rules.
 - Simply SFTR have one DETAIL box called **Conditional validations - Format and content** to explain all unique fields across all lifecycle events where FINRA have multiple detail boxes called **description** per lifecycle events so to get FINRA trade validation rules looking like the SFTR framework you would have to copy and paste each of FINRA’s detailed boxes with the different descriptions and place them in one box to replicate the SFTR format.
 4. 48 field breakdowns across the 6 Lifecycle Events:
 - 8 fields are across 6 LCE’s (**example the Reporting Party is across 6 LCE’s**)
 - 1 field is across 5 LCE’s (**example the Event Date Time is across 5 LCE’s**)
 - 23 fields are across 4 LCE’s (**example the Unsettled Flag is across 4 LCE’s**)
 - 14 fields are across 3 LCE’s (**example the Lender LEI is across 3 LCE’s**)
 - 2 fields are across 2 LCE’s (**example the FINRA Control Date is across 2 LCE’s**)
 - 1 field is across 1 LCE (**example the Omnibus Loan ID is across 1 LCE**)
 - Total: x48 Actual Fields
 5. All 192 sequence / field options also include:
 - FINRA require Intraday reporting - hence if you do a Modification at 11am and a Correction at 6pm both events now must be reported. **See FINRA Proposed Rule supplementary material page 112 & 113.**
 - Appears to be no one off back loading requirement as there is a concept of a New Loan Event and a Pre-Existing Loan Modification Event. **See point 1 lifecycle event 2.**
 - 14 **non** confidential fields. **See point 2.**
 - 10 confidential fields. **See point 3.**
 - Modifiers & Indicator fields- Exclusive Arrangement, Loan to Affiliate, Unsettled Loan, Terminated Loan, Rate or Fee Adjustment, Basket Loan. **See point 4.**
 - Required, Conditional and Optional Fields - labelled “Include Key” **See point 5.**
 - Event Linkage for subsequent lifecycle events on both new loans and pre-existing loan modification events. **See point 6.**
 - Data Types - there are 5 Data Types vs. 48 Actual Fields vs. 6 Lifecycle Events. **See point 7.**
 - Other Fees & Charges -Trying to capture Corp Action payments associated with securities lending activity via SPO payments (Special Payment Orders). **See Point 8.**
 - Rate Fee override flag - Tolerance level “warning” FINRA are looking to put in place. **See point 9.**
 - Settlement Driven Reporting - Unsettled Loan Flag population with D and S: Must set to D (Did not settle) if the loan will not settle before the close of SLATE System Hours. Partial and Full returns to not be reported until securities have been successfully delivered. **See Point 10.**

- **2. There are 14 Non-Confidential Fields:**

1. (A) The legal name of the security issuer **REQUIRED 7** and the Legal Entity Identifier (“LEI”) of the issuer (if the issuer has a non-lapsed LEI); **OPTIONAL 8**
2. (B) Security symbol, CUSIP, ISIN, or FIGI, if any; **REQUIRED 9**
3. (C) The date the Covered Securities Loan was effected; **REQUIRED 6**
4. (D) The time the Covered Securities Loan was effected; **REQUIRED 6**
5. (E) The expected settlement date of the Covered Securities Loan; **REQUIRED 25**
6. (F) The platform or venue where the Covered Securities Loan was effected; **REQUIRED 28**
7. (G) The amount of the Reportable Securities loaned; **CONDITIONAL 29** (Equity) & **30** (Debt)
8. (H) The type of collateral used to secure the Covered Securities Loan; **REQUIRED 31**
9. (I) For a Covered Securities Loan collateralized by cash, the rebate rate; **CONDITIONAL 34** (Also see below reference to page 14 footnote 30)
10. (J) For a Covered Securities Loan not collateralized by cash, the securities lending fee; **CONDITIONAL 33** (Also see below reference to page 14 footnote 30)
11. (K) Any other fees or charges; **OPTIONAL 35**
12. (L) The percentage of collateral to value of Reportable Securities loaned required to secure such Covered Securities Loan; **CONDITIONAL 37**
13. (M) For a Covered Securities Loan with a specified term, the termination date of the Covered Securities Loan; **OPTIONAL 26**
14. (N) Whether the borrower is a Broker or Dealer, a customer (if the person lending securities is a Broker or Dealer), a Clearing Agency, a Bank, a Custodian, or other person; **REQUIRED 24**

- **3. There are 10 Confidential Fields - for SEC use only:**

1. (O) 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 SEA Rule 15c3-3(b)(3)); **OPTIONAL 12 = Lender & OPTIONAL 20 = Borrower**
2. (P) If known, the CRD Number or Investment Adviser Registration Depository Number of each party to the Covered Securities Loan, if applicable; **OPTIONAL 15 = Lender & OPTIONAL 23 = Borrower**
3. (Q) If known, the MPID of each party to the Covered Securities Loan; **CONDITIONAL 14 = Lender & CONDITIONAL 22 = Borrower**
4. (R) If known, the LEI of each party to the Covered Securities Loan; **OPTIONAL 13 = Lender & OPTIONAL 21 = Borrower**
5. (S) If known, whether each party to the Covered Securities Loan is the lender, the borrower, or an intermediary between the lender and the borrower; **REQUIRED 11**
6. (T) If the person lending securities is a Broker or Dealer and the borrower is its customer, whether the security is loaned from the Broker’s or Dealer’s securities inventory to the customer of such Broker or Dealer; **REQUIRED 4**
7. (U) If known, whether the Covered Securities Loan is being used to close out a fail to deliver pursuant to Rule 204 of SEC Regulation SHO or to close out a fail to deliver outside of Regulation SHO; **OPTIONAL 43**
8. (V) Whether the Covered Person is the lender, borrower or intermediary; **REQUIRED 11**
9. (W) The unique internal identifier assigned to the Covered Securities Loan by the Covered Person responsible for reporting the loan to SLATE; **REQUIRED 4**

10. (X) If the Covered Securities Loan is an allocation of an omnibus loan effected pursuant to an agency lending agreement, the unique internal identifier for the associated omnibus loan assigned by the Covered Person responsible for reporting the Covered Securities Loan to SLATE; and **OPTIONAL 5**

- **4. There are 6 New Modifier & Indicator Fields:**

Append the applicable modifiers or indicators as specified by FINRA to all SLATE reports.

1. Exclusive Arrangement - If the Covered Securities Loan is made pursuant to an exclusive arrangement with the borrower or intermediary, select the appropriate indicator. **OPTIONAL 40**
2. Loan to Affiliate - If the Covered Securities Loan is made to an Affiliate of the lender or intermediary, select the appropriate indicator. **OPTIONAL 41**
3. Unsettled Loan - If an Initial Covered Securities Loan or a modification to the amount of Reportable Securities loaned did not settle by the close of SLATE System Hours on the expected settlement date, select the appropriate indicator. **OPTIONAL 4**
4. Terminated Loan - If a Covered Securities Loan has been terminated, select the appropriate indicator. **OPTIONAL 27**
5. Rate or Fee Adjustment
 - i. (A) If a loan rebate rate or lending fee accounts for a billing adjustment or correction to amounts previously rebated or charged, select the appropriate modifier; or **OPTIONAL 39**
 - ii. (B) If a loan rebate rate or lending fee accounts for the value of a distribution or other economic benefit associated with the Reportable Security, e.g., a corporate action, select the appropriate modifier. **OPTIONAL 39**
6. Basket Loan If a loan rebate rate or lending fee reflects a rate or fee involving a basket of at least 10 unique Reportable Securities for a single agreed rate or fee for the entire basket, select the appropriate modifier. **OPTIONAL 39**

- **5. Required, Conditional and Optional Fields - labelled "Include Key":**

1. Total of x192 Sequence options / fields (trade validation rules) that equates into x66 Conditionality Options (**Required x14, Conditional x17, Optional x35 = x66**) resulting in x48 actual fields.

Include Key:

Value	Abbreviation	Description
Required	R	Required for the given event. This field must always be included.
Conditional	C	Conditionally required for the given event, depending upon other values submitted in the event message.
Optional	O	Expected when required by rule but may not always be applicable.

- **6. Event Linkage Fields:**

1. This table describes the fields that will be used to link a New Loan Event or Pre-existing Loan Modification Event to any subsequent modifications, corrections, cancelations, or deletions submitted to update the original loan report.
2. If on the initial reporting day (T 0) the Covered Person has received a FINRA Control Number, FINRA Control Date and FINRA Loan ID, those identifiers may be used to link records in lieu of Client Loan ID and Event Date Time.
 - i. Idea is new initial loan then subsequent lifecycle events or
 - ii. Pre-existing loan modification that was not reported to SLATE that now has a subsequent lifecycle event.

Report Day	Report Type(s)	Validation Linkage
Initial	Modification	(Client Loan ID OR FINRA Loan ID) AND Covered Person Type AND Covered Person MPID
Initial	Correction	(Client Loan ID OR combination of FINRA Control Number and FINRA Control Date) AND Covered Person Type AND Covered Person MPID AND Event Date Time of Event being Corrected
Initial	Cancel	(Client Loan ID OR combination of FINRA Control Number and FINRA Control Date) AND Covered Person Type AND Covered Person MPID AND Event Date Time of Event being Cancelled
Initial	Delete	(Client Loan ID OR FINRA Loan ID) AND Covered Person Type AND Covered Person MPID
Subsequent	Correction	FINRA Control Number AND FINRA Control Date AND Covered Person Type AND Covered Person MPID
Subsequent	Modification	FINRA Loan ID AND Covered Person Type AND Covered Person MPID
Subsequent	Cancel	FINRA Control Number AND FINRA Control Date AND Covered Person Type AND Covered Person MPID
Subsequent	Delete	FINRA Loan ID AND Covered Person Type AND Covered Person MPID

- **7. Data Types:**

1. There are 5 Data Types vs. 48 Actual Fields vs. 6 Lifecycle Events.

Count of Logical Field Name:	Column Labels <input checked="" type="checkbox"/>						
Row Labels	Cancel	Correction	Delete	Modification	New Loan Event	Pre-Existing Loan Modification	Grand Total
Date	1	4		3	2	3	13
Date Time	1	1		1	1	1	5
Decimal		6		7	6	6	25
Integer	2	2	1		3	3	11
String	8	35	8	23	32	32	138
Grand Total	12	48	9	34	44	45	192

- **8. Other Fees & Charges:**

1. See below other fees and charges could span across both fields being Other Fees & Rate Fee Modifier.
2. It could be viewed that field #35 would be populated for other fees or charges hence the SPO (special payment order) charge in DTC for corporate event proceeds and if that value is adjusted you then populate field #39 using option B.

LCE/Table:	Seq:	Logical Field Name:	Data Type:	Description:	Include Key:
New Loan Event	35	Other Fees	Decimal	Dollar amount of other fees incurred. Value may be negative.	O
Pre-Existing Loan Modification	36	Other Fees	Decimal	Dollar amount of other fees incurred. Value may be negative.	O
Modification	27	Other Fees	Decimal	Dollar amount of other fees incurred. Value may be negative.	O
Correction	39	Other Fees	Decimal	Dollar amount of other fees or charges incurred. Value may be negative.	O
New Loan Event	39	Rate Fee Modifier	String	Select appropriate modifier if reported rate or fee reflects: A – Billing adjustment or correction to previously charged amount B – Corporate action adjustment C – Basket of securities (at least 10 unique issues for a single rate or fee)	O
Pre-Existing Loan Modification	40	Rate Fee Modifier	String	Select appropriate modifier if reported rate or fee reflects: A – Billing adjustment or correction to previously charged amount B – Corporate Action Adjustment C – Basket of securities (at least 10 unique issues for a single rate or fee)	O
Modification	31	Rate Fee Modifier	String	Select appropriate modifier if reported rate or fee reflects: A – Billing adjustment or correction to previously charged amount B – Corporate action adjustment C – Basket of securities (or at least 10 unique issues for a single rate or fee)	O
Correction	43	Rate Fee Modifier	String	Select appropriate modifier if reported rate or fee reflects: A – Billing adjustment or correction to previously charged amount B – Corporate action adjustment C – Basket of securities (at least 10 unique issues for a single rate or fee)	O

- **9. Rate Fee Override Flag:**

1. Need to understand is this more of a "**warning**" system than an error rejection as Sec lending is known for having high rates and specials, need clarity if this is a warning / temperature check as opposed to an outright reject of rates being regulatory reported.
2. This relates to field #38 (Rate Fee Override flag) where the description states: **Firm indicates values should override SLATE's validations. Y – Value is away from typical fees/rates.**

LCE/Table:	Seq:	Logical Field Name:	Data Type:	Description:	Include Key:
New Loan Event	38	Rate Fee Override Flag	String	Firm indicates values should override SLATE's validations. Y – Value is away from typical fees/rates	O
Pre-Existing Loan Modification	39	Rate Fee Override Flag	String	Firm indicates values should override SLATE's validations. Y – Value is away from typical fees/rates	O
Modification	30	Rate Fee Override Flag	String	Firm indicates values should override SLATE's price validations. Y – Value is away from typical fees/rates.	O
Correction	42	Rate Fee Override Flag	String	Firm indicates values should override SLATE's price validations. Y – Value is away from typical fees/rates	O

- **10. Settlement Driven Reporting (Unsettled Loan Flag):**

1. Firms unfamiliar with this, are going to have to think how to monitor settlement to then flag and use the Unsettled Loan Flag field.
2. This option / field is required in a:
 - i. New loan event is field# 44
 - ii. Pre-existing modification event is field #45
 - iii. Modification event is field #34 then
 - iv. Correction event field #48
 1. Update this flag once the settlement status is known.
 2. Indicates the loan did not settle: D – Loan did not settle, S – Loan settled.
 3. Must set to D (Did not settle) if the loan will not settle before the close of SLATE System.

LCE/Table:	Seq:	Logical Field Name:	Data Type:	Description:	Include Key:
New Loan Event	44	Unsettled Loan Flag	String	Indicates the loan did not settle: D – Loan did not settle S – Loan settled Must set to D (Did not settle) if the loan will not settle before the close of SLATE System Hours. If a previously unsettled loan (Unsettled Loan Flag = 'D') loan has	<input type="radio"/>
Pre-Existing Loan Modification	45	Unsettled Loan Flag	String	Indicates the loan did not settle D – Loan did not settle S – Loan settled Must set to D (Did not settle) if the loan will not settle before the close of SLATE System Hours	<input type="radio"/>
Modification	34	Unsettled Loan Flag	String	Indicates the loan or loan amount modification has not settled, if that has changed from a prior event: D – Loan did not settle S – Loan settled Must set to D (Did not settle) if the loan will not settle before the close of SLATE System Hours	<input type="radio"/>
Correction	48	Unsettled Loan Flag	String	Indicates the loan did not settle: D – Loan did not Settle S – Loan settle Must set to D (Did not settle) if the loan will not settle before the close of SLATE System Hours	<input type="radio"/>

- **Partial and Full Returns:**

3. As part of intraday data and lifecycle events FINRA are asking for all Partial and all Full Returns to be flagged using field numbers **OPTIONAL 45** (pre-existing loan modification) & **OPTIONAL 34** (modification).
4. The twist is that for Partial and Full Returns FINRA in conjunction with wanting users to populate the Unsettled Loan Flag field, also, want users to **ONLY** report a partial or a full return once the securities have been delivered aka settled. See below footnote 54 on page 72 of the FINRA proposed rules:
 - **Covered Persons must report a decrease to the loan amount resulting from a return of securities only once the securities have been delivered because returns are not considered “effected” until the securities are actually returned. However, Covered Persons must report all other Loan Modifications on the date that the Loan Modification was agreed upon and, in such instances, must report the effective date (pursuant to proposed Rule 6530(b)(2)(F)) unless the effective date is the same as the Loan Modification date (reported pursuant to 6530(b)(2)(D)).**
 - This part of the footnote 54 sentence seems odd: **because returns are not considered “effected” until the securities are actually returned = settled**....Example: field 16 under Modification is the Event Date, this field looks for the time and date that a loan has been booked and in the description this calls the loan Effected, so this suggests effected means

the date and time of the booking into the system not what date and time a partial or a full return actually settled, this is very confusing and feels that the descriptions across the lifecycle events contradicts page 72 footnote 54, if not contradictory then definitely is and will cause confusion around interpretation. See table here showing lifecycle events across the event date time field and description narrations.

LCE/Table:	Seq:	Logical Field Name:	Data Type:	Description:	Include Key:
New Loan Event	6	Event Date Time	Date Time	Date and time to which these terms of the loan were effected. Must not be prior to system start date.	R
Pre-Existing Loan Modification	6	Event Date Time	Date Time	Date and time to which the terms of the loan reflected by this reportable event were agreed upon.	R
Modification	16	Event Date Time	Date Time	Date and time on which the loan modification was effected. Must not be prior to system start date.	R
Cancel	11	Event Date Time	Date Time	Date and time of the event Required for cancelling events reported on Day T 0 only.	C
Correction	13	Event Date Time	Date Time	Date and time on which the terms of the loan event were effected Must not be prior to system start date. Required for linkage on T 0. May not be corrected on T 0 without the combination of FINRA Control	C

- **SFTR vs. 10c1a:**
 - a. SFTR request the final close out / full return of a trade to "only be reported once successful settlement has taken place" where FINRA are requesting all Partial and Full Returns to be monitored for settlement too aka Settlement Driven Reporting requirement.
 - b. SFTR, you have to hold back the Full Return / Close Out trade prior to reporting as need to check for settlement first, once settled only then send your regulatory report, this is technically complex and a system solution is needed, this is different to FINRA. For fixed term trades under SFTR you wait until the maturity date has been reached check for settlement and if failed you modify the maturity date to the next day, keep doing this until successful settlement, and only then regulatory report the trade.
 - c. FINRA seems you report new trades then use the UNSETTLED LOAN FLAG to confirm the settlement status of settled or did not settle but for partials and full returns FINRA requires firms to only report upon successful settlement, and then, if the status changes, to use the Unsettled Loan Flag by changing the status.

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