Statement

# Statement on Final Rule Regarding Securities Lending

**Chair Gary Gensler**

**Oct. 13, 2023**

Today, the Commission is considering whether to adopt a final rule regarding the securities lending market. I'm pleased to support this final rule because it will bring greater transparency and efficiency to this important part of the capital markets.

Securities lending played a role in the 2008 financial crisis. As the Senate Committee on Banking, Housing, and Urban Affairs reported ahead of the passage of the Dodd-Frank Act, "During the period preceding the crisis, a number of financial institutions used securities lending programs as a basis for leveraged and risky trading activities."[1] At the core of the financial crisis was the collapse of what was then the largest insurance company in the world, AIG. Congress's report noted that AIG's collapse "was due, in large part, to the massive securities lending operation" associated with the firm.

In the Dodd-Frank Act, Congress mandated that the Commission enhance the transparency of the securities lending market. Such transparency gets to the heart of the SEC's mission. It promotes competition. It promotes fair, orderly, and efficient markets.

At more than $3 trillion, securities lending is an important part of the capital markets. [2] It can help investment funds, endowments, and pension funds generate additional revenue. The borrowing process can help investors and broker-dealers participate in short selling, market-making, and other activities.

Currently, though, the securities lending market is opaque. The public often cannot access data about this market unless they purchase a subscription. That leads to information asymmetries between those who subscribe and the rest of the investing public. Further, the data available has gaps. Currently, the data submitted by broker-dealers to venders is on a voluntary basis. What's more, that data also may reflect only one part of the lending market—loans extended from wholesale lending programs to brokers or dealers.

As a result, currently, only a limited number of market participants receive a portrait of the securities lending markets, and even that portrait is incomplete. Congress—and our mission—mandate we do more.

In fulfilling Congress's mandate, today's adoption will promote greater transparency in the securities lending markets both to regulators and the public. It will help regulators reconstruct and evaluate market events, such as with regards to how loan activity changed among borrowers. Further, more transparency in this area will help ensure market participants have access to comprehensive and timely information.

First, as relates to the reporting to regulators, the final rule will require lenders to report loan data to a registered national securities association—*i.e.,* the Financial Industry Regulatory Association (FINRA)—by the end of each trading day. FINRA will maintain a part of this information on a confidential basis. The confidential information will include the names of the parties of the loan and further detail with regard to sourcing strategies for the loan as well as the use of the loan.

As it relates to public reporting, FINRA will make available information about the loan—including modifications made to the loan—generally on the next trading day. That information will include when the loan was made, the collateral used, and pricing information such as the loan's rate. FINRA also will make publicly available aggregated data of the prior day's loan activity, broken down by security.

Importantly, though, public reporting of the amount of the individual loan—including modifications—will be delayed by 20 days.

Today's adoption reflects several changes to the proposing release in response to public comment. Let me highlight just two.

First, the final rule will require lending data to be reported to FINRA by the end of the trading day, rather than within 15 minutes of the transaction. Only a subset of this information will be made publicly available the next day. Second, in terms of the amount of the loan, in response to public feedback, that will be delayed from being published the next day to 20 days.

The final rule will help regulators and market participants access timely and comprehensive information about securities lending.

I'd like to thank members of the SEC staff for their work on this adoption, including:

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[1] *See* U.S. Senate Committee on Banking, Housing, and Urban Affairs, "Senate Report No. 111-176" (April 30, 2010), *available at* https://www.govinfo.gov/content/pkg/CRPT-111srpt176/html/CRPT-111srpt176.htm.

[2] *See* Financial Stability Oversight Council, "2021 Annual Report" (Dec. 17, 2021), at 46, *available at* https://home.treasury.gov/system/files/261/FSOC2021AnnualReport.pdf.