Title: How the split-dividend affects loaned shares
Author: x2jafa
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Educational - how the split-dividend affects loaned shares

Say you purchased GME shares and your broker loaned them out without telling you. Your account says you have X number of GME shares but you don’t. Your broker is holding is a loan document that says that some other party has to give back X number of GME shares at some point the future. This is just a piece of paper with IOU written on it plus some extra wordage that a lawyer had too much fun writing.

Gamestop did a split in the form of a stock dividend. They made 3 new shares available for every share already issued.

You don’t get any of these new GME shares because you don’t hold any shares in your name (you didn’t DRS). Your broker doesn’t get any of these new GME shares because they don’t hold any GME shares (just a loan document). And the asshole who borrowed the shares to short doesn’t get any of these new GME shares because they don’t hold any shares either - they sold them for cash the moment the loan agreement was signed. The DTCC isn’t involved because there are no shares involved.

What happens next comes down to the wording in the loan contract.

Let’s take a look at a real loan document as an example (first hit on Google, not GME): www.sec.gov/Archives/edgar/data/928054/000119312508027949/dex101.htm

Section 1: “If, as the result of a stock dividend, stock split or reverse stock split, the number of outstanding shares of Common Stock is increased or decreased, then the number of Loaned Shares under outstanding Loans shall, effective as of the payment or delivery date of any such event, be proportionately increased or decreased, as the case may be.”

Section 5 covers the handling of cash dividends and non-cash dividends but explicitly excludes a split in the form of a dividend as covered by Section1.

With a contract like this the GME split in the form of a stock dividend is handled by simply multiplying the number of shares owed by 4. There is no need for the borrower to do anything because of the dividend - the borrower is not required to source GME shares any earlier than the existing loan term. The parties involved can do this because they came up with the wording of the loan contract and choose to do it this way.

Your broker handles things by multiplying the number of shares reported in your account by 4 so you go away happy. There are still no shares being held by your broker – your broker is just holding the same loan document which was automatically adjusted 4x as per the loan contact.

So now what? Time to stop pretending that you own GME shares. Even if your broker didn't lend them out they are still not in your name. With one phone call you could be a part-owner of GameStop - DRS!