Title: Broker Dealers & Mutual Funds/ETFs Have A LOT of GME Securities Lending Counterparty Exposure - Let's Explore Some Numbers
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***Obligatory,** none of this information is financial advice and is the result of my studies. All investors must do their own due diligence, come to their own conclusions, and make their own financial decisions.

**TL;DR** Broker Dealers (primarily believed to be the big banks) are estimated to have borrowed at least **5.72M shares of GME** from mutual funds and ETFs. The funds are exposed to potentially catastrophic securities lending counterparty loses. The brokers are also exposed to risks in multiple areas. They are; relending the shares, they own shares in the funds that are originally lending the GME shares, and their own company's shares are within some of the funds' holdings. (Insert WTF face) I'll explain more.

It's a long post and I believe it is 100% worth the read.

# Background Information

I'm rewording a previous post and adding another fund onto it... Going to try and make it easier to understand.

**Broker dealers are exposed to potentially high $ securities lending counterparty risks from GME and we can see it.** Mutual funds and ETFs (funds) have lent GME shares to broker dealers who in turn lent it out to be shorted. The lending of this security makes the fund and the broker dealer a "counterparty", hence "securities lending counterparty".

[AIG](https://insight.kellogg.northwestern.edu/article/what-went-wrong-at-aig) suffered roughly $21B in losses from this same business practice in 2008. They would borrow securities from a broker dealer (Citadel & others) and lend them to hedge funds, who would short sell the stock. AIG's counterparties (the brokers) were bailed out [$43.7B](http://graphics8.nytimes.com/packages/images/nytint/docs/aig-bailout-disclosed-counterparties/original.pdf) in 2008. AIG's losses came primarily from poor reinvestment of the collateral they received by the securities borrowers.

Thinking of that example, funds are currently lending GME shares to broker dealers who are ***relending*** the security to a hedge fund to be short sold.

The [mutual funds,](https://mutualfunds.com/education/mutual-funds-and-security-lending/) and [ETFs](https://www.etf.com/etf-education-center/etf-basics/understanding-securities-lending?nopaging=1#:~:text=ETF.com%20Securities%20lending%20is%20a%20fairly%20simple%20process,typically%20hold%20thousands%20of%20shares%20of%20various%20stocks) currently loaning GME, and the *investors* of those funds, have a similar exposure to securities lending counterparty risks as the broker dealers did who were involved in AIG's scheme.

The broker dealers currently borrowing and lending GME have a [similar exposure](https://deloitte.wsj.com/articles/securities-lending-a-focus-on-two-risk-areas-1495080131) to what AIG's exposure was in 2008, which was famously catastrophic from AIG... I wonder how it will go for the current GME lenders?

What's more, the *investors* of the funds are the very brokers who are borrowing shares from the funds. **They own shares of the ETFs** loaning the GME shares. So, they're exposed as lenders of the securities and as investors in the funds.

And MOAR, some **funds also hold a lot of the brokers OWN shares** (ex. VTI holds 83M shares of JPM - worth $13B)... So, the broker is now exposed to counterparty risk 3 ways...

1. They are borrowing and relending the security,
2. They own shares in the fund which exposes them as *investors* in the fund, AND
3. Many of these funds contain shares of the broker. If the fund needs to liquidate any of these holdings due to their own counterparty loses, the share values will lose money as they're being sold off.

Here are the main stats from the first post I made which showed how much GME was being lent:

* 138 of 213 funds were loaning GME shares
* 70 funds lent out more than 90% of their GME shares
* An estimated 5.72M of total 11.98M GME shares were on loan (this is just loaned securities and does not account for rehypothecated shares or other avenues of securities lending), and
* from the data filing, we were able to see the fund's securities borrowers and how many $ worth of securities they borrowed (this includes all securities, not just GME). We KNOW that someone(s) in the list of borrowers is borrowing GME.
* The primary borrowers of the one fund reviewed (a Fidelity Mutual Fund which had lent $61M worth of GME) were; Morgan Stanley **($911M)**, Goldman Sachs **($454M)**, Citi **($388M)**, BofA **($380M)**, JPMorgan **($321M)**, State Street **($239M)**, Barclays **($115M)**, BNP Paribas **($105M)**, UBS **($56M),** etc.

* Note: You'll need to see "GME Deep Dive: So Much GME Lending" in my profile for the original post with this info. I have it pinned.

That's a lot of $ on loan for just one fund... I'll leave some quotes regarding securities lending counterparty risks at the bottom of this post for additional clarity.

# The Web

**Example 1** of securities lending counterparty risk is the fund which is estimated to have lent out the most GME shares:

**Vanguard Total Stock Market Index Fund (VTI)** filed on 3/1/22 for holdings on 12/31/21.

Total GME Shares = 1,847,760

Total GME Shares on Loan ≈ 1,185,700

See the prior post for supporting information on how this was calculated. This fund has a lot of exposure when short sellers fail to return all of their shares during MOASS after the short sellers have been liquidated.

The NPORT-P filing also gives us a list of the fund's securities borrowers along with the value of the securities on loan. This is for all securities, not just GME. Here are this fund's borrowers:

[ Nearly $4B worth of securities on loan to these 24 borrowers ](https://preview.redd.it/s8sekioevsr81.png?width=898&format;=png&auto;=webp&s;=80ca809fdc895c3aed3a8ad3409c37ddb25803f2)

Take a close look at those names... These entities are borrowing the funds then lending them out hedge funds, best case scenario. We don't know for sure which entity is borrowing GME specifically, but someone(s) here is.

I wonder who is investing in this fund if they have counterparty risk as well? As of their last filing, these guys:

[ Well, that's basically the same people plus Citadel ](https://preview.redd.it/lr3qzx7jvsr81.png?width=1081&format;=png&auto;=webp&s;=268ea90e492f59b437d1bdbc3d2137e0d73857e6)

Nearly $10B worth of this fund's shares are held by the same entities listed as the securities borrowers of the fund.

So wait, the same entities who are borrowing securities from the fund, also own shares of the fund? They have counterparty exposure as fund ***investors*** as well as the ***lending agent***. $ bills are starting to add up a bit.

https://preview.redd.it/wfqlbfsnvsr81.png?width=500&format;=png&auto;=webp&s;=aecd1c882bf83ea960d6201886a90aa17ca4a027

The ***fund*** has exposure as well. When short sellers fail to return shares during MOASS, the fund may need to liquidate holdings to keep its head above water. Here are some of the funds holdings:

[ $40B worth of these securities are held by the fund ](https://preview.redd.it/lugw7z4rvsr81.png?width=1183&format;=png&auto;=webp&s;=c1afc2c68fef669c263bb8d8c039bc5e15f9688a)

Okay, so when short sellers fail to return shares to the lending agent (the banks), and

the banks fail to return the shares to the fund, and

the banks own shares of the ETF, and

the ETF owns shares of the banks... What happens?

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[Vanguard Total Stock Market Index Fund NPORT-P Filing](https://www.sec.gov/Archives/edgar/data/0000036405/000175272422053911/0001752724-22-053911-index.html)

[Whalewisdom: Vanguard Total Stock Market Index Fund](https://whalewisdom.com/stock/vti)

# Example 2

Here is the fund estimated to have loaned out the 2nd most GME shares. **This fund's advisor is Blackrock:**

**iShares Core S&P; Mid-Cap ETF (IJH)** filed on 2/25/22 for holdings on 12/31/21.

Total GME shares = 1,711,041

Total GME Shares on loan ≈ 820,172

Here are the securities borrowers of that fund:

[ Just over $2B on loan from this fund... A lot of the same names ](https://preview.redd.it/pkf3ou7yvsr81.png?width=756&format;=png&auto;=webp&s;=f89ec1cac8c07b1f0f212cd99d36a25c8c2a0a07)

Here's some of fund's shareholders:

[ Holding $14B worth of the fund... ](https://preview.redd.it/y8vbakz2wsr81.png?width=1213&format;=png&auto;=webp&s;=735514d0ac5180b9660e1b654efb6cdf7d3f85f3)

Holdings of the fund:

https://preview.redd.it/zibklz37wsr81.png?width=1181&format;=png&auto;=webp&s;=ade32dc46cf30a56e61f511d3ddacdf9a630c578

$263M in cash? I like cash.

Also, some Total Return Swaps of funds with HSBC and JPMorgan as counterparties. Here are the supporting links:

[iShares Core S&P; Mid-Cap ETF NPORT-P Filing](https://www.sec.gov/Archives/edgar/data/0001100663/000175272422046262/0001752724-22-046262-index.html)

[Whalewisdom: iShares S&P; Mid-Cap ETF](https://whalewisdom.com/stock/ijh)

[Gamestop NPORT-P Search](https://www.sec.gov/edgar/search/#/q=gamestop&dateRange;=custom&startdt;=2022-01-01&enddt;=2022-03-31) (for list of all funds holding GME shares)

# Example 3

The fund estimated to have loaned the 8th most GME shares (205,000):

**Vanguard Value Index Fund (VTV)** filed on 3/1/22 for holdings on 12/31/21.

[ GME accounts for $30M of all securities on loan by this fund \(27%\) ](https://preview.redd.it/az3oscfcwsr81.png?width=754&format;=png&auto;=webp&s;=8c352f9542897b007bf0044f4bd97359b3ee9669)

Shareholders of the fund:

[ Holding $14B worth of the fund shares ](https://preview.redd.it/y8rjgy5hwsr81.png?width=1127&format;=png&auto;=webp&s;=b3f720c59e7e2c4f0a5d8560c1254f1cc1e793af)

Just to name a few other shareholders: BNYM, Blackrock, BNP Paribas

Holdings of the fund:

[ Nearly $7B in these companies shares ](https://preview.redd.it/urmiob2mwsr81.png?width=1182&format;=png&auto;=webp&s;=fa207b744951c4ba0115d7404cca89ff1e7b6a89)

Other holdings of this fund include: BNYM, Blackrock Inc, Blackstone, CBRE Group, Cboe Global Markets, CME Group Inc, Charles Schwab Corp, Fidelity National Financial Inc... Just to name a few.

Many other funds loaning GME shares have similar looking securities borrowers, shareholders, and fund holdings compared to the three funds we've just reviewed. That's a lot of securities lending counterparty risk when you considered the amount of funds loaning GME shares (over 5.72M shares by 138 funds).

Remember, this is just lending from mutual funds and ETFs and does not include other avenues for lending GME shares.

# Computershare

Direct Registration is how I am protecting my shares in the event my broker defaults and is liquidated [(741)](https://usbankruptcycode.org/chapter-7-liquidation/subchapter-iii-stockbroker-liquidation/section-741-definitions-for-this-subchapter/) from short selling OR securities lending counterparty losses. There's lots of DRS posts out there that will break down the reasons why I feel GME's transfer agent, Computershare, is the best place for my shares.

I'm not telling you that your broker will default. I'm also not telling you to DRS your shares. I'm simply saying that **I feel safest knowing most of my shares are on GME's books at Computershare** because when marge calls and the short sellers are liquidated, that exposure is going to be passed elsewhere, including to the funds and other entities involved in the securities lending listed above, and the other avenues we've done our DD on.

*Buckle Up*

Tanks fo reedin

**Note:** I have not extensively reviewed all funds and fund holdings, but GME appears to be one of the most loaned securities held by these funds, if not the most loaned, BUT there is a SUBSTANTIAL amount of securities lending currently happening with these funds so I can't be certain where GME falls.

**Note 2:** I'll leave the post with these quotes that I used in my original post regarding counterparty risk:

**The Counterparty Risk**

[Deloitte - Securities Lending](https://www2.deloitte.com/us/en/pages/financial-services/articles/addressing-securities-lending-risks-with-blockchain.html)

***A typical securities lending transaction involves multiple entities: borrower, lender, lending agent, prime broker, and clearinghouse.*** *Lenders typically include various investment firms, as noted above, whereas, broker-dealers and hedge funds make up the bulk of the borrower group. Lending agents, on the other hand, are broker-dealers, custodial banks, and some large asset management firms as well.*

***In almost every securities lending transaction, lenders are exposed to multiple risks***, such as counterparty default risk, collateral reinvestment risk, market risk, liquidity risk, operational risk, and legal risk. In particular, counterparty default risk and collateral reinvestment risk seem to have captured the most attention from regulators.

[SEC - Securities Lending by U.S. Open-End and Closed-End Investment Companies](https://www.sec.gov/divisions/investment/securities-lending-open-closed-end-investment-companies.htm)

*Lending agents* ***often*** **(not always)** *indemnify* (protect) *funds against the risk that the borrower will fail to return the borrowed securities (to the extent that the value of the collateral is insufficient to replace the unreturned securities).* ***Lending agents, however, typically do not indemnify funds for losses incurred in connection with cash collateral reinvestment.***

[mutualfunds.com - Securities Lending](https://mutualfunds.com/education/mutual-funds-and-security-lending/)

***When a fund lends the stocks,*** *these assets are not actually part of the fund, the put-up collateral is.* ***Typically, U.S. Treasuries or cash is used.*** *However, in recent years everything from mortgage backed securities and derivatives to letters of credit and other exotic I.O.U.’s have become commonplace. These sorts of instruments fluctuate in price and must be marked-to-market daily. That can actually affect the net asset value of the mutual fund if they swing rapidly. An additional risk is if the mutual fund invests that money in something less than desirable to juice returns.*

*Secondly, if the collateral drops in value by too much, the investor borrowing the shares may be forced to add additional collateral or cover the short early. If they can’t,* ***the mutual fund and its investors are on the hook for the damage.***

The same thought process for [ETFs](https://www.etf.com/etf-education-center/etf-basics/understanding-securities-lending?nopaging=1#:~:text=ETF.com%20Securities%20lending%20is%20a%20fairly%20simple%20process,typically%20hold%20thousands%20of%20shares%20of%20various%20stocks).

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