Title: The Key is the Short-Sellers' Obligation to Provide the Dividend by Buying-In
Author: TrippingPiccadilly
Created 2022-08-02 20:06:42 UTC
Permalink: /r/GME/comments/welnh7/the_key_is_the_shortsellers_obligation_to_provide/
Url: https://www.reddit.com/r/GME/comments/welnh7/the_key_is_the_shortsellers_obligation_to_provide/

https://preview.redd.it/n32ytf0owcf91.jpg?width=702&format;=pjpg&auto;=webp&s;=99b71843be5f0f4b1d4916e4b492741d5dfaa7bc

[Investopedia: Are Investors Short a Dividend-Paying Stock Entitled to the Dividend?](https://www.investopedia.com/ask/answers/042215/if-investor-short-dividendpaying-stock-record-date-are-they-entitled-dividend.asp#citation-2)

This was discussed before the GameStop splividend, but a key point I feel has a little lost among the present discussion of the DTCC's actions vis-à-vis the splividend, and is worth mentioning again, is the **short-seller's obligation to buy-in**.

From the SEC:

[Stock Purchases and Sales: Long and Short](https://www.investor.gov/introduction-investing/investing-basics/how-stock-markets-work/stock-purchases-and-sales-long-and)

https://preview.redd.it/vxdov8zwwcf91.jpg?width=985&format;=pjpg&auto;=webp&s;=36eb3dd49cd61f1311ab4ab949951d004ae2d1b4

A share is shorted by borrowing it from a lender and selling it on the market. For simplicity in this example (I realize there are other variations), SHFs are the short-sellers, broker-dealers are the nominal lenders, and retail shareholders are the ultimate lenders. What I mean by that is, the broker has lent the SHF shares, but they are coming from a pool of shares held by retail investors who purchased them through the broker.

When a is sold short, the ultimate lender—the retail shareholder—often doesn't realize it because broker-dealers are lending from a pool of client shares, rather than specifying the client from whom the specific share is lent to. And for the same reason, those lent shares are UNENCUMBERED. So as a retail holder, your broker may have used your share as a locate for a short sale, lending it to the SHF, but you see nothing on your end—you can sell the share as if it wasn't even lent.

These lent-shares are short-sold back to retail holders, who unknowingly loan those shares over and over—this is rehypothecation. As a result, if there are 100 "official" shares, 400 retail investors have a claim to them.

When a company issues a dividend, it does it based on the official share number. So in the 100-share example, it's going to issue a dividend of $1 per share. Although 400 retail investors have a claim to the dividend, the company is only issuing $100. So the short-sellers are obligated to pay $300 in $1 dividends to the 300 additional retail investors. This maintains the illusion, from the retail's point of view, that every purchaser "owns" the stock.

But what happens when the company decides to issue 3 shares per share as a dividend, instead of $1? 400 retail investors are expecting 1,200 shares, but the company is only going to officially issue 400. So the short sellers must purchase them from the 400 retail investors, TWICE EACH.

In this case, we are talking about millions of rehypothecated shares, probably hundreds of percent short… a buy-in would be suicide for the short-sellers. And the ripples it would have among the DTC, which will be left holding the bag, would likewise cause destruction.

Unfortunately, while retail is the ultimate lender, the broker (also a DTC member) is the nominal lender. So the broker and DTC control the right to force the short-seller to buy in, since retail CANNOT do that directly.

This is the reason the split has only been notational. But the can can only be kicked so far. Buy. DRS. Hold.