

Title: We The Investors Focus #2: Securities Lending, Direct Registration and Settlement/Clearing

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Linked Post Content:

Hi Everyone,

Having seen the post today urging action on FTDs, I wanted to show you what We The Investors has been working on. This is for a second sign-on letter focused on reforms to Securities Lending, Direct Registration and Settlement/Clearing. The letter will lay out a series of reforms and actions we want to be taken. We know this matter is of critical importance to the health of our markets, and if we're able to show a similar level of support as our previous effort (or maybe even more?), we can get in front of regulators and legislators to make sure they are aware of retail's concerns and continue to advocate for important market reforms.

We The Investors is a grassroots advocacy campaign and our intention is always to be led by our community of supporters and retail investors. So here is a list of potential reforms for this second effort. I'm not sure that we should tackle all of them, but these are the ideas that we've come up with. Let us know what you think, what we can improve, what we missed, what we should change, etc.

#### \*Transparency\*

\* \*\*Lending Disclosures\*\* : Investors have the right to know whether their securities have been lent out, and how much revenue the broker has received.

\* \*\*NOBO/OBO designations\*\* : Intermediaries should explain to investors the choices they may make as it relates to transparency of share ownership, where shares are recorded in a brokerage account in beneficial format. The default options should always be NOBO, which enables companies to communicate directly with their investors. Shielding holdings from investee companies should be a right that an investor should opt in to.

\* \*\*Investor Communications and Proxy Voting\*\* : Investors should be able to receive their communication directly from the company they invest in and not have their shareholding pooled with other clients of the broker, whose interests may not be aligned. Investors should be able to vote directly with the company, and have their voice heard at general or extraordinary shareholder meetings. Their votes should be directly confirmed by the company or its agent.

#### \*Investor Choice & Control\*

\* \*\*Control of Stock Lending\*\* : Investors have the right to decide whether their securities can be lent out to short sellers. Shares should NEVER be lent by a broker or intermediary from customer cash accounts without the investor's explicit permission and without being debited from the customer's account. If shares are borrowed by the broker from a customer's margin account, the securities should be debited from that account to avoid discrepancies in share counts. (need to follow-up on this)

\* \*\*Control of Registration\*\* : Investors should be able to choose whether their shares are to be held in a brokerage account or in direct registration form in the investor's own name on the company's share register.

#### \*Settlement & Clearing\*

\* \*\*FTD Visibility\*\* : Failure To Deliver disclosures need to be updated more often, and include more information, including how and when FTDs are remediated, what type of counterparty is responsible for the failure (bucketed into clearing broker, exempt market maker or custodian), and how long the FTDs remained open.

\* \*\*Closeout Restrictions\*\* : There needs to be transparency when the borrow markets are used to cover fails, and located shares should not be able to be used to close out failures-to-deliver, unless the borrowing is recorded centrally and the information regarding the share position is available to the market.

With this disclosure, investors can know the market is still short that amount of shares and the borrower must at some point buy back the shares to repay the stock loan.

- \* **Margin Transparency**: Investors need visibility about estimated margin per security for Clearing Brokers.

- \* **Netting Transparency**: Investors need disclosure of gross versus net notional or share count per security to help understand trading dynamics and discern the level of real investment versus intraday trading activity.

- \* **Investor Accounts**: Brokers should not credit securities to a customer's account on the intended settlement date, or debit the customer's cash account, unless the broker has paid the counterparty for effective settlement of the client's transaction. In part this will also help to avoid future discrepancies in share counts.

- \* The elimination of "fails as a business model" by making them economically unsustainable, through:

- \* either a **Mandatory Buy-In**: after a short "threshold period", the fail should be cleared through a mandatory buy-in rather than the rarely used, voluntary buy-in.

- \* Or **Interest Charges on Fails**: the buyer receives interest payment on the value of the shares not delivered by the seller, at the share price of the purchase date. This disincentivizes failing until the stock price sinks.

Thank you for all the feedback - we are doing everything we can to work for change, and to make sure that retail has a seat at the table.