Securities Lending Transparency:
Rule 10c-1 Proposal

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*Opinions of the author have been added.*

Important Links

- [SEC Fact Sheet](#) (2 pages)
- [Full Rule 10c-1 Proposal](#) (184 pages)
- [Existing Comment List for 10c-1](#)
- **[Submit Your Comment](#) to show the SEC that this rule is in the public's interest (takes 5min, due 10/28/2022)**

10c-1 Content: Quick Overview

- Define: Securities lending = **stock loans by investment banks for short selling et al**

- **The Problem:**
    - Currently, a lot of **securities lending is done behind closed doors** over the phone, in 1-on-1 negotiations, with very little disclosure requirements and generous reporting intervals, optimized for financial power players
    - The SEC calls lending data as **"incomplete"** and in some cases **"unavailable"**
    - **Large deregulated market**: Total securities on loan on any given day is about $1.5 Trillion USD - yet that gigantic market remains largely de-regulated.
    - SEC agrees that **securities lending market is opaque** [AKA easy to abuse due to lack of insight, and only really accessible to more powerful (fund, bank) players]
    - There's very little transparency on who is actually borrowing securities; in current reporting structure it's simply a 85% "blob" of broker-dealers.
    - In the [SEC GameStop Report](#) pg.29, the SEC repeatedly admitted that it's very difficult to trace or prove activities like illegal naked short selling (short of a whistleblower like Tobin Mulshine in [Gaming Wall Street](#)), due to the lack of reporting requirements and regulatory oversight.
    - The biggest brokers and **best-capitalized banks currently have an outsized insights in**

Figure [1] Fraction of shares on loan by borrower type

- State pension funds 1%
- Hedge funds 0%
- Banks/ Credit Unions 14%
- Broker-dealers 85%
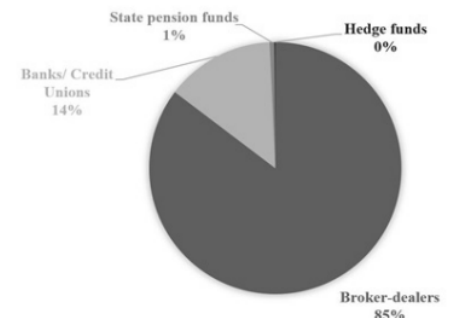
market data around securities lending, barring competition and market entry.
  ○ The information asymmetry

- **Primary requirements the rule would institute and problems it'd solve:**
  ○ **Most important information of stock lending would need to be disclosed**
  ○ Reporting at **much shorter intervals** than currently (minutes instead of weeks),
  ○ Regulators would need to make some of that **information publicly available**, both on individual transactions and aggregate information
  ○ **Type of lender and type of borrower would need to be disclosed** (broker-dealer, bank, customer, custodian, clearing agency etc.)
  ○ **Daily reporting concerning total securities on loan, and total securities available to loan** would need to be disclosed (this would close the "F3"-style inventory loophole nearly entirely)
  ○ Most items in the rule are **common-sense** - which gives a bit of an insight in how imbalanced and intransparent the current rules around securities lending are.
  ○ **"Give data to get data"** - participants would be required to disclose and be rewarded with additional information, **making the market more efficient** for all.

- The Dodd-Frank Act (made in response to 2008 financial crisis) had a **mandate to make securities lending more transparent**; the 10c-1 rule is long overdue.
  ○ Learning from 2008: **Lack of transparency can lead to systemic risk**

- While not patching all holes, **10c-1 is a revolution in the stock loan world** and would heavily **shift the balance of power back towards a center**; currently the power is in the hands of the banks, by a very long margin against the public.

- The primary opponents of this rule are firms who earn sizeable amounts of money on lending, trading commissions and short-selling securities because the reporting burden will increase their overhead. There's a small reasonable argument to ensure that this rule wouldn't create a larger barrier of entry for financial start-ups; while this argument is reasonable, there are many fixes to allowing incoming, new firms a slightly easier process for an initial period etc.

- **It's the law that the SEC needs to read and consider every comment letter.** Many times, the SEC will quote comment letters in their final filing to showcase public support. Voting commissioners might also consider the comment letters for when they vote on the rule once its final design is complete.

- **Disclosures change actions**: Once a regulation is implemented, it inadvertently drives behavior of the regulated entities. 10c-1 will do this in securities lending like no regulation in the last 10+ years.

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Submit Your Comment to show the SEC that 10c-1 is in the public's interest.

Related - Rule 13f-2, a rule about short positions:

https://www.urvin.finance/advocacy/we-the-investors-rule-13f-2-comment-letter