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April 1, 2022

Submitted electronically

Ms. Vanessa Countryman
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090

Re: File Number S7-18-21: Reporting of Securities Loans

Dear Ms. Countryman:

S3 Partners welcomes the opportunity to comment on the Commission's proposed Rule 10c-1 (the "Rule") to require reporting of securities loans ("the Proposal"). For the past 19 years, S3 Partners[1] has built an industry standard bringing transparency to the securities lending marketplace and short interest data, and we believe the Commission would benefit from a practitioner's perspective on both the costs and benefits of the Proposal.

About S3 Partners

We are a market leading financial data and technology company that provides pricing and analytics for capital markets and technology solutions that connect clients to their critical investment data. Our clients use our technology and data to create better outcomes at every point in the investment process -- Portfolio Management, Trading and Execution, Risk Management, and

[1] Learn more about S3 at www.s3partners.com.

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Treasury Operations. Our most used product, the BLACK APP®, is the market standard for real-time short interest and securities finance data for more than 60,000 securities on desktops globally. Over the firm's 19-year history, S3 Partners has cultivated an enormous data lake of aggregated and anonymized holdings, cash balance, derivatives, short interest, and securities finance data that is built on trillions of assets under analytics.

We are the public voice of our industry, as the only financial industry data company with 100,000+ Twitter followers and the most often quoted source for the financial news media such as Bloomberg, the Wall Street Journal, CNBC and the Financial Times.

Overview

To achieve the goals laid out in the Proposal, S3 Partners believes the Commission should reconsider several of its assumptions and the potential for unintended consequences if the Proposal were to be approved in its current form. S3 Partners would like to provide an alternative approach to securities lending reporting that would meet Dodd-Frank's mandate to increase the transparency of this marketplace in less time and at a lower cost.

As discussed in more detail below, we believe that the securities lending market and current market infrastructure for securities loan reporting must be considered more fully as part of the baseline for the economic analysis of this Proposal. We are proponents of a better functioning securities lending market but believe there may only be incremental benefits to the Proposal as it stands. Transparency is not an end in and of itself but rather a means to the end of better functioning markets for all market participants. Unintended consequences to the securities lending and funding markets must be considered.

Our suggested alternative includes the following recommendations:

- Increase the frequency of short sale volume data provided by FINRA and the exchanges without delay.
- Limit the scope of reporting to U.S. securities transactions subject to a securities lending agreement.

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- Require aggregate, not the transaction level, reporting report on T+1.
- Remove the data fields "securities on loan" and "available to lend" from reporting requirements.
- Allow non-broker dealers to be reporting agents.
- Allow competition to determine the best technology provider(s) to collect, maintain and distribute securities lending data through a competitive bidding process or with competing consolidators. Require those providers to be Regulation SCI entities.
- Follow technology and policy best practices that support a phased implementation to maximize the value of the Rule and reduce time and cost of implementation.

The Current State of the Securities Lending Market

The Commission asks several questions intended to confirm its preliminary beliefs about the state of the securities lending market and the value of the Proposal itself. S3 Partners would like to provide additional color on these issues and ask that the Commission take this data in consideration as it looks to revise the economic analysis in the final version of the Rule.

Securities Lending and Associated Reporting Differs from Both Equities and Fixed Income.

The securities loan market is not identical to equity or fixed income markets; parallel thinking does not apply in an apples-to-apples fashion. In the securities loan market, credit, collateral type, and how much price discovery a participant gives are all factors in determining price and willingness to transact. One-size fits all pricing is not sufficient in the securities loan marketplace, where there may be a range of prices given to lend the same security based on these underlying factors and the basis point equivalent for legal terms. Credit risk and counterparty risk are both factors that impact price.

From our perspective, and perhaps that of our clients, the Proposal seeks to accomplish for our industry something that we have already accomplished. As contemplated, the Proposal would create a consolidated tape for securities lending transactions. However, this raw data would need to be translated into actionable intelligence for industry participants to be able to make critical trading, lending, and risk management decisions. Our data solutions produce the key market benchmarks that

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decision makers need and currently use. Below is a subset of the types of offerings that our clients, who combined make up a majority of the securities lending market in the United States, employ:

- **Short Interest**: Day-over-day change in shorting activity for 60,000+ global securities.
- **Financing Rates**: Financing rates from all sides of the market to assist market participants that are short the shares or a long holder with transparency on the direction of financing rates, including bid, offer, and last indications.
- **Crowding Indicator**: This leading indicator provides a measure of shorting and covering events relative to market float and predicts movements in short interest in near real-time.
- **Days to Cover**: Compute days to cover using timely short interest and the 10, 30 or 90-day average daily trading volume for visibility into risk exposure.

The complexity of the marketplace is also reflected in the complexity of reporting. The FIX protocol is not used for securities lending transactions or reporting. In fact, one of S3 Partners' unique selling points is that we take our customers' data in their format and create consolidated output available in our products. It is important to recognize that in seeking a solution to securities lending reporting, we are not starting with a blank sheet of paper. While the Proposal stated that purchasing multiple vendor systems is expensive, there was no quantification of actual vendor costs. Nor was there data provided on how many firms actually use multiple vendors. We can confirm that we compete on cost in the marketplace on a daily basis and win clients because the value of our data analytics and bid-ask spread price data is significant. In the Proposal, the Commission questions the incremental increase in accuracy that the Proposal will bring to reporting; we believe that the current accuracy of securities lending reporting must be determined as part of an updated baseline.

The Commission should also consider the longer-term impact of imposing an equity market structure on the securities lending market. Issues that the equities market is grappling with today including algorithmic trading, payment for order flow, and order protection rules, could all become outgrowths of the Proposal.

The Proposal concurrently increases the scope of securities lending data that lenders will be required to generate and produce and imposes a fifteen-minute reporting deadline following the execution of a securities loan transaction (or a modification of the terms thereof). We ask the

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Commission to consider whether the expanded scope of reporting coupled with the fifteen-minute reporting deadline could create a "game show" effect, where lenders scramble to nominally comply with the Rule for fear of penalties, but at the expense of data quality. Irrespective of whether lenders or reporting agents have the reporting infrastructure in place to comply with the Rule, the Rule will nevertheless compel them to try to comply any way that they can. The Rule, however, would provide no mechanism for quality assurance – nor could it reasonably be expected to do so. If the Commission agrees that the viability of any data environment depends largely on the quality of its initial inputs, the Rule's focus on promptness could result in nominal compliance that undermines its transparency objective. As a result, the mechanics of the Rule may introduce a material market risk that the quality of the data contained in the securities lending database will be riddled with errors, with the effects being amplified as that same data progresses along the value chain[2].

As discussed further below, we therefore ask that the Commission evaluate whether (or when) lenders believe that they have (or will have) sufficiently well-developed internal reporting procedures to adequately comply with the Rule and/or whether it would be more prudent to allow them to develop those procedures and protocols and properly train their compliance and trading personnel before subjecting them to additional regulation.

The Give-To-Get Model With Differentiated Products by Firm Type is Problematic —but it is Not the Industry Standard.

S3 agrees with the Commission's concerns regarding the inadequacy and information asymmetry issues inherent in the give-to-get model, where different data sets are available to broker dealers versus beneficial owners. Fundamentally, the consequence of the give-to-get model is an attempt to derive quality by aggregating quantity. Recognizing that this type of financial alchemy has faltered in various contexts[3], we have sought to resolve these issues in our product offerings. Our most used product, the BLACK App, offers a comprehensive data set that is available to all subscribers

[2] A singular, but potentially significant consequence of lower data integrity is that the database resulting from the Rule would likely be used to train a generation of artificial intelligence engines that would, in turn, be used to execute an endless variety of automated trading strategies. If the data on which the trading algorithms are based is flawed, the market consequences could be systemic.

[3] See, e.g., https://fcic-static.law.stanford.edu/cdn_media/fcic-reports/fcic_final_report_chapter8.pdf.

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without regard to firm type. Even our blogs and tweets rely on the same data set and are publicly available.[4]

Changes to the Lending of a Particular Security Are Not Always Indicative of Short Selling; Unintended Consequences Must be Considered

While the Proposal states that securities loan reporting will provide indications of short selling activity[5], in other contexts the Commission has made clear that securities lending in the context of fails-to-deliver does not always reflect short selling activity. In other words, fails-to-deliver are a broker operations issue, not a market manipulation issue. This is substantiated by the Commission in a number of contexts. On the SEC's public website, the disclaimer regarding fail-to-deliver data reads: "Please note that fails-to-deliver can occur for a number of reasons on both long and short sales. Therefore, fails-to-deliver are not necessarily the result of short selling, and are not evidence of abusive short selling or "naked" short selling."[6]

In the Reg SHO FAQs[7], the Commission Staff recognized the limitations of fail-to-deliver data:

> "A failure to deliver occurs when a broker-dealer fails to deliver securities to the party on the other side of the transaction on the settlement date. There are many justifiable reasons why broker-dealers do not or cannot deliver securities on the settlement date. A broker-dealer may experience a problem that is either unanticipated or is out of its control, such as: (1) delays in customers delivering their shares to a broker-dealer, (2) the inability to obtain borrowed shares in time for settlement, (3) issues related to the

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[4] See https://research.s3partners.com/ for S3 Partners blogs and https://s3partners.com/media.html for our tweets.

[5] See 86 FR 69804 and Footnote 19, "..heightened demand for borrowing shares of a security is frequently associated with an increased level of short selling activity in that security." See also 86 FR 69838, "Additionally, a more accurate estimation of shares on loan can provide a clearer view into daily changes in short interest which can provide market participants with improved information about bearish sentiment. Consequently, by publicly disseminating securities lending data, the Proposal may increase price efficiency by allowing a broader section of investors to learn from and trade based on signals obtained from the securities lending market."

[6] See https://www.sec.gov/data/foiadocsfailsdatahtm, accessed March 27, 2022

[7] See Key points about Reg SHO ("Reg SHO FAQs") at https://www.sec.gov/investor/pubs/regsho.htm, accessed March 27, 2022.

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> physical transfer of securities, or (4) the failure of a broker-dealer to receive shares it had purchased to fulfill its delivery obligations. **Failures to deliver can result from both long and short sales.**"[8]

> "The appearance of a security on a threshold list does not necessarily mean that there has been abusive "naked" short selling or any impermissible trading in the stock. Delivery failures can be caused by both long and short sales."[9]

> "Inclusion on the threshold list simply indicates that the aggregate failures to deliver in an issuer's equity securities have reached the level required to become a "threshold security" as defined in Regulation SHO. Inclusion on the list should not be interpreted as connoting anything negative about the particular issuer."[10]

The potential for recipients of the proposed securities lending tape to misinterpret the data that will be disseminated is high. As the Commission considers making this data publicly available, it will be vitally important to provide the proper context around this data so it is interpreted correctly. On the flip side, the potential for some market participants to use the data to manipulate the markets is also high. We are concerned about the potential for market abuses that will increase volatility, short squeezes and macro prudential risks that may impede the maintenance of fair and orderly markets.

Potential unintended consequences include:

- Short squeezes, like what we saw in Gamestop (GME) in January 2021 since the tape could be used to promote other meme stocks.
- While retail investors typically are not engaged in short selling activity, if the Proposal did increase demand from retail traders for securities to borrow for short sale transactions, that could increase counterparty risk for securities lenders, causing them to reduce their securities lending activities.

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[8] See Reg SHO FAQs - Question IV, #3, emphasis added.
[9] See Reg SHO FAQs, Question IV, #5.
[10] See Reg SHO FAQs, Question IV, #6.

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- An aggregate reduction in the quantity of securities supplied for lending or short sale transactions could result in lower volumes of short sale activity.
- Lower trading volume – both in individual securities and in the aggregate could result in less price discovery, increased spreads, and less income to pension funds and other asset owners.
- Short interest funding provides a critical source of capital to the broker dealer industry. A cautious approach to implementation is warranted to reduce the possibility of a shrinking funding market and the potential for insolvency. We recommend a stress test to determine what effect a loss of funding might have on financial market participants.

Germane to the Commission's internal considerations, we note that even if the Commission increased its budget to accommodate and supplement its enforcement staff and data analytics training for its Staff, the Proposal's omission of clear benchmarks for its consolidated tape would predictably lead to wide variance in interpretations. Many of these would inevitably be "false positive" market manipulation actions, leading in turn to costly, time consuming, and ultimately fruitless enforcement proceedings.

Economic Analysis Baseline Needs to Incorporate the Current State of Securities Lending Marketplace

It is our understanding that the Commission strives to undertake an economic analysis for rulemaking that consists of at least the following:

> "It is widely recognized that the basic elements of a good regulatory economic analysis are: (1) a statement of the need for the proposed action; (2) the definition of a baseline against which to measure the likely economic consequences of the proposed regulation; (3) the identification of alternative regulatory approaches; and (4) an evaluation of the benefits and costs—both quantitative and qualitative—of the proposed action and the main alternatives identified by the analysis."[11]

[11] Current Guidance on Economic Analysis in SEC Rulemakings, March 16, 2012 *available at* https://www.sec.gov/divisions/riskfin/rsfi_guidance_econ_analy_secrulemaking.pdf.

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We believe that more can be done to quantify the value of transparency in this marketplace[12]. Increased transparency does not necessarily affect borrow and loan rate, which is controlled more by the laws of supply and demand. Price transparency does not change a borrower's need to execute a short sale strategy with the brokers that they already have existing agreements with. It is worth considering how influential rate transparency actually is to short sale trading strategies. We do not believe the Commission has explored if the costs to borrow are material to the execution of a short sale strategy. We believe a bigger issue may be the lack of shares to borrow, not the cost of borrowing.

In its discussion on competition, the Commission states:

"The Commission preliminarily believes that a mitigating factor leading to less consolidation is that the current relationship and network structure of lending programs and broker dealers already favors larger lending programs and broker-dealers who have the resources to maintain relationships with more and larger securities lending counterparties. Consequently, the Commission preliminarily believes that the market for lending programs and broker-dealer security borrowing services is already likely dominated by larger lending programs and broker-dealers that the Commission does not believe would cease operating as a result of these fixed costs."[13]

We agree with the Commission that larger lending programs currently have a bigger market share than smaller players. But we question the conclusion that this is a mitigating factor. Chair Gensler has raised concerns with concentration risk in other contexts.[14] They are valid here too. Given the high costs of the Proposal, smaller firms will not be able to bear the increased costs and will either merge with a larger firm, exit the securities lending business, or

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[12] As the Commission itself acknowledges in the Proposal, current conditions make it a challenge for the Commission to comply with its own quantitative analysis standards. See, e.g., https://csfme.org/Full_Article/who-bears-the-cost-of-the-secs-securities-lending-disclosure-proposal, citing Rule 10c-1 Proposing Release, p. 105.

[13] See 86 FR 69835

[14] "Market concentration can deter healthy competition and limit innovation. It also can increase potential system-wide risks, should any single incumbent with significant size or market share fail." See Prepared Remarks at the Global Exchange and FinTech Conference, Chair Gensler, June 9, 2021 *available at* https://www.sec.gov/news/speech/gensler-global-exchange-fintech-2021-06-09

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fail, thus increasing the dominance of the largest players, and with it, systemic risk and data security concerns.

We respectfully request that the Commission consider the factors described above as well as the proposed alternative below as part of the revised economic analysis associated with the final version of the Rule.

Discussion of S3 Partners' Recommended Alternative

S3 Partners is committed to the orderly functioning of the securities lending markets. As the Commission considers a final Rule related to securities loan reporting, we would like to offer the following recommendations as an alternative to the provisions of the Proposal:

Increase Frequency of Short Sale Volume Data Provided by
FINRA and the Exchanges Without Delay

One of the Proposal's goals is to increase insight into short sale activity. We think the Commission could quickly improve short sale transparency by changing the frequency of short sale volume data reporting from twice a month to three times a month. The mechanisms for reporting and displaying the data already exist, so implementation time should be minimal. Plus, short sale volume data more directly speaks to short sale activity. The Commission would also have the ability to monitor the use of this data to better understand investor interest.

We believe the Proposal should also be evaluated in the context of FINRA Rule 4560 as well as the Commission's proposed Short Position and Short Activity Reporting by Institutional Investment Managers (S7-08-22) and any future FINRA Rulemaking based on FINRA Regulatory Notice 21-19.

Limit the Scope of Reporting to U.S. Securities Transactions
Subject to a Securities Lending Agreement

The definition of the U.S. securities lending market has its basis in securities lending agreements that underpin transactions. We believe that a clean definition of included transactions will

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improve the quality and consistency of reporting. Additionally, we believe this would make for a more efficient implementation in that these agreements are the current standard and current reporting focuses on U.S. securities.

As the Commission recognized, we would also be concerned if securities lending transactions were repapered as repurchase agreements. Issues related to corporate actions and voting would need to be resolved and the value of the Proposal itself would be called into question.

Require Aggregate, Not the Transaction Level, Reporting Report on T+1

As discussed in the background section of this letter, there can be a number of factors impacting securities lending pricing that will not be clear from the data reported or disseminated. While it may seem counterintuitive that less granular data will provide a more accurate picture of the market, we believe aggregate data will be more informative since it will smooth out differences across counterparties that a single transaction will reflect.

This approach would also necessitate eliminating the time fields. We believe this makes sense given the difficulties in consistently defining what this time represents.

We also recommend eliminating the 15-minute reporting requirement and requiring reporting on T+1 with distribution to regulators that same day. While TRACE reporting is 15 minutes, we note that CAT reporters have until 8 AM ET on T+1 to report and LOPR reporters have until 10 PM ET on T+1. Given the lack of standardization in the securities lending market and the complexity of the reporting, which is closer to CAT, we recommend a T+1 reporting cycle. This will also reduce implementation time and costs since many firms rely on batch processing to generate this data.

Remove The Data Fields "Securities On Loan" And
"Available To Lend" From Reporting Requirements

We are concerned about the subjectivity of these fields and are concerned that they may be misleading. "Securities on loan" is a commonly used proxy to observe short interest and borrowing

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capacity. To measure total shares on loan and shares available for loan, data is collected from the ultimate lenders of shares as well as their intermediary agents and prime brokers.

However, to clear short sales, prime brokers often use their own internal inventory of shares, which means no actual "borrowing" takes place. By failing to take this "internalization" into account, approaches that use "securities on loan" routinely misrepresent the true number of borrowed shares.

It should also be noted that there is no standard for what defines "available to lend;" the determination of the value of this field is different at each firm and can be changed without notice.

Allow Non-Broker Dealers to Be Reporting Agents

We question the need for limiting reporting agents to broker-dealers and believe such an approach is inconsistent with other reporting regimes. CAT, TRACE, and LOPR are all reporting regimes that allow firms to use non-broker dealers as reporting agents. Firms already have connections with data vendors like S3 Partners for the reporting of securities loans. Allowing them to leverage existing relationships and connectivity would reduce both implementation time and cost. In addition to reduced development costs, there would also be reduced staff training costs. Staff training, given the complexity and scope of the Proposal, may be significant and was not assessed in the economic analysis but should be considered when comparing the Proposal to our alternative.

Additionally, we believe the broker-dealer reporting agent requirement could harm non-broker dealer lending agents that may suffer from revealing information they would have otherwise kept confidential and being the subject of information leakage.

Allow Competition to Determine Best Technology Provider(s) to Collect, Maintain and Distribute Securities Lending Data

While we wholeheartedly agree with the Commission's assessment that an NMS Plan is not appropriate to address this issue, we do not believe this should preclude introducing a selection process for determining which entities will perform the collection, maintenance, and distribution of securities lending data to regulators and the public. Therefore, we recommend that the final Rule require either

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a competitive bidding process to select the technology provider for these services or that multiple vendors be permitted to provide these services.

Competitive Bidding Process Approach

By requiring a competitive bidding process, technology vendors with expertise and existing products could offer solutions that would reduce implementation costs and time. We appreciate FINRA's capabilities with respect to reporting technology, but do not think that precludes a process with objective criteria where the best product, at the lowest cost, and shortest time to market is selected. Requiring a competitive bidding process would also include evaluating a firm's resiliency and cyber and data security capabilities.

Multiple Consolidator Approach

While we recognize that the equity markets are struggling to establish a competing consolidator model, we believe a final rule on securities lending reporting could avoid the NMS Plan process and thus succeed in introducing competition in this space. Changes in technology - from cloud computing to big data analytics - have turned the assumption that data needs to be consolidated in a single place on its head. Additionally, distributed systems like this pose a reduced data and national security risk as opposed to monolithic centralized systems. In this approach, the final rule would mandate reporting to a registered securities lending consolidator but not specify that the consolidator be an RSNA. To the extent that data vendors are used today for regulatory reporting and would be used even after the final rule, a competing consolidator model would reduce duplicative reporting.

In either approach described above we believe that the entity or entities providing securities data consolidation should be subject to Regulation SCI with its attendant policies, procedures, reporting and examination requirements.

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Allow Flexibility With Respect To Reporting Specification But Require Standardized Output From Qualified Securities Lending Consolidators.

We believe there is an opportunity to reduce both costs and implementation time by allowing reporting in non-standardized formats. As mentioned in the background section of this letter, there is no FIX protocol for the securities lending market but there is securities lending reporting to vendors today. S3 and our colleagues in the vendor community have proven that we can do the heavy lifting for the industry and map different input formats to a single output format. Leveraging these existing data transfer mechanisms would reduce costs on behalf of reporters. We also note there is precedent for allowing multiple formats. In the CAT adopting release, the Commission stated:

> "In light of the comments that data from multiple sources could be converted into a uniform format, this modification provides SROs with the flexibility, in devising the NMS plan, to better accommodate a range of proposals, including those based on leveraging technology in a cost-effective manner by permitting data to be converted to a uniform electronic format at the broker-dealer level or at the central repository. The Commission does not believe this change will reduce the accuracy or accessibility of the audit trail data provided to regulators (since the Rule still requires data to ultimately be provided to regulators in a uniform electronic format)."
>
> "The Commission believes that, if the NMS plan does not require data to be reported to the central repository in a uniform format, broker-dealers and SROs may not have to make substantial changes to their order management and execution systems to comply with Rule 613, and thus may face lower costs than if data were required to be reported in a uniform format because in that instance, broker-dealers may need to make substantial changes to their order management and execution systems to comply with Rule 613. The Commission acknowledges, however, that there would be costs to convert data to a "uniform electronic format for consolidation and storage." On balance, however, the Commission preliminarily believes that broker-dealers might benefit from economies of scale when normalizing data." [15]

[15] See CAT Adopting Release at 77 FR 45769

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The logic remains the same for securities loan reporting. Having only securities lending consolidators performing normalization streamlines processes and achieves dramatic cost efficiencies.

Follow Technology & Policy Best Practices that Support a Thoughtfully Calibrated Implementation

Once a final Rule is approved, multiple technology projects across the industry will be initiated - at the securities lending consolidator and all reporting firms. We recommend that the Commission phase-in implementation in a manner consistent with best practices in technology and policy implementation. Iterative technology projects allow for incremental improvements with multiple milestones towards reaching an ultimate goal. This approach also benefits regulators in that there is time to obtain data and allow data to drive any policy corrections that are needed. To be clear, we are not recommending that the Commission delay implementation, but rather that it prioritizes the implementation on the lowest effort, highest impact items. In tech speak, this is your Minimum Viable Product followed by continuous improvement. Our specific phased approach is as follows:

1. *Increase frequency of short sale volume reporting by FINRA and the exchanges*
   We think this can be done relatively quickly given the existing reporting and distribution mechanisms already in place.

2. *Determine how to introduce competition into the securities consolidator process. Depending on the approach chosen, set dates for a competitive bidding process or competing consolidator registration.*
   We believe the Commission and FINRA have sufficient experience with competitive bidding processes involving technology projects and should be able to set dates based on past experience.

3. *Broker-dealer reporting on T+1 of the S&P 500 then U.S. fixed income with distribution of reports to regulators only.*
   The Commission acknowledges that the technology lift could be higher for non-broker dealer reporters. We believe that the vast majority of securities lending occurs at broker dealers. Additionally, the most liquid stocks are where the most amount of securities lending activity is. Having reporting on the S&P 500 is a logical way to get the most significant portion of the market up front.

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4. *Regulatory assessment of securities lending data before releasing data publicly.*
   As discussed in the background section, we are concerned about the difficulty of interpreting the data by some investors and the potential for manipulation by others. The Commission should evaluate the data from a data quality and an investor use case perspective to create any required educational materials to assist investors as well as to determine appropriate fraud detection programs that may result from the release of this data.

5. *Public disclosure of reported data on a two-week delay after regulatory reporting has been performed for 6 months to one year. Expand reporting to non-broker dealers.*
   We believe as with other public disclosures of data, reporting should be delayed to avoid market manipulation and trading strategy identification. Depending on the Commission's assessment of the data, we recommend giving the non-broker dealers the extra time to develop reporting capabilities in line with the release of publicly available data.

Economic Impact of S3 Partners' Alternative

We have evaluated the direct compliance costs provided in the Proposal and believe the costs associated with the Proposal as it stands are underestimated.[16] As proposed, we believe that the development work required at the RSNA will take 5 - 7 years to build including the time to work with the industry to come up with a specification that addresses all workflows. We think the Commission underestimates the nuances of the securities lending market as discussed in earlier sections and the impact those nuances will have on FINRA and Reporting Agents as they try to standardize data elements associated with a specification around this reporting. Given our existing customer base and methodology for consolidating data utilizing a broker-dealer's individual format, we believe we could reduce reporting and lending agents costs by about 50%.

We also believe we could either work for FINRA or become a competing consolidator at a fraction of what it will truly cost FINRA, which we estimate to be well in excess of $100 million compared to the Proposal estimate of $3.5 million, with ongoing annual costs being multiples thereof. We believe that the derivation of costs from the CAT Proposing and Approval Order are

[16] See 86 FR 69841

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underestimated not just as it relates to the Proposal but also as it relates to the actual cost of CAT implementation. We respectfully request that the Commission evaluate the publicly available CAT financial statements for a better assessment of actual CAT costs in determining estimated costs of the Proposal.

Conclusion

We believe the Proposal should be modified to achieve the Commission's objectives with respect to the securities lending market and transparency with a lower implementation burden that minimizes unintended consequences. We recognize that not everyone lives and breathes securities lending the way we do and would appreciate the opportunity to discuss this Proposal and the securities lending markets more generally with the Commission.

Sincerely,

/s/

Robert Sloan
Managing Partner
S3 Partners, LLC