October 30, 2022

Vanessa A. Countryman
Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 205499–1090
rule-comments@sec.gov

Re: Release No. 34-93613; File No. S7-18-21 Reporting of Securities Loans

Ms. Countryman:

I appreciate the opportunity to comment on the U.S. Securities and Exchange Commission's (the "SEC" or "Commission") release on proposed Rule 10c-1 ("Proposal") under the Securities Exchange Act of 1934.

I am a retail investor that has had exposure in the markets since 1999 when I would trade with my mother when I was in high school. This exposure led me to pursue a bachelor's degree in Business Finance. I did not pursue a career in finance due to what I learned from trading, university, and what happened in the 2008 stock market crash. I learned that there was not much transparency for retail investors and it led me to ignore the finance sector for over a decade. I have revisited the finance sector and am very motivated to make any change that I can to make investing more accessible to regular people and put personal finance back in the hands of retail investors.

We Need Increased Transparency

Despite the pushback from industry firms who face increased compliance costs, I fully support the Commission in this rulemaking, and urge the Commission to go further with these disclosures. The complex aspects of our current market structure, with a lack of transparency and visibility into the inner workings around securities lending and short exposure, is one of the topics that I find the most frustration with. The lack of transparency around short positions, the inability to adequately quantify short interest, and the ability for firms to skirt regulation through derivative positions such as options and security-based swaps are making a mockery of our free and open markets. The inadequate ability to properly measure and understand economic short exposure leads to supply/demand imbalances in markets and affects trading prices. Short interest data is one of the leading piece of data that I as an individual investor need access to so that I can make good long term decisions for my investments.

The SEC agrees that much of securities lending is done behind closed doors over the phone, in 1-on-1 negotiations, with little disclosure requirements, generous reporting intervals, that lead to malicious behavior. This is a massive deregulated market, with total securities on loan on any given day to be around 1.5 Trillion USD, that has material influence to markets that retail investors do have access to. This lack of regulation makes it difficult to trace or prove activities like naked short selling, which is described on pg.29 of the SEC GameStop Report. Big brokers and banks have insight into market data around securities lending that others, like retail investors, have little to none, which leads to asymmetrical advantages in the market for only the big players. This is very frustrating as an individual investor.

We Need Solutions to Disclosure

I want to see this rule make the most important information of stock lending to be disclosed. The reporting should be within minutes, and not weeks. That information should be publicly available for individual transactions and as aggregate information. The type of lender and borrower should be disclosed (broker-dealer, bank, customer, custodian, clearing agency, etc.). Daily reporting concerning total securities on loan, and total securities available to loan should be disclosed. This would close the “F3”-style inventory loophole, of which Goldman Sachs was fined $15 Million USD as reported by Market Watch on Jan. 14, 2016, nearly entirely.

The Dodd-Frank Act had a mandate to make securities lending more transparent and 10c-1 rule is long overdue. The Dodd-Frank Act was a response to the 2008 financial crisis which showed us that 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 and retail investors.

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.

Conclusion

I appreciate the opportunity to respond to the Proposal. Thank you for considering my comments and I would be happy to answer any questions or further explain any of the points.

Sincerely,

Jonathan Shaner
Concerned Retail Investor