

I am a concerned retail investor and I hope my comment displays my disapproval for this rule.

Below I will outline multiple reasons SR-NSCC-2022-003 should not be implemented and is likely a risk to the entire market as a whole.

pg2 - "(iii) establish the securities financing transaction clearing service ("Securities Financing Transaction Clearing Service" or "SFT Clearing Service") to make central clearing available at NSCC for equity securities financing transactions"

There is no benefit to the market to create a service that allows for loaning of equity securities to an exclusive list of NSCC members. This will benefit a very small quantity of market users (many of which bend/break rules regularly as seen in fines handed out by the SEC) and harm retail investors/ small firms.

pg4 - "NSCC understands that SFTs provide liquidity to markets and facilitates the ability of market participants to make delivery on short-sales, and thereby avoid failures to deliver, "naked" shorts, and similar situations."

Using loaned equity securities to cover fail to deliver should be illegal to begin with. In that scenario you've failed to deliver a security and as a solution you give a loaned security that you are promising to give back instead. What happens when that loan becomes a fail to deliver too? Should a loan be used to cover that failed loan?

Avoiding "failures to deliver, "naked" shorts, and similar situations." should be simple a case of delivering the securities that are required. This only becomes an issue when over-leveraged funds (or other market participants) do not have the available cash to deliver the security. Just because someone manages to become an NSCC member they should not suddenly be allowed to delay the delivery of a security. All market participants need to partake at an equal level.

pg4 - "The Basel III capital and leverage requirements, as implemented by the U.S. banking regulators, constrain the ability of agent lenders and brokers to intermediate and facilitate SFTs. NSCC believes central clearing of SFTs would be able to address these constraints, which may otherwise impair market participants' ability to engage in SFTs."

This is a horrifying prospect. Overleveraged SFTs have the potential to become (if it has not already become) a huge risk to the market and economy. As I am sure you are aware Basel III is designed to mitigate risk by having banks maintain leverage ratios and keep reserve capital. This was put in place to prevent another 2007-2009 disaster from occurring. If Basel III is preventing additional SFTs from being facilitated then it is likely that the additional SFTs could create systemic risk. I suggest that the SEC recognise and investigate the reasons that Basel III is preventing additional SFT creation and investigate whether overleveraged SFT positions are a risk to the current markets.

pg5 - "In addition, under Basel III, bank holding companies that have broker-dealer subsidiary borrowers are required to reserve capital against their exposures to institutional firm lenders of securities in relation to the cash collateral posted by such borrowers. Those capital requirements can vary depending on the credit profile of the institutional firm lender, and generally are well in excess of those applied to exposures to qualifying central counterparties, such as NSCC."

This is without a doubt a clear statement by the NSCC that this rule would sidestep the reserve capital Basel III requires banks to hold. It is my firm belief that this rule opens a door to increased systemic risk back to the days of 2007-2009.

pg8 - "These "runs" may require institutional firm lenders to quickly sell off securities that are the subject of their cash reinvestments to raise cash to return to the borrowers"

This would not be an issue at all if the appropriate reserve capital was held by the institutional firm lenders. It is precisely for the reasons the discuss that Basel III was put into place. Now the NSCC wishes to have SR-NSCC-2022-003 damage the good work that Basel III has done.

pg29 - "SFT Members are kept in largely the same position as if the Defaulting SFT Member had not defaulted and the pre-novation counterparties had instead agreed to roll the SFTs"

Why should the NSCC be allowed to presume the actions of a defaulting member? It makes so little sense as

the securities that led to a default are presumably in need of closing and therefore should not be rolled over. Should this happen it is the equivalent of the NSCC holding all of the SFT bags that have caused a presumably previously wealthy NSCC member to default. It is unwise to hold these positions open in what would likely be dangerous market conditions.

I feel I have a lot more I could comment on but to respect both of our time I will leave it at these most important points.

In conclusion I do not believe that this rule is in the best interest of the grand majority of traders. It is for a select few extremely wealthy entities. The side-stepping of Basel III is extremely alarming and not beneficial to anyone.

Please do not allow this rule to become a reality; those that would bend the rules with SFTs now would do so much more wrong should this pass.

Thank you for your time,  
Sam M.