United States Securities and Exchange Commission

SEC Securities Lending and Short Sale Roundtable
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On behalf of Citadel Investment Group, I would like to thank the Commission and the Staff for the opportunity to participate in this Roundtable. At Citadel, we have 19 years of experience as an active securities lending market participant. To support our private fund and market making businesses, we have built infrastructure that enables us to transact directly with primary sources of securities loan supply and demand, rather than rely entirely on market intermediaries.

Based on this experience, we believe that a well functioning securities lending market benefits all investors. Owners of securities can generate additional income or obtain financing by lending securities. Securities lending also contributes to tight bid/offer spreads and market liquidity by enabling the orderly settlement of short sales. At the Commission's May Short Sale Roundtable, I explained Citadel's view that short selling benefits all investors and our economy by promoting liquidity and price discovery, and serving as a risk management tool for investors.

While the securities lending market has made great strides in recent years, we believe there is still substantial work to be done before the securities lending market can reach its full potential. Despite its growing size, the securities lending market remains relatively opaque because there is little centralized collection or dissemination of loan pricing data. Many securities loans are still bilaterally negotiated between market intermediaries on the phone or by email, and each party to a securities loan generally faces the credit risk of the other for the duration of the loan. Until recently, no centralized venues existed where borrowers and lenders could readily find each other and transact directly.

In many respects, these challenges are analogous to the challenges facing the over-the-counter derivatives markets. We applaud the Commission's efforts to increase the transparency and efficiency of the OTC derivatives markets and encourage the central clearing of standardized derivatives contracts. Similar considerations apply in the securities lending markets, where central counterparties could reduce bilateral credit risk and foster rigorous and consistent credit risk management practices.

The development of electronic platforms for securities lending is also important and may lead to similar increases in transparency and reductions in transactions costs. Experience shows that centralized markets are more competitive, and greater competition makes markets more efficient.

The securities lending market is an important part of our capital markets. The Commission should encourage the modernization of the securities lending market and enable more direct interaction between borrowers and lenders. This would reduce the cost of borrowing, increase returns to securities lenders, increase transparency, and reduce the overall risks of securities lending.