

MEMORANDUM

TO: File No. S7-18-21
FROM: Division of Trading and Markets
RE: Meeting with Representatives of Global PSSL
DATE: March 3, 2022

On March 3, 2022, at the request of Global PSSL, SEC staff had a teleconference with representatives of Global PSSL including Radek Stech and Ela Slota of Global PSSL. Also Edward Sonneveld, a Global PSSL “observer,” participated in the teleconference. SEC staff at the meeting included staff from the Division of Investment Management (“IM”), the Division of Trading and Markets (“TM”), and the Division of Economic & Risk Analysis (“DERA”). The IM representatives were Penelope Saltzman and Trace Rakestraw. The TM representatives were Josephine J. Tao, John Guidroz, Joan Collopy, and Theresa Hajost. The DERA representatives were Amy Edwards, Paul Barton and Peter Dixon.

The participants discussed Proposed Rule 10c-1. Dr. Stech provided notes to facilitate the parties’ discussion. Those notes are included with this memorandum.



Creating a Global ESG Market Standard
for Owners, Lenders, Borrowers and
Impact Creators

March 3, 2022

Global checks and balances approach to securities lending: the role of the The U.S. Securities and Exchange Commission (SEC) regarding the proposed rule on Reporting of Securities Loans

Discussion notes submitted by Dr Radek Stech

Thank you for inviting my input regarding The Proposed Rule: Reporting of Securities Loans. I submitted my response on 7 January 2022 and see this meeting as an opportunity to discuss some of the themes more in detail. I have prepared a summary of my key points and am happy to answer any questions. Since the Commission reopened the consultation on the proposed rule, I shall endeavour to elaborate on the below points as part of my fully referenced formal response. I will also discuss this work at the incoming Global PSSSL Research Opportunities for Sustainable Economy (ROSE) Centre.

1. SEC has increased transparency by issuing the proposed rule on Reporting of Securities Loans (the proposed rule)

The introduction of the proposed rule has allowed stakeholders to submit comments via the SEC website. Regardless of the regulatory outcome, such consultation constitutes a large depository of conceptual, technical and operational up-to-date information on how the securities lending market operates and connects with other financial structures. Transparency, disclosure and stakeholder involvement are key overarching elements of the sustainability debate. I would like to explore the feasibility of how this level of openness can be maintained in the long term, whilst ensuring that the SEC meets its regulatory objectives in the U.S.

Global PSSSL intends to continue issuing periodic transparency updates that will be subject to peer review at the ROSE Centre.

2. Unlocking the potential of the securities lending value chain and avoiding a 'race to the bottom'

Although a full consensus on how the securities lending market should operate would be unrealistic, most stakeholders share the SEC's view that transparency should be increased. The fact that priorities and opinions change depending on individuals' roles within the securities lending value chain proves that this market operates as a complex finance dynamic whose public and commercial interests are best explored through respective roles and responsibilities. This offers an opportunity to implement wholesale improvements to the Securities Lending market at a time when sustainable finance is attaining the prominence it deserves. In doing so, we should minimise a 'race to the bottom' temptations by some stakeholders, increase healthy competition and, potentially, incentivise certain stakeholders to drive the public interest transparency agenda.



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3. Global checks and balances approach to securities lending

I suggest that we build upon the SEC's work to increase transparency in the securities lending market. Setting aside extraterritoriality, in the strict legal sense, many stakeholders are global players and operate with the help of trade associations located in major financial hubs. I often hear about the abuse of public trust by various actors in clear cross-border disputes relating to our Principle V (Supporting Tax), Principle VI (Values-based short selling) and Principle VII (Voting and engagement). I have also had a chance to explore recent issues relating to pre-released American Depositary Receipts as there are clear connections with securities lending and cross-border matters. My preliminary analysis suggests that many issues affecting securities lending result from deficiencies, and often failures, that span a large part of the value chain. Logically, there is a need to think about multi-level governance to ensure appropriate behaviour in securities lending.

Exclusive focus on binding regulation is not the answer at this stage. This much is apparent from the many comments on the SEC website. From my extensive engagement with stakeholders, I feel that a synergy of principles, regulation, and active supervision would offer the reach to cover all corners of the market and the flexibility to satisfy all levels of the value chain. I am also discussing how Global PSSSL can support a cross-border collaboration on securities lending data and how international organisations can become more proactive in this space. I do believe that, alongside The Financial Stability Board, such organisations as The World Bank Group, the International Monetary Fund and The International Organization of Securities Commissions should become more proactive in this field. As frequently posted on the Global PSSSL website, I have been in touch with the World Bank officials for many years.

4. The role of SEC in the global checks and balances

I understand that the protection of America's financial markets is the SEC's priority and that securities lending works to a unique dynamic with global stakeholders. The SEC is clearly committed to increasing transparency in the U.S. market. At the same time, the Commission can support the broader global paradigm shift towards a checks and balances approach to securities lending. I have collaborated with many key global players in this field since 2018 with a view of increasing transparency as part of the broader sustainability agenda. Together with the Global PSSSL ROSE Centre and our workstreams, I hope to strengthen SEC objectives in the U.S.

Dr Radek Stech

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Global Principles for Sustainable Securities Lending



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