I would like to submit a petition for a new rule. For traders to properly assess risk before entering a trade I propose that there should be a hard cap of a maximum 100% APR on overnight stock borrow fees. In the last couple of years stock borrow rates have gone exponentially upwards with some approaching 1000% APR. This unfairly tilts the playing field away from shorts and towards longs only.

Traders who short stocks are often an essential safeguard against fraud and corruption. They oftentimes identify businesses that may have red flags well ahead of any authorities or regulators. This keeps Wall Street more honest and more accountable. Even in the case where a business is not fraudulent but is perceived by some traders to be overvalued shorting is still a healthy, balanced aspect of the market which should not be artificially constrained.

However, in the last few years a very unfair and exploitative trend has been emerging. Stock borrow rates have gotten wildly out of proportion. For example, a stock like AAPL (Apple) has a reasonable APR (Annual Percentage Rate) of less than 1%. However, to illustrate one day in August 2019 to borrow a share of RKDA (Arkadia Biosciences) a broker had an APR of 97.6%. That means that to short 100 shares overnight at a stock price of $7 (a trade worth $700) would cost the shorter $18.72 ($700 x 9.76 / 365) per night in interest. To long that same stock it would cost that same trader $0 per night. How does that promote a fair market when traders are so incentivized to long instead of short? If a company is fraudulent this gives them a shield to profit for much longer than they should since there is no additional downward pressure on their stock from short sellers.

There are many stocks that are now in the 100's of percent APR to short. There is already more risk shorting then longing in the market since a long can only drop to $0 but a short could theoretically go up tenfold or more. In essence Wall Street, the brokers and exchanges are making it de-facto impossible to short many stocks by these usurious rates. At the same time they are the ones profiting off those short sellers who do take the risk and have to pay the exorbitant fees.

These practices have gotten out of control and it's why I'm asking that the SEC put an end to this exploitation of an important segment of the market. Since shorting already involves more risk I think it is only fair that this risk is not made potentially catastrophic. What is stopping an APR going to 5000% or 10000% overnight unpredictably with nothing a trader can do about it? This is why the SEC must step in and institute a HARD CAP on the maximum APR rate of any stock borrowed. I believe a reasonable cap would be a maximum APR of 100% so that a market participant can fairly assess their risk.

Thank you,

Patrick Whittemore