Sharegain

Myth busting:

Five common misconceptions about securities lending

info@sharegain.com
sharegain.com

Securities lending is a well-established practice that plays an essential role in capital markets, offering private investors a valuable source of passive income.

Yet, despite its wide-scale adoption, misconceptions around it still exist.

Here are the top

5

most common myths, debunked.

Myth #1

“It’s bad for share prices”

Many long-term investors participate in securities lending. Why? They understand that share prices are primarily determined by a company’s performance. While securities lending and associated short-selling activity may cause occasional fluctuations, evidence from The Federal Reserve[1] demonstrates that they have no lasting impact on long-term share prices.

Consider Tesla. Despite experiencing significant shorting activity over the years, at the end of the day, the stock price is on a consistent upward trajectory.

The International Organisation of Securities Commissions (IOSCO) emphasizes that securities lending contributes to effective liquidity and price discovery in financial markets, reduces volatility and costs for end-investors, and is not detrimental to long-term value.[2]

This is why many investors choose to participate and generate passive income.

[1] Federal Reserve Bank of New York, *Market declines: Is banning short selling the solution?, September 2011*

[2] Technical Committee of the International Organisation of Securities Commissions (IOSCO) and Committee on Payment and Settlement Systems (CPSS), *Securities Lending Transactions: Market Development and Implications, July 1999*

Myth #2

"Revenue generated from securities lending won't move the dial"

Securities lending can play a key role in a long-term investment strategy. It's not a "get-rich-quick" solution – instead, it represents a steady and compounding source of revenue. Over time, the value of this pot can be significant.

Think of it like saving for a pension fund, where even relatively small amounts diligently saved over the years can accumulate into a sizable sum.

In some exceptional cases, income generated from lending specific stocks can be substantial, offering a third revenue engine for investors, alongside dividends and coupons.

Myth #3

"Private investors are against short selling and this is why they don't want to participate in securities lending"

There is undoubtedly an emotional debate surrounding short selling, but it's important to recognize that not all investors are against it. In fact, some investors are more than willing to engage in short-selling activities.

Not only is it a legitimate practice, but it is an essential market mechanism that facilitates price discovery and liquidity.

The reality is that short sellers will always find a way to borrow securities and short them.

So, the question private investors should ask themselves is:

Do they want to earn additional income from their portfolio's or not?

Myth #4

“Loss of dividends and associated rights”

When investors lend out their securities, the borrower typically receives the associated rights.

However, investors don’t lose out on their dividends and coupon payments. Instead, they receive payments equivalent to the dividends they would have earned, known as “Dividends in Lieu”*.

As for voting rights: yes, investors can’t vote in most programs.

However, if voting is really important to them, they have the ability to turn the program on and off when they need to and retain the authority to block or recall their securities at any time.

** Cash payments in lieu of dividends may not qualify for the same tax treatment as “qualified dividends”. You should speak to an independent tax expert to understand the tax implication to you as a result of participating in a securities lending program.*

Myth #5

"It's too complex"

Some investors argue that securities lending is overly complicated. However, securities lending is quite straightforward. With a simple opt-in or opt-out, investors have the choice to make their stocks, bonds, or ETFs available for lending or not.

It's just like deciding to rent out an apartment. Except with securities lending, everything is taken care of. Investors don't need to worry about tenant management or housekeeping, and benefit from added insurance – known as collateral – set at 105% of the value of the securities lent out.

In other words, the tenant is handing over a check for more than the apartment's value when they rent.

Put simply, securities lending is a hassle-free way to earn extra income from assets investors already own.

Myths busted

Don’t let misconceptions hold you back

Request a demo

With securities lending, as with other investment activities, your capital may be at risk.