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New SEC Short Sale Regulations

Is Your House In Order?

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Laurence Herman Hello, thank you for joining us for today's GLG teleconference on new SEC short sale regulations. Is your house in order? My name is Laurence Herman. I'm the General Counsel at GLG and I'll be introducing our panelists today.

Today's teleconference should last approximately 50 minutes, including time for questions. Submit questions at any time. You can add them via the text box in your window. Also, you can email them at teleconferences@glgroup.com. All questions will be addressed at the end of the call, and will remain anonymous and confidential. This call is being recorded and transcribed.

I'm pleased to welcome our esteemed experts for today's call, starting with our interviewer, Larry Tabb. Larry is well known to many of you. He's currently the Director of Market Structure Research at Bloomberg LLP. He is writing, as well as managing, a team developing research and insight on financial markets infrastructure, technology, regulation, trading practices and industry issues. Prior to joining Bloomberg in 2020, Larry was the Chairman of Tabb Group, the financial market strategic advisory and research firm, and he managed research and consulting for Tabb Group. He's widely published and incredibly highly regarded on this and many other topics regarding market structure regulation and otherwise. Thank you for joining us, Larry.

I will be also introducing Bob Sloan, who Larry will be conversing with on today's topic. Bob founded S3 Partners in 2003 and is a managing partner. S3 is the leading financial data and analytics firm with the best-selling third party data set in the history of the Bloomberg terminal, I'm told. More specifically, he has workbook solutions that solve for various new SEC rules. He's one of the leading commentators on the rules and regulations for market structure, including being featured in the Netflix docu-series Eat the Rich: The GameStop Saga, which is topical, and authored a book, Don't Blame the Shorts: Why Short Sellers Are Always Blamed for Market Crashes and How History Is Repeating Itself. We're thrilled to have both of them. I will turn this over to Larry and, again, feel free to pose questions that we can interpose into the conversation later.

Larry Thanks. Appreciate the intro. Yeah, the SEC, as most of you know, has become very active in their rulemaking process. They've put out dozens of proposals and they're starting to turn these into rules.

One of the more significant rules that they have put out is really on securities lending and securities finance, which is going to significantly impact buy side and hedge funds, and that's kind of what we're here to talk about. And there's no one better that I would have loved to talk about this than Bob Sloan. He's kind of the expert in this space. Bob, welcome. Looking forward to a great conversation.

Bob Larry, great to be with you always and really look forward to today's discussions. A lot to talk about.

Larry Absolutely. Let's start at the beginning. There's always been kind of short reporting. What are these new rules that the SEC just implemented and how are they going to change what the buy and the sell side actually have to report? And is this more just kind of window dressing or is this actually going to be impactful?

Bob I think the latter. Very impactful. And the headline... There are really many headlines. One, in our firm's opinion, in S3's opinion, the duration of short sales will become shorter, meaning the time that managers will put on a short position, let's just say the average was six months or a year for fundamental shorts, will become much less. That's number one.

Number two, we think these rules actually give you a smaller window for liquidity. If the way we view the impact of the rules is correct and fundamental shorting can't be done for as long a period of time, we'll get into why that is, the amount of liquidity in the market will be fewer number of days.

The third thing is that it will impact momentum and how people make money on the short side and the technical indicators, like days to cover and float, and then we can get into how, if and when these rules get implemented, it will affect data sets and factor investing.

Those are the three headlines: shorter duration of your position, smaller liquidities for the window liquidity, and then also looking at the history, which is key for factor investing, will be changed quite significantly.

Larry There are kind of two rules that kind of work hand in hand here. One is on securities lending and one's on securities finance. They're kind of tied together, but they're actually kind of, you know the SEC kind of separates them out. What is the SEC looking for folks to do?

Bob I think, Larry, and one thing you've always taught me is what's the why? Why did this happen and why now? And the short sale reporting rules are a different why now than the securities lending reporting rules. The securities lending reporting rules, the way that stock loan securities lending information has been aggregated has been based on a privately held give-to-get model.

And, basically, the way we commented on the SEC rules was that that model that underpins the way information is gathered is basically a different version of LIBOR. It is a submission-based system controlled by the participants that conttribute to that system and it's subject to the quality that is given into the system. A good way to look at give-to-get is it's like a CDO. If I'm giving you a single B tranche, and I'm receiving a single B tranche, the hope is we gather all these single B tranches to get triple A data.

And, quite frankly, the ability to actually take securities lending data and then say, okay, how do I tie this back to actual short sales? Because those two things are very different. A stock loan or securities lending transaction does not equal short sale.

If you're trying to get more transparency, and that's what the regulators are trying to do, you have to add up the sec lending transactions and that's really why they came up with the sec lending transactions. There's just been so much talk on the internet, by the Reddit community, it definitely had an influence, I think, in how the regulators said, okay, the give-to-get model and the aggregation of this information exists. We don't think it's as transparent or as accurate as it needs to be.

Right. Rather than just saying, this is LIBOR, we're going to just mandate that the broker-dealer and custodian bank community, and people like us, gather that information, help people gather that information, and then report it on a T+1 basis.

Larry That's getting reported on a one-day basis, right?

Bob That's correct. It's interesting. These things are still subject to change, but as it stands today, it's T+ 1 and then, 20 days later, the identity and the amounts and the full transparency will be released. T+1 is aggregated and anonymized.

And there's some dispute about T+1, whether, let's say, a million shares was borrowed, will there be 10 tickets of 100,000, just for example, but with no rate or collateral, or with rate or with collateral, published the next day. Just no identity. But, 20 days later, definitely what's very clear is that everything, the rate and collateral and identity of the counterpart of who borrowed, will be published.

Larry If you hit the basic thresholds that you need to be, me as an individual, that won't get reported, but certainly any sizable hedge fund or asset manager will get reported.

Bob Here's the way it goes. We have to split this thing up. The sec lending transactions, what will be reported is a borrow from, let's just say, big custodian bank, use any one of them as generically as you want, something that looks and feels like the Bank of New York. A big prime broker borrows from a big custodian bank and lends to a hedge fund, that is a reportable transaction. A loan from broker-dealer inventory to a hedge fund is not. And so, what is in the universe, first of all, it covers the way we read it, it's just not equities. It's pretty much everything. Everything that's subject to a borrowing loan.

Larry This could also be-

Bob That's number one.

Larry ... traditional repo and fixed income or it's not-

Bob That's not a borrowing loan, so these things have to be worked out. That's a buy and a sell. The dealer inventory is exempt. What it also throws into the reporting is intercompany loans and different types of financing. Arranged loans. What's happening is that the amount of securities finance information will be published, but it will be dirtier.

And I don't mean dirty in terms of quality, it's just noisy. It's just a lot. And there will be a need to filter that information so that it becomes useful, but it definitely will hurt, I think, some of the factor driven investors because their point in time data series will change dramatically, from the point that these things are published. It's going to be very hard for people to... How do you back test with this new information? You can't.

It's a really interesting, I think, point, is that, yes, all this information out there, we, as a firm, love it, but it is noisy. What's the true price? Is there a discernible bid ask? How do you distill all this information so that you try to get an idea of what activity is happening in the system? That's the sec lending part of it.

Larry As you're saying, some of the dealer financing will be exempt, but the intercompany stuff will not be, so if I'm the investment bank of Citibank versus the asset manager or, I don't know, the treasury part of Citibank, that stuff gets reported?

Bob It gets reported, but it also might be exempt because that might be the dealer's inventory.

Larry Not necessarily totally straightforward.

Bob It's not totally straightforward, and we're kind of jumping around a little bit, but everybody wants to know what's the unintended consequences. There are definitely unintended consequences here, and we can go into that a little later in the discussion, but that's what the rule says.

Larry Okay. Now, for the short side of this, asset managers are now going to have to report. They don't report today, do they?

Bob That's correct. They do not. The way short interest gets reported, it is aggregated by the broker dealer community and reported, in the US, published by FINRA.

Larry And so, under the new rules, buy-sides and hedge funds will have to report?

Bob Yes, they will. And the calculations are twofold, really. One is there's a threshold for reporting. So the first is if you have a $10 million average monthly gross short position, and that's a dollar threshold, and the calculation is the number of shares short times stock price on each settlement day and then you add up all the daily dollar values divided by the number of settlement dates in the month. That's threshold number one. So basically it's a $10 million daily average threshold.

Larry That's not a big number for a long short fund, is it?

Bob It's nothing actually. It's very low. It's super low. And then the other is a percentage threshold, which is 2.5% of the shares outstanding. So the company's outstanding issuance that monthly grows short. And so the calculation there is the number of shares short divided by the number of shares outstanding on each settlement date. And you add up all the percentage values and divided by the settlement dates in the month. So there's a 2.5% of the outstanding, and then there's a $10 million threshold. Very low. But the penalty as we read it, is very draconian. So if you miss one of these things, it's not just once a month that you have to report it's every day, and it becomes an auditable thing. So the tripwire is very low.

Larry So this is going to be very intensive to asset managers and long short funds and folks like that, anybody lending or borrowing.

Bob Lending, borrowing, but specifically shorting. So a derivatives book, for example, at a bank now has to report because they will have derivatives positions, they'll have short hedges, et cetera, north of these numbers, particularly the $10 million number.

Larry Interesting. So let's get into some of the, I guess intended and unintended consequences you were talking about. Certainly intended is greater transparency. Maybe a little unintended is so much data we're not going to be able to make sense of it. But you were talking before that you think that folks, what they're able to short is going to wind up becoming lower and let's go into some of that stuff and why you think there's just going to be less of a window for folks to borrow to short.

Bob To short. So I do think that when you see very well-known, famous folks leave the field because they say their business model doesn't work, you look at these rules and there is going to be more volatility in these names. There is going to be more, I'll say, conspiracy theory stuff around naked shorting because you're going to see a short with no borrow. Now, that means that the dealer has the inventory to support it, but it can be confusing. And do we believe naked shorting exists? No, it does not. But you're going to get these things that are subject to intense scrutiny and intense, I would say, Reddit type fervor, and it can be misinterpreted.

Larry So let's walk through this a little bit. So let's just say I'm a fund, I decide for whatever reason I want to short ABC stock. You're my prime or you're my broker. So now I'm shorting ABC stock and so now I have to report that, and that's going to show up as a Larry is short XYZ or ABC or whatever. But if that gets filled through your inventory or whatever, that just looks like a short with no borrow. Is that what you're getting at?

Bob That's correct. That's correct. There will be these mismatches where you will not see a borrow versus the reported short.

Larry Oh, then somebody who really doesn't understand this says, oh, Larry is naked shorting and let's just go beat him up.

Bob See, there's the proof, right? There's the proof. So you're going to see that. The second thing is-

Larry Oh, that [inaudible] could be really problematic.

Bob It could be problematic. But, I think it's very hard... And I know these lawsuits now being filed by the industry associations, it will change the liquidity profile of how people short. That's already happened I think, Larry. I think the meme stock thing really changed how people short. It's become much more of a momentum game and the idea of shorting something and getting paid for it to short as insurance, because there's the bad business model, it's going to shorten the duration of how long you can take those bets, because of these rules, it will.

Larry So basically because the reporting is quicker, I don't want to hold this short as long because I really don't want it to show up-

Bob Probably. Yeah, because it probably increases the volatility. There's probably more misunderstanding. There's probably more mean stock type volatility, particularly around the short interest.

Laurence Herman Hey, Bob.

Bob Yeah.

Laurence Herman Bob, there's a clarifying question from one of our attendees, just confirming that you report the short position once or every day, while it's outstanding?

Bob It's once, but if you miss, and let's just say you misreport, then you have to do it every day. That's buried on page 600, somewhere.

Laurence Herman Every day till when?

Bob Till forever. So the penalty for misreporting is quite, quite, quite draconian.

Larry So let's just say I've got my ABC short going on, I misreported on day one. Do I then have to report it until I buy back my ABC-

Bob That's what it says today-

Larry ... or do I have to report now to every single thing even if it doesn't even reach the threshold?

Bob It's a good question. It's unclear. It just says you'll have to report your short position every day so it doesn't say your whole book or just that position.

Larry Interesting. So, you talked about it looks like the Managed Funds Association and Alternative Investment Management Association and the National Association of Private Fund Investors they just launched a suit a couple of days ago. I know they're trying to push this on the issue of the SEC doesn't have justification for doing this, but I guess why don't you go into a little bit about what they're suing about and what some of the challenges are, and do they have a chance at this suit?

Bob Well, they're pretty well represented, so maybe for round two we can get the lawyers on and ask them. I would say I think this stuff is a fait accompli. I do, Larry, you're an expert in understanding the relationship between the institutional investor, the SEC and then the retail world and how regulators react and what they care about and who their constituency is. This I think if these rules got shot down in a lawsuit, it would be really noisy. So I think public opinion on this is, I forgot what Supreme Court judge says that public opinions ahead of the law, this is one of them. These rules happen because of what Netflix does a series on it, right? I mean, who knew? I think that's the point. I'd love to hear what you think.

Larry Yeah, I don't know. Generally the two things that folks are able to sue the SEC about are the economic analysis. Did they do a thorough analysis of what it's going to cost versus what the benefit's going to be? And then the APA, which is the Administrative Procedures Act, and basically does the SEC have the jurisdiction to do this.

In terms of the economic analysis I'm not quite sure. Certainly there was an economic analysis, whether it's robust or enough that'll be for the courts to decide. And given the SEC does already has mandated some of the reporting of this, it would seem that they have the authority. But they are suing in the Fifth Circuit. And the Fifth Circuit has been very open to challenges to the different agencies. So it'll be interesting to see what the Fifth Circuit says, and then if it gets appealed up to the Supreme Court or some sort of higher district or whatever.

Yeah, I don't know. When this stuff goes to the courts, it's kind of a crap shoot.

Bob There's always a 10 or 15 to 20% chance that the plaintiff can win, but what's the result? You're not making any friends by the suit and it just results in something else. So there's definitely backlash, right?

Larry Yeah. There's another question from the audience, and actually this is something that I had on my query list as well. Do you think this pushes folks more towards doing things on swap and total return swaps or just, hey, let's let Goldman or Morgan Stanley deal with it, let's just do a total return swap?

Bob It's a great question. And so we'll take it the next step, which is, I think what happens with some of these rules, either one or both, is that there becomes a market for anonymity. So you express your bet in either swap or options, and then the writer of that option is the short seller, that becomes reportable. But then you're running into Basel, you're running into capital constraints and balance sheet. So anonymity is going to be a different business model that will be marketed directly out of these rules. You could see where there's a business model that comes out of that. So the answer to that is yes.

Larry That makes a lot of sense. If Larry Tab, asset manager doesn't want to show him being short, then I'll just either do a swap with Goldman or buy a bunch of puts and let whoever's on the other side of that deal with some of this stuff.

Bob But go back to Capitol Hill last week, and you have every bank CEO over there saying, hey, these new capital rules are terrible. Well, this goes right back to the prime brokerage area, which goes right back to swaps, which goes right back to, hey, I need... And if we look at what happened in Europe with the reporting rules and-

what firms like Tiger Global did. They came up with a strategy to help them figure out how do I keep my positions with the least amount of footprint and market impact as possible. So yes, there are going to be ways that people figure out how to anonymize my position. That's definitely going to happen.

Larry Talking about Europe, given they have some of the same, do you think some of these shorts can be located in jurisdictions that don't need to report? I guess somehow the hedge needs to get back into the local cash market.

Bob One of the more interesting things, at least the way we read the rule, is that it doesn't really matter. So if I am a Cayman, Virgin Island, whatever offshore entity, and I'm locating a security in New York, it can be Hong Kong security, Aussie, whatever. If I'm doing that through New York, that is reportable, right? And so the 13f-2 is reported once a month, and I think it's 20 days after reporting date that is released. I think that's in the rule. Sorry, 14 days later. So regardless of whether it's a US security, so this is a massive information play by the regulators. It's not just US securities, it's everything you do through New York, which basically everything, more or less, if you look at the sec lending universe, I would probably bet that 70% of the volume is done here in the States for the globe.

Larry Yeah. Another question from the audience. Can the reporting be delegated to the prime or does it have to come from the asset manager?

Bob The way it is now, it's unclear. The way it is now is that the reporting, the manager has to do it, but there is room for reporting agents, and that can be broker dealers and banks. But the way it is, the way it's written, it looks like the funds themselves have to do it.

Larry Well, that'd probably be another business model for folks to delegate that to some third party, whether it's a broker or a vendor or something. I don't know.

Bob 100%.

Larry Yeah.

Bob Yeah. We're trying not to advertise tonight, today, just we're trying to make it more informational.

Larry Yeah, so talk about that. Not to get into too much advertising, but there's going to be a ton of information out there. Now the question will be, I'm assuming that it'll be good for some sort of vendor, but as you said, it also creates all sorts of noise. So I guess folks in this business will have to figure out what's real, what's not, other ways of managing it, different ways of reporting it. I assume that's going to impact you guys and others in this space.

Bob Well, we're the firm that actually came up with the protocol to unify, a single identifier to unify all the things post trade. So we are incredibly well positioned to do this very quickly, to take this massive amount of this information dump that comes through FINRA. We're already connected to every single exchange and regulated around the world, and that's no easy feat because there's so many different formats, and the data wrangling of it in and of itself is no small task. So we're set up today. If this were to happen tomorrow, if this data was published tomorrow, maybe three days later, we'd have a product.

Larry Okay.

Bob So something convenient. Yeah, we can figure it out. We're very, very, very well positioned to take advantage of what's happening here.

Larry When is this supposed to go into effect or when is this supposed to happen?

Bob Well, the lawsuit happened inside the effective date, right? So they have to, I think, settle that, but probably two years. Who knows if it gets dismissed, but to your point about there isn't any confine. So two years from today.

Larry Okay, so the suit will wind up, I guess, staying some of this for a little bit, and then once it gets resolved, it'll move forward, or does the implementation date just march forward and then the suit may retroactively kill this?

Bob I think people should plan that. It'll happen two years from today. That's our view.

Larry Now, granted, with all this other data out there, I'm assuming you're going to wind up with more short squeezes and more fake outs, I guess, but to a certain extent, might that create opportunities if all of a sudden, let's go back to my, I have to report that I'm short, but it's being covered by Bob Sloan brokerage, so it looks like there's a naked short on ABC, but it really isn't. And then retail comes in and does the shorts tries to push it up or whatever. It creates all sorts of different gaming possibilities.

Bob I would say that there's definitely opportunity for more volatility. There's definitely opportunity for more, let's say parabolic moves. But what I think is that you're really changing styles. You're making it very, very, very, very hard for the traditional fundamental research, short player that's looking for bad business models, bad business practice to stay in a short for a really long period of time, very hard. Look at Tesla. This is a battle, and the way we calculate it, the losses are just massive. But for every short position gets publicized and known as well as that one does, you can expect more volatility. You can expect these moves. You can expect also one of the things that we've been thinking about is there are non-traditional players that are not players in the prime brokerage space, whether they know it or not, are very well positioned to take advantage of these rules.

Larry Oh boy. What do you mean's?

Bob Well, if I'm long a inverse short ETF, am I shorter or am I long?

Larry That's a good question. How is that supposed to be recorded?

Bob Well, I don't know, but creative people find interesting ways to look at these rules and say, "Hey, this is an interesting way. Now I'm long an ETF that happens to have negative exposure." It's not just short positions, by the way. It's anything, an exercised option, buy to cover, you're trading, it's everything. It's very, very, very, very dense. So there's a myriad ways of which creative people look at this and go, "Okay, well what if I do this? Does it count?" There's all sorts of interesting things that'll come up out of this.

Larry Oh geez, it looks like a reporting and FAQ headache coming on.

Bob It's a headache and it's a cost. And a lot of it really started with Quadriserv's suit for being blocked out of the securities lending market. That's where all this kind of started. And then you have the Meme stock, Robinhood, Covid craze, and all these things come together, and this is where we are.

Larry So you've got the Quadriserv suit. Do you think that this pushes more flow into some sort of exchange or some sort of mechanism to greater facilitate an ECN for shorting or something like that? Because that's been pretty tough to build. Nobody's been super successful there.

Bob Right. Welsh Carson just spent $845 million to buy EquiLend, and perhaps they see what you see, Larry, which is the electronification of these markets, is going to happen, maybe. We're willing to play that that's a possibility, and that's a lot of money. So yes, I think there's all sorts of different creative ways that people look at these rules and there are unintended consequences. We just outlined probably 2 of the 15 or 20 that we've come up with. Sorry Larry. Go ahead.

Larry No, no, I was just going to... once you finish your thought.

Bob The rules are going to mean that you have to be really, really, really well organized. It can't be done on a spreadsheet anymore. The risk is too high. And the trading opportunities for folks that really understand what's happening are a lot. But you need software to do that, and you need better data to do that. That's just a fact right now.

Larry So you mentioned that this whole issue around trying to find problematic companies like the Enrons of the world, that's going to become harder to a certain extent. I guess that puts some more onus on FINRA and I guess more the SEC than FINRA, because FINRA is more broker dealers, but this puts more effort on the SEC to kind of analyze and make sure that these companies are doing the right thing. That's probably not a great thing either.

Bob Well, there's always been, and I wrote about in my book, and you've spoken about it many times. I think for folks on the call, the regulators don't have huge budgets. The budgets are actually quite small given the scope of what they have to do. And short sellers, short selling is definitely a way in which there's a way to make your budget dollars work harder, because other people do the research into things that people shouldn't be doing. And oftentimes that comes through, the reports are given to the SEC, and that happens. But this has been changing well before the rule come down, it just momentum is everything right now.

Larry The Meme stock guys have this whole thing with let's go buy up Bed Bath and Beyond, because we love the brand, even though the company's in terrible shape.

Bob There's a list of companies like that a mile long, right? But you're kind of caught, right?

You're kind of caught, right? You're caught between the investing public that wants to invest this way and the need to regulate. It's a tough spot. It's a very tough spot.

Larry We've got a couple of minutes left. Love to open it up for a couple of more questions. So if anybody in the audience has a few more questions, put them in. Otherwise, Bob and I will just continue to chat here.

No, it would seem to me, that's something I really don't understand. It's like the investing... Short sellers are the bane of folks' existence theoretically. But on the other hand, people should prize that effort more because they are the folks out there looking at the balance sheets, trying to figure out if these companies are real, trying to find these frauds and profit from them. And yes, I understand, betting against the company, that's theoretically bad, but really... I don't know. It seems like this is not a great direction, is to make it harder, at least too hard to do this.

Bob It's making it harder. Does it make it better? Don't know. The jury's out on that.

Larry So let's talk a little bit more in the last couple of minutes about the differentiation between the short rules and the finance rules. How do they overlap and how do they not overlap?

Bob So the securities finance rules are... If you total up all the borrow and lending activity, it will help, at least the thinking goes, to bring some pricing or transparency. Think of trace. It's not really a consolidated tape because it's not happening every 15 minutes or every 10 minutes, but it's a way to understand what's the daily volume, what's happening? And then the key though is that that... I think the faulty logic is every stock loan equals a short sale. They're two very, very, very different things.

So for example, in a stock loan transaction, X, Y, Z broker dealer can borrow from State Street. Then that X, Y, Z broker dealer lends to another broker dealer, who lends to another broker dealer, who lends to another broker dealer, who lends to another broker dealer, who then lends to the prime broker that houses the short. You've got five or six loans there, but I've got one short sale.

Larry Ah, okay.

Bob Right? So that's confusing to people. I'll give you another situation. X, Y, Z broker dealer has borrowed the stock for 25 basis points. He can now borrow it for 15. All right, I return the 25, I borrow the 15, I make 10 extra basis points. Has the short sale occurred? No. So there's all this stuff that's in the mechanics of the way dealers run their balance sheets and protect their capital that people are making this one-to-one linear connection between the sec lending and short selling. Now, it's taken me 30 years to get it, to say it that simply. You expose that to the light of day, it's going to cause some confusion. There's no doubt about it.

Larry Interesting. We've got a couple more questions. Someone wants to have a little bit more clarity on the dates that this is going to take effect. And you had said roughly we should think about this in two years. Is there any more clarity on the dates?

Bob The lawsuit definitely delays things a little bit. It's really your view on that. This is going to move ahead, but what I would encourage you, look, we're not a law firm, we're not giving you legal advice. It's just we're market experts and we're experts on this data and we're expert on the workflow. But talk to your legal counsel. They have Washington reps, you're all well represented. I'm sure they have a view.

Larry Another question, "SEC is implementing a different reporting rule for borrowing fees, et cetera. How important is this for the buy-side?"

Bob I think it's very important. The technicals of float, days to cover, short interest, the P&L, the crowding, the concentration, the classification, the marking of an order, all of these things are signals that can be traded on, all of them, and there's a lot more. And so this is going to give birth to a plethora of technical indicators that will help the buy side manage its risk. The buy side wants to manage its position sizing and its factor risk and it's going to help you do that.

Larry "As a manager, what do we need to start doing today to prepare for the compliance status of 13F-2 in two years? So what should folks be doing today?" Certainly, I guess reading the rules and talking to their compliance folks.

Bob (212) 715-4302. Give me a call, we'll help you. We'll help you.

Larry Okay. [inaudible]

Bob No, in all seriousness, read the rules, come talk to us. The reason why we're on the call and why Larry so graciously is interviewing us, why GLG is hosting us is because we actually submitted two comment letters to the SEC. If you look at the final rules that were passed, we got cited about 25 times. So our thinking in the way we're looking at the market structure obviously resonated. There were 17,000 letters submitted. S3 is the one letter that was actually used in many, many, many of the key components of the rules. So we are embedded into the thinking of how things are going to happen going forward. And I was not kidding about giving us a call. We'd be happy to talk to you.

Larry Another question, "If a physician is on a pay to hold account, would this need to be reported?"

Bob So it's everything that's related. If you look at the list of things that are in 13F, it includes anything that is covered. And probably pay to holds falls underneath that definition.

Larry Another question, and I think probably I'll ask because I think we're running out of time because this was slated to end now, but how much of shorting as a percentage of total do you think is fundamental shorting, i.e bets against specific companies, which seems to be the driver of their new reporting obligations, versus hedging index participation sector bets and other more structural reasons for having shorts in place that are not bets against company management but are important but misrepresented by the street and CEO? So like if you're an ETF market maker or even a market maker overall, you're going to need to short just to manage inventory.

Bob It's a great question and what I would do is I think I'll answer that a little differently. So what does the typical... If you look at the growth of the pods and the growth of the multi-strat pod. What's happened is that the capital rules from 2008. Basically you can't do within Goldman Sachs what you could have done pre-financial crisis. It's very hard. So gave birth to the multi-manager.

And what we think is that if you can deconstruct and say, "Okay, what does the average multi-manager look like by sector and then by strategy, you can take short interest and back into and deconstruct and say, "Okay, this is what the real market makers or the added market makers looks like." And then you can back into and get that answer. So we actually have a product that does that and happy to show it to whoever asked the question.

Larry Sounds good. It's five off. I think we've tapped out our time. Bob, I want to thank you for doing this. Really, really thoughtful, really interesting views on what the SEC is proposing. So thank you.

Laurence Herman And on the behalf of GLG, thank you Larry and Bob as well. Really appreciate hearing your thoughts and the thoughtful questions, Larry, from you and from our attendees. Just last words, we appreciate all those GLG clients, future clients and other interested parties who joined us. We have thousands of transcripts like this available to our GLG clients, so feel free to reach out to a GLG rep as appropriate and appreciate all of your time today. Have a happy holidays to everyone.

Bob Thank you.

Larry Thank you.