

# Global Principles for Sustainable Securities Lending Progress Report #3-2021

Strategic appointment

Workstream progress

## Short – Long Investments and ESG



Strategic appointment made by Dr Radek Stech (CEO) and approved by Carson Block, Gabriel Grego, John Hempton. Workstream progress issued by the Global PSSSL Secretariat and approved by workstream Co-Chairs.

### Workstream Co-Chairs:

Carson Block  
Gabriel Grego  
John Hempton

Muddy Waters Capital LLC  
Quintessential Capital Management  
Bronte Capital

Radek Stech  
Anne Stevenson-Yang

Global PSSSL CEO/University of Exeter  
J Capital Research USA LLC

# 1. Strategic Appointment

Dear Stakeholders,

Following the formation of the Global PSSL ‘Short-Long Investments and ESG’ workstream on 14<sup>th</sup> December 2020, we have made some tremendous progress. Most importantly, the workstream is attracting influential individuals who want to advance the global sustainable finance agenda through impartial and independent Global PSSL.

I am delighted that Anne Stevenson-Yang of J Capital Research USA LLC has agreed to act as the Co-Chair of this workstream. We have worked together for some time now and I continue to be impressed by her expertise, dedication to good governance and sustainable finance.

Kind regards,

**Dr Radek Stech**  
CEO

Global Principles for Sustainable Securities Finance



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## 2. The Global PSSL ‘Short-Long Investments and ESG’ workstream progress update.

Dear Stakeholders,

We are delighted to let you know that there have been several joint and individual meetings of the ‘Short-Long Investments and ESG’ workstream over the last few months. One of the outputs of this collaboration is Global PSSL’s response to The Canadian Securities Administrators (CSA)’s consultation on activist short selling. In our response, we have highlighted our objective to explore the ESG potential of short activism in line with a newly established (November 2020) commitment in the [Principle 5](#) of Global PSSL:

“Short selling provides an opportunity for market participants to discover poor governance and environmental and social mismanagement. It also enables market participants to express contrarian views that benefit long holders through a more thorough analysis of risk”.

The response was drafted by Dr Radek Stech and reviewed and approved by workstream Co-Chairs.

It is available below, and in the Workstreams section of our website.

Kind regards,

Workstream Co-Chairs

Carson Block, Gabriel Grego, John Hempton, Radek Stech, Anne Stevenson-Yang

# Global Principles for Sustainable Securities Lending



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

3 March 2021

Dear British Columbia Securities Commission, Alberta Securities Commission, Financial and Consumer Affairs Authority of Saskatchewan, The Manitoba Securities Commission, Ontario Securities Commission, Autorité des marchés financiers, Financial and Consumer Services Commission (New Brunswick), Superintendent of Securities, Prince Edward Island, Nova Scotia Securities Commission, Superintendent of Securities, Newfoundland and Labrador, Superintendent of Securities, Yukon Territory, Superintendent of Securities, Northwest Territories, Superintendent of Securities, Nunavut,

## ***Introduction***

The Global Principles for Sustainable Securities Lending (Global PSSSL) initiative represents the most progressive and determined move towards uniting the sustainable finance ambitions of worldwide market leaders with the tenets of sustainable securities lending and borrowing. Global PSSSL is a community interest company that draws upon the extensive preliminary work on sustainable securities lending that Dr Radek Stech conducted with several beneficial owners and agent lenders between 2018-2020. Since its formation in October 2020, Global PSSSL has brought together numerous beneficial owners, agent lenders, prime brokers, and hedge funds and has issued its draft Global Principles for review at the end of 2020. In addition, Global PSSSL has established several workstreams that focus on achieving specific objectives in relation to individual principles.

Global PSSSL takes a holistic view of sustainable securities lending and borrowing. Indeed, a short-selling principle forms an integral part of this comprehensive thinking. Global PSSSL is impartial and independent of any interest groups (such as regional securities lending associations). The core funding for Global PSSSL comes from a highly prestigious and sought-after grant that Dr Radek Stech secured from the Economic and Social Research Council, part of UK Research and Innovation. We are impact-driven, and all our workstreams must produce tangible outputs that contribute to achieving the [Global PSSSL mission and vision](#).



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## *Global PSSL response*

As a young organisation, we are delighted to participate in this consultation and provide answers to the questions that directly relate to our current work. Once we have more tangible outputs to share, we will contact all members of the CSA in due course.

## **Q1. What is your perception about activist short sellers? Please describe the basis of that perception.**

Global PSSL believes that short activism forms an essential part of securities lending/borrowing value chain. Our draft [Global PSSL Principle 5](#) (“Short-Selling”) emphasises that:

“[Activist] [s]hort selling provides an opportunity for market participants to discover poor governance and environmental and social mismanagement. It also enables market participants to express contrarian views that benefit long holders through a more thorough analysis of risk.”

Perceptions about activist short sellers have changed significantly over time and Global PSSL has managed to lead on that change with the representatives from the whole value chain.

As part of this principle, we also included an action point to “[e]xplore the ESG potential of short activism and its connections with long investments”. We have an active workstream on short-long investments and ESG that is currently looking at putting this principle into action.

## **Q2. Can you give examples of conduct in activist short selling Campaigns that you view as problematic?**

We do not support misrepresentation, coordination and any intentional and unjustified attacks on companies’ reputation.

As an impartial and independent standard-setting body, we are developing a close relationship with all stakeholders that impact upon short activism. Our approach is to foster impact that produces tangible environmental, social and governance benefits. In accordance with our Principle 9 “Feedback”, our contributors commit to sharing their best practice and lessons learned from implementing the Principles. We will be collaborating with activist short sellers to help them make most of the environmental and social agendas, in particular. We can share some of our findings, on an anonymous basis, in due course.



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## Q4 What empirical data sources related to Campaigns should we consider?

Global PSSL is interested in considering empirical data that can be comparable across different jurisdictions. We will collaborate with our contributors to aggregate data and publish de-personalised reports in due course. We will cooperate with all regulators to share best practices, provided that this does not impinge upon the activist short sellers' ability to create social and environmental positive impact, in particular.

## 7. Do issuers have practical limitations in terms of their ability to respond to allegations made in a Campaign? If so, what are these limitations, and do you have any recommendations on how to alleviate them?

Global PSSL is not aware of such limitations.

Global PSSL will issue a mechanism by which concerned issuers may reflect upon the ESG statements in the campaigns that conform with the Global PSSL standard. We are in the position to consider such concerns on an impartial basis by taking the interest of the whole securities lending/borrowing value chain.

## 8. Are issuers reluctant to approach securities regulators when they believe that they are being unfairly targeted by an activist short seller? If so, why? If not, why not?

We do not currently have such information at hand. We are aware of many examples where issuers have approached the regulators.

We would like to emphasise that regulators must take an impartial view of short activism. Global PSSL, as a voluntary market mechanism, is the appropriate organisation to facilitate the debate between issuers and short activism with a view to maximising sustainable finance impact.

## Q.9 Is the existing regulatory framework adequate to address the risks associated with problematic activist short selling? Please explain why or why not and provide specific examples of concerns and areas where, in your view, the regulatory framework may not be adequate.

Yes, we do. Global PSSL's view is that there is an insufficient overall understanding of activist short selling and collaboration between the regulators in this regard. As a global market standard, we believe that a voluntary industry collaboration in relation to complex ESG matters should pre-empt





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any additional regulation. We, therefore, hope to be the gold standard on sustainable securities lending/borrowing and short activism and foster regulators' understanding of the potential social and environmental impacts.

Q11 Is the existing disclosure regime for short selling activities adequate? Please explain why or why not, indicating:

a.what disclosure requirements would address risks associated with potentially problematic activist short selling and how would such requirements improve deterrence;

b.what should be the trigger and the timing of any additional disclosure;

c.how can additional disclosure be meaningful without negatively impacting market liquidity; and

d.do you foresee any issues with imposing a duty to update once there has been a voluntary disclosure of a short position?

Global PSSL believes that the disclosure requirements should apply equally to long promoters and short activists.

Global PSSL focuses on the ESG impact of short activist campaigns and we advocate that our contributors share their feedback voluntarily. Through this, we can provide comfort to short activists committed to making social and environmental impacts in particular. We can also publish aggregate reports on the challenges and opportunities they experience in due course.

*Dr Radek Stech on behalf of Global PSSL. Approved by the 'Short-Long Investments and ESG Workstream' (Co-Chaired by him, Carson Block, Gabriel Grego, John Hempton and Anne Stevenson -Yang).*