I Don't Recall: Information and the Governance Tradeoffs in Securities Lending

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Background and question

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- Lend shares to earn fees, or recall them to cast more votes.

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Research question:

- Can firm value increase when a lender does *not* recall shares to vote?

My reading:

- Investor faces a tradeoff between the **number of votes she can cast** and **how informed she is**.

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5. **Market maker.** Observes aggregate order flow $O = O_S + O_N$, not lending activity. Sets $P(O) = E[\Pi(\theta, V) \mid O]$. Does not vote.

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The commitment problem

- Anticipated recall makes shorting unprofitable and prevents borrowing.
- When lending occurs, fees are high enough to make no recall credible.

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What incremental voting information comes from lending one's own shares?

Comment #2: Informed sellers

Large shareholders can have incentives to acquire information and sell shares they already own.

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- With informed sellers, stock prices could remain informative even when anticipated recall deters short selling.
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Does the governance benefit of not recalling shares survive when informed blockholders can sell?

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Information about *firm value* need not identify the *right governance action*.

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A possible extension:

- Separate firm fundamentals from the payoff to the proposed change.
- Which proposals make borrowing demand informative about the right vote?

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Which result requires voting, rather than a generic costly governance action?

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- Additional short sales need not cost the original lender additional votes.
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Does the tradeoff between the number of votes and their informativeness survive re-lending?

Conclusion

Thank you!