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Shorting Facebook Quickly Goes From Pricy to Cheap

By Matthew Jarzemsky

After [spiking earlier this week](#), the cost to “short” Facebook’s shares tumbled Wednesday, as lendable shares needed to execute the trade proved more widely available than some had feared.

The cost to borrow Facebook shares for one year fell to 6% of the value of the stock early Wednesday afternoon, down from as high as 40% at some points Tuesday afternoon, according to data provider Sungard’s Astec Analytics. The yearly figure is the industry’s measure for the price of borrowing a share.



When traders short stock, they borrow shares, hoping to buy them later at a lower price for return to the lender.

Concerns from short sellers, brokers and asset managers about a liquidity squeeze appeared to be easing Wednesday. High demand to short Facebook’s shares, combined with the relatively small number of asset managers willing to lend them, had made the stock pricy to borrow Tuesday. Observers said that activity was unusual, because it came a day before firms have to demonstrate they actually borrowed the shares they sold short.

Tuesday was “kind of the day when the people who know the storm’s coming go out and buy water,” said Andrew Shinn, director of research for Astec.

But the storm never arrived. The cost to borrow Facebook shares was an annualized rate of 6% of the value of the stock early Wednesday afternoon, down from 28% as of Tuesday’s close, according to Astec.

Markit’s Data Explorers unit, another market-data firm, said that, as of Tuesday, Facebook had

ranked a 10 out of 10 on its “cost to borrow” scale.

About 36 million shares had been borrowed early Wednesday afternoon, up from 26 million as of Tuesday’s close, according to Sungard.

Shinn said the number of shares available to borrow had likely increased significantly from 103 million at Tuesday’s close, given the decline in the cost to borrow Facebook shares.

While the stock was the 40th-most-expensive U.S. stock to borrow Tuesday, it wasn’t even in the top 500 Wednesday, according to Sungard data.

Tuesday’s high level of borrowing was seen as particularly telling because under Securities and Exchange Commission rules, short sellers don’t have to borrow a stock until the third day after they sell it short. All they need is reasonable grounds to believe it can be borrowed, or what’s known as a “locate” in Wall Street parlance.

“Whenever you borrow the shares, you have to pay the rental fee on the shares. You generally aren’t going to do the borrow until you actually need them,” said James Angel, a Georgetown University associate professor specializing in market structure and regulation. “Otherwise, it’s like you need a hotel for Wednesday—you’re not going to rent a hotel for Tuesday, too, unless that’s the only way you can assure you’ll have it for Wednesday,” Angel added.

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