# PUBLICATION

## SEC Imposes New Short Selling Rules

**September 17, 2008**

In light of recent volatility in the global financial markets, the United States Securities and Exchange Commission (SEC) has imposed the following interim rules regarding naked short selling of stocks. Please note that while there is a 30-day comment period for these interim rules, they are effective at **12 midnight tonight**, September 17, 2008.

**Investment managers who utilize short sales and those broker-dealers that execute and clear securities trades should take particular notice of the SEC rules issued today:**

- Short sellers and their broker-dealers must deliver securities by the close of business on the settlement date (three days after the sale transaction date, or T+3). If a short sale violates this close-out requirement, then any broker-dealer acting on the short seller's behalf will be prohibited from further short sales in the same security unless the shares are not only located but also pre-borrowed. The prohibition on the broker-dealer's activity applies not only to short sales for the particular naked short seller, but to all short sales for any customer.
- Options market makers will be treated in the same way as all other market participants, and required to abide by the hard T+3 closeout requirements described above that effectively ban naked short selling.
- Rule 10b-21 (proposed in March 2008 and not to be confused with an old Rule 10b-21, which was superseded by Regulation M almost 10 years ago) is now in effect. Rule 10b-21 covers short sellers who deceive broker-dealers or any other market participants. Rule 10b-21 makes clear that those who lie about their intention or ability to deliver securities in time for settlement are violating the law when they fail to deliver.