U.S. Securities and Exchange Commission

SEC Approves Short Selling Restrictions

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Washington, D.C., Feb. 24, 2010 — The Securities and Exchange Commission today adopted a new rule to place certain restrictions on short selling when a stock is experiencing significant downward price pressure. The measure is intended to promote market stability and preserve investor confidence.

Video: Open Meeting

Chairman Schapiro Discusses Short Selling: Windows Media Player QuickTime

Text of Chairman's Statement

Additional Materials

- SEC Final Rule — Amendments to Regulation SHO

This alternative uptick rule is designed to restrict short selling from further driving down the price of a stock that has dropped more than 10 percent in one day. It will enable long sellers to stand in the front of the line and sell their shares before any short sellers once the circuit breaker is triggered.

"The rule is designed to preserve investor confidence and promote market efficiency, recognizing short selling can potentially have both a beneficial and a harmful impact on the market," said SEC Chairman Mary L. Schapiro. "It is important for the Commission and the markets to have in place a measure that creates certainty about how trading restrictions will operate during periods of stress and volatility."

Short selling involves the selling of a security that an investor does not own or has borrowed. When shorting a stock, the investor expects that he or she can buy back the stock at a later date for a lower price than it was sold for. Rather than buying low and selling high, the investor is hoping to sell high and then buy low. Short selling can serve useful market purposes, including providing market liquidity and pricing efficiency. However, it also may be used improperly to drive down the price of a security or to accelerate a declining market in a security.

The alternative uptick rule (Rule 201) approved today imposes restrictions on short selling only when a stock has triggered a circuit breaker by experiencing a price decline of at least 10 percent in one day. At that point, short selling would be permitted if the price of the security is above the current national best bid.

Rule 201 includes the following features:

- *Short Sale-Related Circuit Breaker:* The circuit breaker would be triggered for a security any day in which the price declines by 10 percent or more from the prior day's closing price.

- *Duration of Price Test Restriction:* Once the circuit breaker has been triggered, the alternative uptick rule would apply to short sale orders in that security for the remainder of the day as well as the following day.
- *Securities Covered by Price Test Restriction:* The rule generally applies to all equity securities that are listed on a national securities exchange, whether traded on an exchange or in the over-the-counter market.
- *Implementation:* The rule requires trading centers to establish, maintain, and enforce written policies and procedures that are reasonably designed to prevent the execution or display of a prohibited short sale.

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The rule will become effective 60 days after the date of publication of the release in the Federal Register, and then market participants will have six months to comply with the requirements.

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http://www.sec.gov/news/press/2010/2010-26.htm
