

US Chamber Urges Further SEC Curbs On Naked Short Sales

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WASHINGTON (Dow Jones)--The U.S. Chamber of Commerce is urging federal securities regulators to tighten rules further to curb abusive "naked" short sales.

In a letter Thursday to the Securities and Exchange Commission the business group said it believes "fraudulent naked short selling remains a serious problem" for a number of small and midsized companies and their shareholders.

The chamber applauded SEC efforts to curb such abuses, but suggested three additional measures are needed. One would require short sellers of hard-to-borrow stocks to have the shares on hand, or have a bona fide contract to borrow them before the short sale. The chamber also wants daily aggregate reports on failures to deliver borrowed stocks, and would require institutional investors to disclose short positions to the SEC, adding them to reports they currently file disclosing long positions.

Short sellers borrow shares to sell in hopes of a drop in the stock's price, allowing them to profit by replacing borrowed shares at a lower price. So-called "naked" short sellers do not borrow shares before selling them short, a practice the SEC sought to curb with a package of rules known as Regulation SHO, which took effect in 2005.

Critics viewed the changes as ineffective because the SEC excluded previously existing stock delivery failures and options market makers. The SEC voted this year to scrap "grandfather" protections for prior delivery failures, starting Oct. 15, and proposed eliminating exceptions for options market makers, both of which were endorsed by the chamber. However, the business group said the SEC's efforts don't go far enough and predicted problems with failing to deliver borrowed shares and settling trades will continue absent further reforms.