



SEC loses taste for short-selling fight

Commentary: Commission targets 'naked' shorts

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NEW YORK (MarketWatch) – More than a year after short-sellers allegedly sucked the broader market lower by concentrating negative bets in troubled financial firms, the nation's securities regulators appear to be backing off curbing the practice.

The SEC on Wednesday said it is considering curbing so-called naked shorts -- short sellers who don't locate and borrow the stock they base their bearish bets on. Mary Schapiro, SEC chairman, said the commission will hold a regulatory roundtable on the practice.

The problem is that there is almost universal agreement that Schapiro's target, naked shorts, are problematic. Even its supporters have to be surprised naked shorting hasn't been banned. No one would have thought a year ago, given the deep losses suffered last year, that naked short selling would still be a market practice today.

Meanwhile, another Schapiro priority, the return of the uptick rule, appears to be losing steam. Wall Street firms including the Vanguard Group Inc. and Goldman Sachs Group Inc. are publicly fighting the measure, and prospects for bringing back the rule, which requires a stock to move higher before a short-sale order can be placed, are dimming.

That's alarming given that many market strategists believe the uptick rule put a brake on short-selling panics. The rule was eliminated in 2007.

Critics argue that a ban on naked shorting, short selling or a new uptick rule would eliminate market liquidity and the changes would limit the ability of traders to make profits and hedge their long bets.

They complained that implementing naked-short-selling bans last fall was an unfair rule change in the middle of the game. The SEC, under Christopher Cox, argued that an emergency ban was necessary because an urgent market situation required it.

More than a year later, the urgency seems to be gone, at least at the SEC.