

## SEC Approves Short Selling Restrictions

Today the SEC voted to modify the SEC Short Sale Rule (aka the Uptick Rule). Highly debated during the financial crisis in 2008, the Short Sale Rule has been under SEC review. In 2009, several exchanges, spearheaded by NASDAQ OMX, proposed a Modified Uptick Rule, which the SEC made the centerpiece of the new Rule. The new Rule is applicable to all exchange-listed securities, trading on and off exchange.

First, the SEC adopted a "Circuit Breaker...#157; that will trigger the application of the Modified Uptick Rule once the price of a stock has declined by 10 percent. For NASDAQ-listed stocks, the 10 percent decline will be measured against the NASDAQ Official Closing Price and only NASDAQ can determine that the Circuit Breaker has been triggered. Once triggered, the Circuit Breaker will remain in place for the remainder of that day and the next day.

During the Circuit Breaker period, no short sales will be permitted at or below the National Best Bid or Offer. In other words, under the new Rule, short selling can only be initiated at a price above the highest prevailing national bid by posting a short sale order priced above the national bid. As such, the execution of a short sale would occur only at a higher price than the prevailing market at the time of initiation, and only on a passive basis (i.e., short sales cannot hit bids).

This restriction will greatly assist the prevention of manipulative short selling, which is harmful to the markets. Additionally, brokers have the responsibility for ensuring compliance before sending a short sale order into the marketplace.

We're pleased with the steps that the SEC has taken and believe that these steps will prevent abuses in the marketplace and continue to strengthen the U.S. capital markets. These changes will be implemented over the next six months so we will update you on their final completion. We will also hold a web seminar to discuss the changes in detail. In the meantime, if you have any questions, please call your MID Director.

Regards,

Bruce E. Aust

Executive Vice President

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