

SEC Eliminates Regulation SHO Grandfather Provision



Please Route To: Head Traders; Technical Contacts; Compliance Officers

What you need to know:

- The Securities and Exchange Commission (SEC) has [amended](#) Regulation SHO to eliminate the “grandfather provision” effective **October 15, 2007**.

Who you should contact: [NASDAQ Market Sales](#) at 800.846.0477

What is changing?

The Securities and Exchange Commission (SEC) has [amended](#) Regulation SHO to eliminate the “grandfather provision” and will take effect on **October 15, 2007**.

SEC Regulation SHO sets out rules governing short sales, including the mandatory close-out requirement that applies to securities in which a substantial amount of fails to deliver have occurred (“threshold securities”). Clearing agency participants and broker-dealers for which they clear positions (“participants”) must take immediate action to close out a fail to deliver position in a Threshold Security that has lasted for 13 consecutive settlement days by purchasing securities of like kind and quantity (“close-out requirement”).

The amendment eliminates one of the exceptions to the Close-out Requirement for fails to deliver established prior to a security becoming a Threshold Security (“grandfather provision”). The amendment requires Participants to close out any previously-grandfathered fails to deliver in a security that is on the [Threshold Security List](#) on October 15th. The close-out must occur within 35 consecutive settlement days of October 15th. If a security becomes a Threshold Security after October 15th, all fails to deliver must be closed out within 13 consecutive settlement days.

What do I have to do on or after October 15th?

This amendment does not require NASDAQ to make any changes to its [Threshold Security List](#). However, Participants should ensure that they close out previously-grandfathered fail to deliver positions within the time frames established by the amendment. Participants that do not close out these fail to deliver positions within 35 days will, by rule, be prohibited from accepting any short sale orders or effecting further short sales in these securities until the entire fail to deliver position is closed out.

Where can I get additional information?

- Visit the [Regulation SHO page](#) on the NASDAQ Trader[®] website.
- [NASDAQ Market Sales](#) at 800.846.0477

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