

MEMO# 22700

July 16, 2008

SEC Issues Emergency Order to Prohibit Naked Short Selling

[22700]

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TO: EQUITY MARKETS ADVISORY COMMITTEE No. 30-08
SEC RULES COMMITTEE No. 48-08 RE: SEC ISSUES EMERGENCY ORDER TO PROHIBIT
NAKED SHORT SELLING

The Securities and Exchange Commission issued an emergency order to prohibit "naked" short selling in the securities of Fannie Mae, Freddie Mac, and primary dealers at seventeen commercial and investment banks. [\[1\]](#) The Order will require that anyone effecting a short sale in these securities arrange beforehand to borrow the securities and deliver them at settlement. The Order will take effect at 12:01 a.m. ET on July 21 and will terminate at 11:59 p.m. ET on July 29, 2008. It necessary, the Commission may extend the Order but for no more than 30 calendar days in total duration.

The Order explains that the emergency action was taken because, "the Commission has concluded that there now exists a substantial threat of sudden and excessive fluctuations of securities prices generally and disruption in the functioning of the securities markets that could threaten fair and orderly markets." Specifically, the Order discusses the threat of significant market disruption caused by false rumors regarding the unwillingness of key counterparties to deal with certain financial institutions and whether certain financial institutions are facing liquidity problems.

The companies in the Order include: BNP Paribas Securities Corp., Bank of America Corp., Barclays PLC, Citigroup Inc., Credit Suisse Group, Daiwa Securities Group Inc., Deutsche Bank Group AG, Allianz SE, Goldman, Sachs Group Inc., Royal Bank ADS, HSBC Holdings PLC ADS, J.P. Morgan Chase & Co., Lehman Brothers Holdings Inc., Merrill Lynch & Co., Inc., Mizuho Financial Group, Inc., Morgan Stanley, UBS AG, Freddie Mac, Fannie Mae.

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endnotes

[\[1\]](#) See *Emergency Order Pursuant to Section 12(k)(2) of the Securities Exchange Act of 1934 Taking Temporary Action to Respond to Market Developments*, SEC Release No. 34-58166 (July 15, 2008) (“Order”). The Order may be found at <http://www.sec.gov/rules/other/2008/34-58166.pdf>.

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