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CAPITAL INSTITUTIONAL SERVICES, INC.

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SEC Adopts New Short Selling Rules

On February 24, the SEC announced the adoption of a new rule placing restrictions on short selling. Intended to promote market stability and strengthen investor confidence, the Alternative Uptick Rule (Rule 201) creates a short sale circuit breaker limiting traders' ability to short stocks that have dropped more than 10% in a single day. Once the circuit breaker is activated, short selling will only be permitted if the price of the security is above the current national bid price.

Highlights of Rule 201 include the following:

Short Sale-Related Circuit Breaker - A circuit breaker will be triggered once a security declines by 10% or more from the previous day's closing price.

Duration - Once the circuit breaker has been triggered, it will remain in effect until the close of the next business day.

Covered Securities - The rule applies to all equity securities listed on a national exchange regardless if traded on an exchange or OTC.

Implementation - The rule requires firms to create and enforce policies and procedures that are reasonably designed to prevent the execution or display of a prohibited short sale.

Exemptions - The rule does not apply to the following:

- Short sales above national bid price
- Sales of an owned security but for which there is a delay in delivery
- Odd-lot transactions
- Riskless principal transactions
- VWAP transactions
- Short sales in connection with over-allotments

Rule 201 will become effective 60 days after its publication in the Federal Register. Firms then have 6 months to comply.

To learn more about Rule 201, read the official SEC release.

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