

My co-author, Christopher L. Culp, would like to make you aware of a paper we recently wrote titled "Naked Shorting." Our paper stresses the economic similarities between traditional short selling and naked short selling. These similarities may be relevant in the rule-making process. Here is the abstract:

Abstract:

A "naked short sale" is a short sale of stock in which the seller does not own the shares and essentially has no plans to acquire the stock by the settlement date. We review the standard economic arguments for and against the speculative short sale of equities and explain the strong economic similarities between permissible short selling and impermissible naked short selling. Despite the legal prohibitions on the latter, we show that, from an economic perspective, naked shorting is not fundamentally different from traditional short selling and is unlikely to have detrimental effects on capital markets. Nevertheless, we explain how naked shorting can provide the basis for securities manipulation lawsuits under the federal securities laws for long sellers and, in some circumstances, for issuers.

The paper is available at

<http://ssrn.com/abstract=982898>

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