

MEMORANDUM

TO: File

FROM: Office of Economic Analysis

DATE: March 3, 2008

SUBJECT: Fails to Deliver Statistics in Threshold Securities

This memorandum provides summary data on fails to deliver from May 1, 2007 to January 31, 2008 (nine months).¹ In particular, we estimate the magnitude of trades that fail to deliver in threshold securities relative to the entire market. We also estimate how many securities persist on the threshold list for more than 17 days. The data, as reported by NSCC, cover all stocks with aggregate fails to deliver of 10,000 shares or more.

Trades can either settle on time or fail to deliver. One important way to measure the magnitude of fails to deliver in the market is to calculate the dollar value of trades that result in fails to deliver as a percentage of the dollar value of all trades. In particular, we estimate the dollar value of trades that fail to deliver by estimating the dollar value of newly created fails to deliver.² Since the close-out requirement of Regulation SHO Rule 203 pertains to threshold securities, we estimate the dollar value of newly created fails to deliver in threshold securities for each day and sum each settlement day over the nine months from May 1, 2007 to January 31, 2008 (189 settlement days). We calculate the dollar value of trading volume reported by NYSE Group, NASDAQ, Amex, and OTCBB over the nine months from May 1, 2007 to January 31, 2008 (191 trading days).³ The dollar values below represent the nine month sums in billions of dollars:

Sum of dollar value of new fails to deliver in threshold securities (A)	\$ 174
Sum of dollar value of trading (B)	\$ 30,873
Percentage of trades that fail to settle within T+3 ($100 \times A/B$)	0.56% ⁴

We estimate that on an average day trades in threshold securities that fail to settle within T+3 account for approximately 0.6% of the dollar value of trading in all securities.

We estimate that on an average day over a nine month period from May 1, 2007 to January 31, 2008, there are approximately 50 persistent threshold securities. We define a

¹ The period includes both before and after the elimination of the grandfather exception of Rule 203 of Regulation SHO.

² New fails are estimated each day by summing any positive change in the fails to deliver from the previous day for each security-clearing firm combination. If a fail to deliver position for a security-clearing firm combination did not exist in our data for the previous day, we assume a zero position on the previous day.

³ Dollar value of trading is obtained from each of the market's web sites.

⁴ While we believe that the percentage calculated from the two sums is appropriate, we also calculate the percentage as a ratio of the averages. This alternative calculation yields 0.57%.

persistent threshold security as a security that has remained on the Regulation SHO threshold list for more than 17 consecutive settlement days and continues to have fails to deliver of 10,000 shares or more. We use the threshold lists published by NYSE, NYSE Arca, Amex, and NASDAQ to measure the number of consecutive days a security was on the threshold list. We merge that data with the NSCC fails to deliver data and drop any date where a security may remain on the threshold list but has no fails to deliver.⁵

We estimate that the majority of these persistent threshold securities are exchange traded funds and similar products.⁶ We calculate that 350 unique securities were persistent threshold securities during this nine month time period. Of those securities, approximately 219 or 62.6% were identified as exchange traded funds or similar products.

⁵ We note that it takes 5 consecutive days of fails to deliver below the threshold amount for a security to exit the threshold list. Therefore, securities that are in the process of exiting the threshold list may have little or no fails to deliver but will continue to show up on the threshold list after fails to deliver have been reduced below the threshold amount.

⁶ We manually identify exchange traded funds, exchange traded notes, and closed-end funds using ETFguide.com and YAHOO! Finance web resources.