



Regulatory Circular RG08-112

To: Members

From: Division of Member and Regulatory Services

Date: September 19, 2008

Re: SEC Issues New Rules Regarding Short Sales (UPDATE)
- Halt of Short Selling of Financial Stocks

The SEC has issued additional emergency orders regarding short selling that went into effect today. We are still analyzing the emergency orders. Below are some highlights on the emergency order that halts short selling in financial stocks. For additional information, please refer to the SEC press release located at <http://www.sec.gov/news/press/2008/2008-211.htm>.

Temporary Prohibition on Short Selling in Certain Financial Stocks:

- This order, which is located at <http://www.sec.gov/rules/other/2008/34-58592.pdf>, became effective today and will terminate at 11:59 p.m. ET on October 2, 2008, except as noted below for options market makers. The SEC may extend the orders beyond 10 days if it deems an extension necessary in the public interest and for the protection of investors, but will not extend the orders for more than 30 calendar days in total duration.
- The order prohibits short selling by all persons in any publicly traded securities in 799 financial institutions, which are identified at <http://www.sec.gov/rules/other/2008/34-58592.pdf>.
- The order provides certain exceptions, including a limited exception for persons that effect a short sale in such a security as a result of automatic exercise or assignment of an equity option held prior to today due to expiration of the option. Therefore you may not manually exercise a long put position that would not have been automatically exercised if it would result in a short sale. To do so would result in a short sale that is not exempt from the order.
- The order provides a limited exception for options market makers until 11:59 p.m. ET today, September 19, 2008, when selling short as part of bona fide market making and hedging activities related directly to bona fide market making in derivatives on such securities.
- There is also an exception for registered market makers, block positioners, or other market makers obligated to quote in the over-the-counter market, in each case that are selling short a publicly traded security of an Included Financial Firm as part of bona fide market making in such security that applies during the duration of the order. Please note that this exception does not apply to options market makers.

- Although there are these exceptions to the short sale restriction, there may still be delivery requirements in accordance with temporary Rule 204T, which went into effect yesterday. For information on Rule 204T, please refer to <http://www.sec.gov/rules/other/2008/34-58572.pdf>.

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Any questions about this circular may be directed to Jim Adams at adamsj@cboe.com or 312-786-7718 or Jennifer Lamie at lamie@cboe.com or 312-786-7576.

(See also Regulatory Circulars RG08-106, RG08-110 and RG08-113)