

Regulatory Circular RG 93-62

Date: November 12, 1993

To: Members and Member Organizations

From: Legal Department / Regulatory Services Division

RE: Short Sales

SEC Rule 10a-1 under Section 10(a) of the Securities Exchange Act of 1934 (the "Act") prohibits selling stock "short" on a minus or zero minus tick. Briefly, the Rule is designed to prevent sellers from accelerating a decline in market prices by selling securities with the intention of covering those sales with securities purchased at a lower price. In general, SEC Rule 10a-1 requires that all sale order tickets be marked either "short" or "long", prescribes the minimum permissible prices for "short" sales and dictates when "short" sales must be covered. The CBOE established a similar rule governing "short" selling (Rule 30.20 -"Long" and "Short" Sales), see Regulatory Circular RG 91-35. Conduct in violation of the "short sale" rules may also be in contravention of other CBOE rules including, but not limited to Rules 4.1-Just and Equitable Principles of Trade and 8.7-Obligations of Market-Makers. CBOE Rule 30.20 governs trades in common stock effected on the CBOE, while the SEC Rule governs stock trades effected on the CBOE and on exchanges other than the CBOE<sup>1</sup>. Options market-makers should be aware that there is currently no exemption from SEC Rule 10a-1 for hedging transactions and that the improper sale of stock effected for the purpose of hedging market-maker options transactions is considered a violation of the rule. Please be advised that violations of the "short sale" rules will be strictly enforced and disciplinary sanctions may be imposed by the Exchange's Business Conduct Committee ("BCC"). It is the view of the BCC that violations of the "short sale" rules may place other market participants at a competitive disadvantage, whether or not such violative "short sales" are disruptive or manipulative.

In light of the potentially serious penalties attendant to a violation of the "short sale" rules, members are advised at all times to determine whether a sale of securities is "long" or "short"; to record that information accurately on the sale order ticket; to sell "short" only at a permissible price; and to cover all "short sales", unless the transaction is exempt from the covering requirements set forth in the SEC Rule.

Any questions concerning this circular should be directed to either Barbara Casey [(312) 786 7712] or Jeffrey Schroer [(312) 786-7716], in the Regulatory Services Division, or Andrew Spiwak [(312) 786-7483] in the Legal Department.

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<sup>1</sup> As of the date of this circular, no common stock issues are traded on the CBOE.