

Study faults SEC order on short sales

BY JUDITH BURNS

WASHINGTON—A Securities and Exchange Commission emergency order to tighten short sales in 19 sensitive financial stocks appears to have backfired, a study found.

Shares in federal housing-finance titans Fannie Mae and Freddie Mac; Wall Street firms Lehman Brothers Holdings Inc., Goldman Sachs Group Inc. and Merrill Lynch & Co.; and others covered by the order saw declining prices and deteriorating market quality over the course of the 23-day emergency order, according to the study.

Arturo Bris, a finance professor at IMD business school in Lausanne, Switzerland, conducted the study

and said the SEC-imposed restraints "contributed to a decline in share prices for the 19 stocks" while the order was in effect, totaling about \$60 billion in losses.

SEC Chairman Christopher Cox characterized the order as a precaution against rumor-driven market turmoil, and the SEC had the rule take effect July 21. The order, which expired at 11:59 p.m. EDT Tuesday, required short sellers to borrow or arrange to borrow shares in advance of short sales in the 19 targeted stocks.

Short sellers sell borrowed shares and profit from price declines that allow them to replace shares at a lower price. Naked short sellers don't borrow shares before selling them short, a practice that

critics say can lead to punishing stock-price declines.

The study examined the 19 stocks covered by emergency order, comparing their performance before and after the order took effect. It also compared results for the 19 shares against 59 U.S. and 73 non-U.S. financial companies that weren't subject to the emergency order.

Shares covered by the order lost 3.8% of their value compared with their peers' stock between July 21 and Aug. 4, the study concluded, or roughly \$60 billion.

Overall, the study found the 19 shares targeted by the order had been sinking over the past six months, and fared "significantly worse" than comparable stocks.