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To address the concerns related to naked short selling and close the loophole in Rule 200 of Regulation SHO, a potential change could be to enhance the "locate" requirement with more specific and stringent conditions. Here are some suggestions to consider:

Strengthen the "reasonable grounds" requirement: The current rule allows broker-dealers to proceed with a short sale if they have "reasonable grounds" to believe that the security can be borrowed and delivered on the settlement date. To close the loophole, the SEC could require a more concrete assurance from broker-dealers, such as written confirmation from the lender or a contractual arrangement to ensure the delivery of the shares.

Improve transparency and reporting: Broker-dealers could be required to document and report all locate requests and the subsequent steps taken to ensure the availability of the shares. This would create a paper trail that regulators could use to identify and penalize non-compliant market participants.

Implement real-time locate tracking: To increase the efficiency of the locate process, the SEC could mandate the use of a centralized, real-time locate tracking system. This would provide an up-to-date view of available shares to borrow and help prevent multiple short sales on the same shares without proper locates.

Increase penalties for non-compliance: To deter market participants from engaging in naked short selling, the SEC could raise the penalties for violating the locate requirements. This would create a stronger incentive for broker-dealers to adhere to the rules and ensure that they only execute short sales with proper locates.

Enhance enforcement and monitoring: The SEC could increase its resources and focus on detecting and investigating potential violations of Regulation SHO, particularly with respect to the locate requirement. This would involve more proactive monitoring of trading activity and coordination with other regulatory agencies and market participants.

By implementing these changes or a combination of them, regulators can work to close the loophole in Rule 200 of Regulation SHO and mitigate the risk of naked short selling in the market.