

# **The Efficacy of Regulation SHO in Resolving Naked Shorts**

**Jin Q Jeon\***

Dongguk Business School, Dongguk University,

**Clay M. Moffett**

Cameron School of Business, University of North Carolina Wilmington

**Robert Brooks**

Culverhouse College of Commerce, University of Alabama

**Current Draft: December 2010**

Comments Welcome.

\* Email : [jjeon@dongguk.edu](mailto:jjeon@dongguk.edu), Tel: +822-2260-8911

## **The Efficacy of Regulation SHO in Resolving Stock Market Fails-to-deliver**

### ***Abstract***

On January 3, 2005, Regulation SHO was implemented by the Securities and Exchange Commission, with the express purpose of updating short sale regulation. The purpose of this paper is to examine the efficacy and impact of Regulation SHO on stocks reported under the requirements as having significant and excessive naked short positions. We find strong evidence in the first 30 to 60 days after appearing on Regulation SHO's Threshold List, individual securities experienced negative abnormal returns. This result is robust for a number of parametric and non-parametric methods, including panel analysis and the Fama-French-Carhart Four Factor Model. Appearing on the Threshold List may suggest a trading strategy. Using previously unavailable data for NASDAQ, AMEX and NYSE firms, this study reveals important information about this regulation and its impact on investing; it enhances our understanding of the equity market and extends prior work on short positions and short interest.

JEL classification: G10, G14, G24, G18, G28, L00, L51.

Keywords: Short-sales, naked short sales, financial scandals, Regulation SHO.