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Fails-to-Deliver before and after the Implementation of Rule 203 and Rule 204

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Abstract

We study the determinants of fails-to-deliver in the period before and after the implementation of Rule 203 (elimination of option market maker exception from the locate and close-out requirement) and Rule 204 (t+3 close-out rule) in September 2008. We find a positive relation between short selling and fails-to-deliver that weakens after the implementation of these rules. Fails-to-deliver are higher for stocks with low institutional ownership, low book-to-market, small market capitalization, high turnover, and put option availability. The relation between short selling and these measures of borrowing costs is also weaker after the implementation of these rules.

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