



**What is the difference between naked short selling and covered short selling?**

**Sophie, via email**

Last September, the spotlight was put on short selling as its practice was temporarily banned to try and stabilise the markets amid the global financial crisis. Short selling is a strategy used by investors where they believe the stock price will fall further and was partly blamed for the demise of companies such as Lehman Brothers.

Naked short selling is the practice of selling a stock short without first borrowing the shares or ensuring that the shares can be borrowed as is done in a conventional short sale and the seller "fails to deliver". The ASX currently has banned naked short selling indefinitely.

Covered short selling is where the short seller must have a binding stock lending agreement for specific stock in place. Under new rules, ASIC requires disclosure of covered short selling effected by reliance on stock lending agreements. The investor is required to inform the ASX, via its broker, that a transaction is a covered short sale.