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The Business Ethics of Short Selling and Naked Short Selling



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Abstract

The controversy over short selling has continued unabated from the introduction of modern equity trading in Amsterdam in 1610 to the present day. Nevertheless, the business ethics literature has not really addressed short selling. Short sellers not only profit from the misery of others, they also create it through their selling activities. However, they also provide a socially useful service by making prices better reflect true values, protecting other investors from purchasing overpriced securities. Short sellers can also help to provide liquidity in the markets. Recently, there has been a hue and cry against so called “naked” short selling, which involves not delivering the shares that have been sold. This gives manipulators a tool for depressing stock prices and deprives purchasers of voting rights and potential stock lending revenue. Naked short selling creates ethical issues for

short sellers, buyers, brokers, market makers, and regulators. Is it ethical to exploit a legal loophole that permits sellers to sell stock and delay delivering shares indefinitely?

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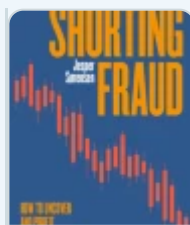
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