

Information Notice

Understanding Short Sale Volume Data on FINRA's Website

Summary

This *Notice* provides information to assist market participants in understanding the short sale volume data published on FINRA's website. FINRA is aware that some market participants, including investors, may occasionally perceive the percentage of short sale volume to be unusually high or inconsistent with reported short interest data. This perception may cause market participants to draw inaccurate conclusions about the level or nature of short selling activity in the relevant security. FINRA is issuing this *Notice* to further explain the published short sale volume data and provide several key points for market participants to consider when evaluating the data.

Questions concerning this *Notice* should be directed to:

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Background and Discussion

On September 30, 2009, FINRA began publishing the Monthly Short Sale Transaction File, which includes transaction time, price and number of shares for every off-exchange short sale transaction in an exchange-listed (or listed) stock (the Monthly File). On November 9, 2009, FINRA began publishing the Daily Short Sale Volume File, which provides aggregate daily short sale volume data by security for off-exchange trades in listed stocks, as well as for trades in non-exchange-listed (or OTC equity) securities (the Daily File).¹ The Monthly File and Daily File are collectively referred to herein as the "Short Sale Files."

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Suggested Routing

- ▶ Compliance
- ▶ Legal
- ▶ Operations
- ▶ Senior Management
- ▶ Trading

Key Topics

- ▶ Short Interest Reporting
- ▶ Short Sales

Referenced Rules & Notices

- ▶ FINRA Rule 4560
- ▶ Information Notice 9/29/2009

FINRA derives the Short Sale Files from transactions that are reported to its equity trade reporting facilities. FINRA publishes separate Short Sale Files on its website for each trade reporting facility.² The exchanges publish their short sale volume data in the same format relating to trades executed on their markets.

FINRA announced the publication of short sale volume data by FINRA and the exchanges in *Information Notice 9/29/09*.³ At the time, SEC staff, FINRA and the exchanges collectively decided how to calculate the short sale volume data to ensure consistency in the published data. One of the key decisions was to publish only trades that are publicly disseminated, for example, via the consolidated tape.⁴

FINRA believes that the following three key points about the short sale volume data may help market participants better understand and draw informed conclusions about the data. As discussed below, the data: (1) does not include any trades that are not publicly disseminated, (2) is not consolidated with exchange data, and (3) does not—and is not intended to—equate to short interest position information.

Keys to Understanding Short Sale Volume Data

First, as noted above, the data in the Short Sale Files includes only trades that are publicly disseminated and excludes trades that are not publicly disseminated. As a result, some offsetting buying activity related to reported short selling would not be reflected in the Daily File and may result in the appearance of a higher concentration of short sale to total volume.

A common example is where a firm is facilitating a customer order to sell long. The firm may elect to first sell an equivalent number of shares from its own trading account to another firm and then purchase the shares from the customer at the same price to fill the outstanding long sale order. Trading in this manner reduces risk for the firm by enabling it to manage its inventory and lock in a price for the customer execution. Although this trading model involves two separate trades—one between the two firms and one between the firm and its customer—the two offsetting trades are executed at the same price to fill a single customer order. Thus, FINRA rules provide for the public dissemination of only one of the trades (the trade between the two firms) so as not to overstate the reported volume.⁵ If the firm facilitating the customer long sale order has either no position or a short position in the security in its trading account, the trade with the other firm is reported as short and included in the short sale volume calculations in the Daily File. The volume associated with the firm's purchase from its customer, however, is not reflected in the Daily File. Thus, the firm's short sale is included in the short sale volume calculations without any indication that it is associated with an offsetting purchase to facilitate a customer long sale.

Second, as noted above, the data is published separately by FINRA for each FINRA trade reporting facility and by each exchange, and is not consolidated. Thus, to obtain a complete picture of short sale volume to total volume in a particular listed stock, market participants

must combine data published by FINRA for each of its trade reporting facilities, as well as data published by the exchanges.⁶

For example, suppose that for security ABCD, FINRA published a combined short sale volume of 3,000 shares and total volume of 15,000 shares for all of its trade reporting facilities.⁷ Viewing only this off-exchange data published by FINRA, the percentage of short sale volume to total volume would appear to be 20%. Suppose, however, that there was also activity for ABCD executed on the New York Stock Exchange (NYSE) that day totaling 125,000 shares, of which 12,000 shares were reported as short. This volume is published by NYSE on its website, separate from the volume published by FINRA. When considered together, the overall percentage of short sale volume to total volume for ABCD that day is 10.7%, which is much lower than the data published on the FINRA website would suggest.

FINRA notes that the SEC has a webpage where market participants can find links to the short sale volume data published by FINRA and the exchanges,⁸ which may facilitate consolidation of the data and provide market participants a more complete picture. However, some exchanges charge a fee for access to their data.⁹

Finally, short sale volume data does not—and is not intended to—equate to reported bi-monthly short interest information. FINRA rules require firms to report, on a per security basis, the total quantity of shares held as short positions in all customer and proprietary firm accounts twice a month.¹⁰ FINRA publishes the short interest data for OTC equity securities on its website, while the data for listed stocks is published by the exchange on which the stock is listed.¹¹ Although some websites redistribute the Daily File and refer to the data as “short interest,” it is not, in fact, the equivalent of reported short interest information.

Some market participants mistakenly conclude that the bi-monthly short interest data is understated because the Daily File reflects short sale volume that is much larger than what is reported as short interest. However, short interest data reflects short positions held by market participants at a specific moment in time on two discrete days each month, while the Daily File reflects the aggregate volume of trades executed as short sales on each trade date. Therefore, while the two data sets are related (*i.e.*, short sale volume may ultimately result in a reportable short interest position), they are not necessarily correlated.

For example, if a firm sells short 1,000 shares of security ABCD, then purchases 1,000 shares of ABCD later the same day, the short sale volume in the Daily File will include the 1,000 shares that were sold short. Because the firm sold short and purchased an equivalent number of shares that day, it did not establish or accumulate a short position in ABCD; thus, its short sale has no impact on the reported short interest in ABCD.

More Information

To assist market participants in understanding the short sale volume data, FINRA has updated its website to include a short primer on reading the published data.¹²

Endnotes

1. Specifically, the Daily File includes total volume, total short sale volume and total short exempt volume.
2. See www.finra.org/industry/trf/trf-regulation-sho-2018, www.finra.org/industry/adf/adf-regulation-sho and www.finra.org/industry/orf/orf-regulation-sho.
3. See *Information Notice 9/29/09, Publication of Daily and Monthly Short Sale Reports on the FINRA Web Site*, at www.finra.org/industry/information-notice-092909. See also Securities Exchange Act Release No. 60807 (October 9, 2009), 74 FR 53524 (October 19, 2009) (Notice of Filing and Order Granting Accelerated Approval of File No. SR-FINRA-2009-064).
4. The “consolidated tape” is a high-speed, electronic system that reports the latest price and volume data on sales of listed stocks. The data reflected on the consolidated tape is generated by various market centers, including securities exchanges, electronic trading platforms such as alternative trading systems and broker-dealers. Internet sites that provide updated market information and financial news programs on television often include trade reports from the consolidated tape. See www.sec.gov/fast-answers/answersconsolthtm.html.
5. The trade between the firm and its customer may be reported to FINRA for regulatory purposes, but is not publicly disseminated.
6. FINRA notes that even if the short sale volume data were consolidated across the exchanges and FINRA, it would not eliminate the potential confusion (discussed above) created by the Short Sale Files only capturing publicly disseminated trades.
7. Market participants would need to combine data from each of FINRA’s published files to get a complete picture of total off-exchange volume.
8. See www.sec.gov/answers/shortsalevolume.htm.
9. FINRA provides its short sale volume data free of charge.
10. See Rule 4560 (Short Interest Reporting).
11. Market participants can also access short interest information from certain independent financial websites.
12. The primer is available at the TRF, ADF and ORF Regulation SHO landing pages of the FINRA website. See www.finra.org/industry/trf/trf-regulation-sho-2018, www.finra.org/industry/adf/adf-regulation-sho and www.finra.org/industry/orf/orf-regulation-sho.