

Short Interest Reporting

Guidance on Reporting Short Interest Positions Held in Master/Sub-Accounts or Parent/Child Accounts

Summary

FINRA is issuing this *Notice* to reiterate that firms must report short positions in each individual firm or customer account on a gross basis under FINRA Rule 4560. Therefore, firms that maintain positions in master/sub-accounts or parent/child accounts must calculate and report short interest based on the short position in each sub- or child account. FINRA has observed that some firms erroneously report a net short interest position for each account grouping, *i.e.*, by parent or master account, rather than reporting on a gross basis for each account, *i.e.*, by child or sub-account.

Questions concerning this *Notice* or FINRA Rule 4560 should be directed to:

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Background and Discussion

FINRA Rule 4560 (Short-Interest Reporting) requires firms to maintain a record of total “short” positions in all customer and proprietary firm accounts and to regularly report such information to FINRA in such a manner as may be prescribed by FINRA.¹ The rule further requires firms to record and report all gross short positions existing in each individual firm or customer account, including the account of a broker-dealer, that resulted from either a “short sale,” as that term is defined in Rule 200(a) of Regulation SHO, or where the transaction(s) that caused the short position was marked “long,” consistent with Regulation SHO, due to the firm’s or the customer’s net long position at the time of the transaction.² Firms shall report only those short positions resulting from short sales that have settled or reached settlement date by the close of the reporting settlement date designated by FINRA.

December 6, 2017

Notice Type

- ▶ Guidance

Suggested Routing

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

Key Topics

- ▶ Master and Sub-Accounts
- ▶ Parent and Child Accounts
- ▶ Short Interest Reporting

Referenced Rules & Notices

- ▶ 31 CFR 1023.100
- ▶ FINRA Rule 4560
- ▶ FINRA Regulatory Notice 10-18
- ▶ FINRA Regulatory Notice 12-38
- ▶ SEA Rule 200

Some firms maintain “parent/child” or “master/sub-” accounts for clients and may create these structures for various reasons, *e.g.*, to facilitate separate trading strategies. FINRA has observed that some firms report a net short interest position for each such account grouping, *i.e.*, by parent or master account, rather than reporting on a gross basis for each account, *i.e.*, by child or sub-account. However, as noted above, firms must report short interest in each individual firm or customer account—including each sub- or child account—on a gross, as opposed to net, basis, *e.g.*, not netted against the other sub- or child accounts.³ FINRA notes that this is consistent with the approach it has taken relating to short interest reporting for positions held in aggregation units as defined under Regulation SHO.⁴ While firms are permitted to look to the net position within an independent aggregation unit for purposes of order marking under Regulation SHO, for purposes of short interest, firms must report the gross short position for each proprietary account within the independent aggregation unit.⁵

FINRA recognizes that in some contexts, the determination whether a firm should treat a sub-account as a separate account depends upon the firm’s ability to identify the beneficial owner of the sub-account.⁶ However, identifying the beneficial owner of a sub- or child account is not required for purposes of short interest reporting. Regardless of whether sub- or child accounts share the same beneficial owner, or whether the firm has actual or inquiry notice of common ownership (or the lack thereof), the firm is required to report gross short positions existing in each individual customer account, if otherwise reportable under Rule 4560. Additionally, firms are required to report gross short positions in sub- or customer accounts regardless of whether they treat the accounts as separate in other contexts.

Endnotes

1. See Rule 4560(a). FINRA uses short interest data to, among other things, assess members' short selling activity and compliance with Regulation SHO. Short interest data also provides analytical and investment data that the brokerage industry, academic institutions and public investors use.
2. See Rule 4560(b); see also [Regulatory Notice 12-38](#) (August 2012). As noted in [Regulatory Notice 12-38](#), the requirement that short interest reporting be limited to gross short positions was an interpretation previously issued by the Intermarket Surveillance Group (ISG). See Intermarket Surveillance Group, Consolidated Reporting of Short Interest Positions, ISG Regulatory Memorandum 95-01 (March 6, 1995).
3. The firm is required to add this short interest to all other short positions in that security that are held in all other accounts at the firm, and then report the aggregate short position in that security across all accounts to FINRA.
4. Under SEA Rule 200, a firm may aggregate its positions in a security by independent aggregation unit to determine its net position in that security for order marking purposes. See 17 CFR 242.200(f). To meet the independent aggregation unit requirements, a firm must, among other things, have a written plan of organization that identifies each aggregation unit, specifies its trading objective, and supports its independent identity. In addition, all traders in an aggregation unit may pursue only the particular trading objective or strategy of that aggregation unit and may not coordinate that strategy with any other aggregation unit.
5. See [Regulatory Notice 12-38](#).
6. For example, in [Regulatory Notice 10-18](#), FINRA stated that, when a firm maintains master/sub-accounts, the firm is generally obligated to treat the sub-accounts as separate accounts if the firm is able to establish the beneficial owners of such accounts either through actual or inquiry notice. In that *Notice*, FINRA also recognized that there may be limited instances where a firm does not know the beneficial owners of a sub-account. In some contexts where the identity or uniqueness of the customer is relevant, such as defining a "customer" in connection with the Broker-Dealer Customer Identification Program Rule, the SEC has found that firms are not required to identify the beneficial owners of sub-accounts and treat such accounts separately. See Question and Answer Regarding the Broker-Dealer Customer Identification Program Rule (31 CFR 103.122) (October 1, 2003) (subsequently renumbered as 31 CFR 1023.100); see also 31 CFR 1023.100 (defining a customer for purposes of the Rules for Brokers or Dealers in Securities).