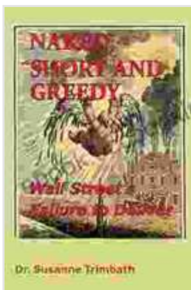
Wall Street's Dirty Little Secret: Failure To Deliver

In the labyrinthine world of Wall Street, a shadowy practice known as "Failure To Deliver" (FTD) has been operating with impunity for decades. It is a scheme that allows millions of shares of stock to be traded that don't actually exist.



Naked, Short and Greedy: Wall Street's Failure to Deliver by Susanne Trimbath

4.9 out of 5

Language	: English
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FTDs occur when a seller of a stock fails to deliver the shares to the buyer by the settlement date, which is typically two business days after the trade. The buyer, in turn, is obligated to pay for the shares even though they have not received them.

FTDs are often used by short sellers, who bet that a stock's price will decline. They borrow shares of the stock from a broker and sell them, hoping to buy them back later at a lower price and return them to the

broker. If the stock price does indeed decline, they profit from the difference.

However, if the stock price rises, the short seller may be forced to buy back the shares at a higher price than they sold them for, resulting in a loss. FTDs allow short sellers to delay this day of reckoning, as they can simply fail to deliver the shares they borrowed.

The consequences of FTDs are far-reaching. For investors, they can create volatility and uncertainty in the market. When a large number of FTDs accumulate, it can lead to a "short squeeze," where the demand for a stock drives the price up, forcing short sellers to buy back their shares at a loss.

For the financial system, FTDs can pose a systemic risk. If a large number of FTDs occur during a market decline, it can lead to a domino effect, as institutions that have failed to deliver shares are forced to liquidate their assets to meet their obligations.

Despite the risks, FTDs have been allowed to persist due to a lack of oversight and enforcement by the Securities and Exchange Commission (SEC).

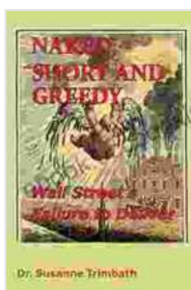
In recent years, however, there has been growing pressure on the SEC to take action. In 2021, the SEC announced a new rule that would require brokers to report all FTDs within 24 hours. This rule is expected to shed more light on the extent of FTDs and help to deter the practice.

The SEC's new rule is a step in the right direction, but more needs to be done to address the problem of FTDs. Short selling is a legitimate investment strategy, but when it is abused through naked shorting (selling

shares that one does not own) and FTDs, it can undermine the integrity of the market and put investors at risk.

Investors should be aware of the risks of FTDs and take steps to protect themselves. They should only invest in companies that they believe in and that have a solid track record. They should also avoid investing in stocks that are heavily shorted and have a high number of FTDs.

The SEC must continue to strengthen its oversight of the market and take enforcement action against firms that engage in abusive short selling practices. FTDs are a threat to the integrity of the financial system and must be eliminated.



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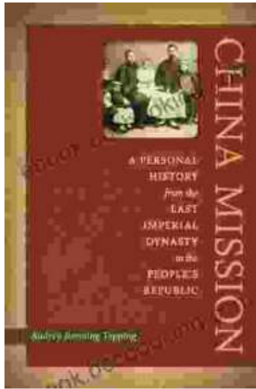

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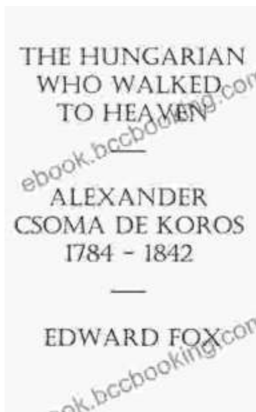

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