

What to think of the measures against short selling?

Financial Markets Legal
Update – the webinar series

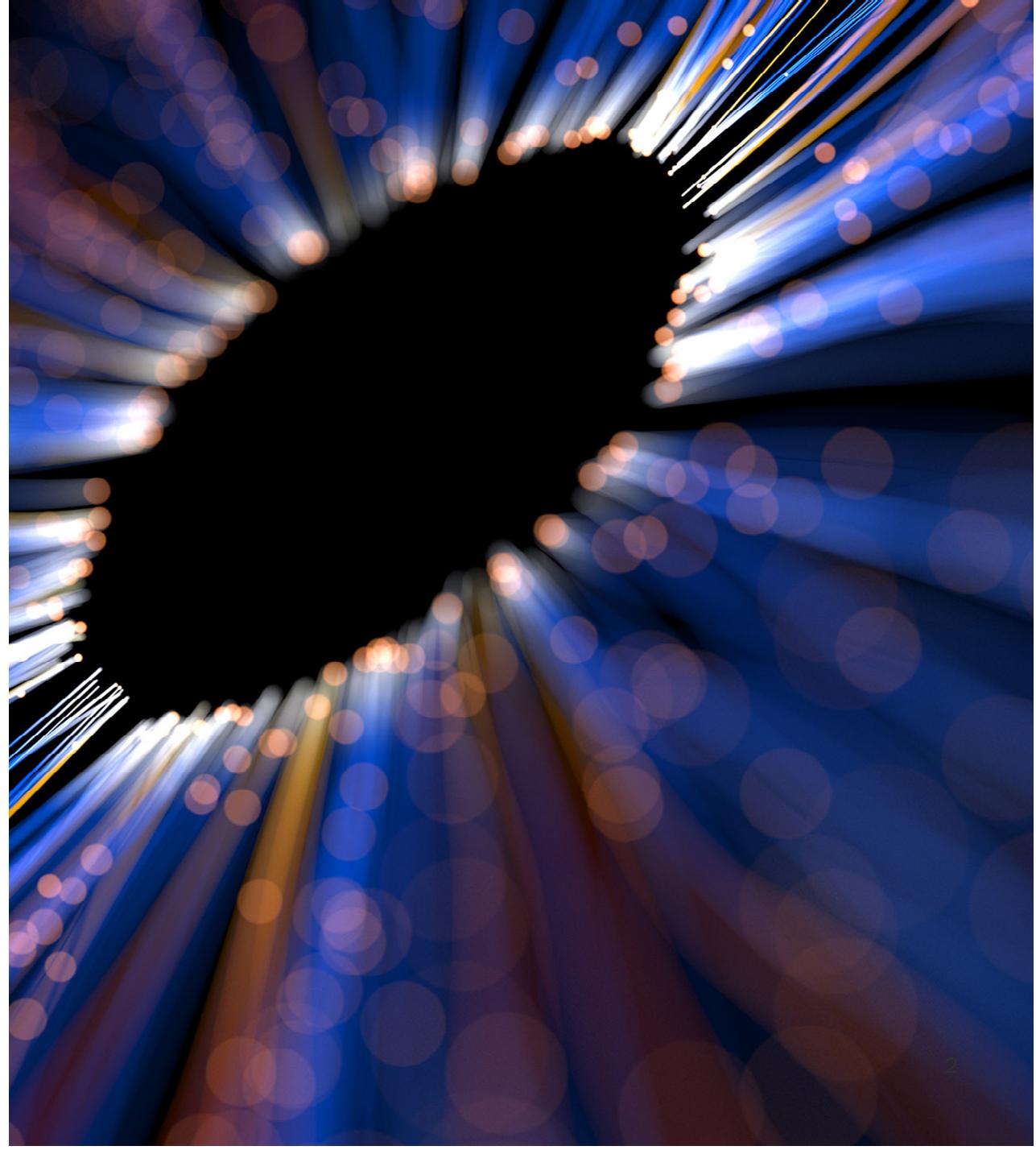
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2 July 2020

Agenda

- 1 Introduction
- 2 Regulation of short selling
- 3 Measures against short selling – COVID-19
- 4 Problems encountered in practice
- 5 Criticism against the measures



Markets Plunge. Economies Stall. Panic Spreads. It All Feels Very 2008.

Ineffective monetary policy, scant action from governments, and fear of a leadership void is raising alarm about the pandemic's economic shock.

Source: New York Times

Billionaire Bill Ackman Made 100-Fold Return On Coronavirus Hedge That Yielded \$2.6 Billion

As of Wednesday's close, Pershing Square was up 0.2% for the year, versus the 20%-plus plunge of the S&P 500. His hedges shielded his investors against 50%-plus declines in some of his holdings. The maneuvering has protected all of the 58% gain Pershing Square reported to its investors in 2019.

Source: Forbes

European countries ban short selling after markets plunge

'We are ready to go further,' says French minister after issuing temporary prohibitions

Regulators across Europe clash over bans on short selling

Some countries prohibit bets on lower prices, while others warn bans make matters worse

Source: FT

Regulation of short selling

- Global financial crisis in 2008
- The EU Short Selling Regulation as a response
 - Reporting of net short positions
 - Intervention powers for ESMA and national regulators

Measures against short selling – COVID-19

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ESMA

1. Lowering notification threshold to 0.1%

National regulators

2. Banning short selling
 - Belgium / France / Greece / Spain / Austria / Italy

Problems encountered in practice

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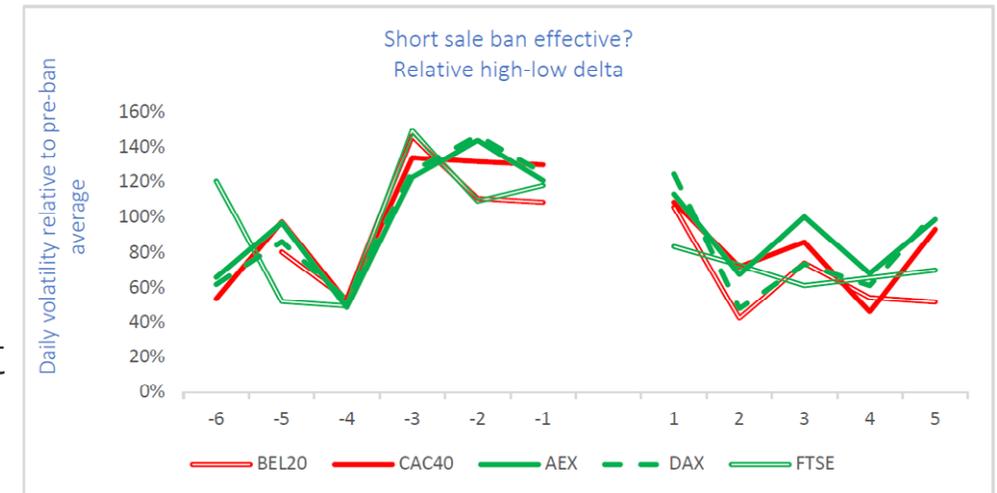


1. Baseline notifications
2. Hedging activities by external managers
3. Index related instruments
4. Convertible bonds
5. Rolling of derivative positions
6. Passive changes

Criticism against the measures against short selling



1. International Securities Lending Association
 - Hedging / trust in market / objective measures
2. FIA European Principal Traders Association
 - Research on volatility
3. World Federation of Exchanges
 - Effects on markets / research on volatility
4. Dutch Minister of Finance
 - Financial markets / effects on markets / uncertainty



Closing remarks



1. Objective measures against short selling
2. Learning from the past
3. Research has shown
4. Concluding

Thank you for joining

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