



# Assessing the Efficacy and Impacts of Bans on Short Selling

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*“Good people do not need laws to tell them to act responsibly, while bad people will find a way around the laws.”*

Plato (427-347 BC)

# Short Selling – Mixed Opinions

## Bad

*“the demand from irritated watchers of the situation that the evil influence of such stock market operations be ended by suspension or outright prohibition of ‘short sales’.”*

*New York Times*

*“I would line them up against the wall and shoot them, all the short-sellers,”*

*Harvey Norman's Gerry Harvey, as reported in The Sydney Morning Herald, Nov 21 2008.*

## Good

*“it ought to be evident that prohibition of ‘short sales’ would expose the market to the extreme and dangerous maladjustment which so one-sided a proviso would inevitably create.”*

*New York Times*

## Short Selling – Mixed Opinions

*“While we still regard short selling as a legitimate investment technique in normal market conditions, the current extreme circumstances have given rise to disorderly markets...we have (banned shortselling) to protect the fundamental integrity and quality of markets and to guard against further instability in the financial sector”*

Hector Sants, UK FSA statement dated September 18, 2008.

*“China's cabinet agreed to let investors buy shares on credit and sell borrowed stock to help develop Asia's second-largest market after prices and trading volumes slumped, an official familiar with the plan said. ... China's action contrasts with regulators in the U.S., Europe and Australia that have banned short selling in the past week to shore up financial shares battered by the global credit squeeze.”*

Bloomberg, September 26 2008.

## Table 1. Selected Short Selling Bans 2008/2009\*

Country	Type of Ban	Stock Coverage	Disclosure	Initiation	Lapse	Extended
Australia	Naked	All		19-Sep-08		
Australia	Covered/Naked	All		21-Sep-08	18-Nov-08	Yes
Australia	Covered/Naked	Financials		19-Nov-08	25-May-09	Yes
Canada	Covered/Naked	Specified Financials		19-Sep-08	8-Oct-08	Yes
France	Naked	Specified Financials		22-Sep-08		
Germany	Naked	Specified Financials		20-Sep-08	31-May-09	Yes
Greece	Covered/Naked	All	0.10%	10-Oct-08	31-May-09	Yes
Italy	Naked	All		23-Sep-08		
Italy	Covered/Naked	Banks and Insurance		1-Oct-08	10-Oct-08	
Italy	Covered/Naked	All		10-Oct-08	31-May-09	Yes
Japan	Naked	All		29-Oct-08	31-Mar-09	
Korea	Covered	All		1-Oct-08		
Netherlands	Naked	All		22-Sep-08	21-Dec-08	
Netherlands	Net Position	Specified Financials	0.25%	5-Oct-08	1-Jun-09	Yes
Singapore	Naked	All		22-Sep-08		
Switzerland	Net Position	Specified Financials		19-Sep-08		Yes
Taiwan	Covered/Naked	All		1-Oct-08	5-Jan-09	Yes
UK	Net Position	Specified Financials	0.25%	19-Sep-08	16-Jan-09	
USA	Covered/Naked	Specified Firms	0.25%	19-Sep-08	8-Oct-08	Yes

\*Source: Clifford Chance and regulatory authority websites, any errors are the author's.

## Table 2. Share Market Returns for Selected Markets Around Implementation of Short Selling Ban\*

	Pre-Ban Return 1/9 To day 18/9	Return 18/9 22/9	Post Ban Return 22/9 9/10	Intra-Day Volatility 1/9 18/9	Intra-Day Volatility 19/9 9/10
TAIWAN	-10.0%	9.0%	-13.9%	2.6%	3.7%
CANADA	-13.8%	8.7%	-22.1%	2.9%	5.2%
DUTCH	-13.5%	7.0%	-25.2%	2.9%	5.3%
FRANCE	-10.8%	8.1%	-19.1%	3.0%	4.8%
GERMAN	-8.7%	5.6%	-19.0%	2.6%	4.0%
HK	-15.7%	11.3%	-18.8%	3.7%	5.1%
ITALY	-10.5%	7.1%	-20.3%	2.7%	4.7%
JAPAN	-10.5%	5.2%	-24.3%	2.7%	3.7%
KOREA	-1.6%	4.9%	-11.3%	3.2%	3.6%
NZ	-6.6%	2.9%	-10.0%	1.5%	2.4%
SINGAPORE	-10.9%	5.2%	-17.4%	3.0%	4.3%
SWISS	-8.1%	5.6%	-13.5%	2.6%	4.1%
TAIWAN	-17.2%	8.3%	-16.0%	3.8%	3.8%
UK	-12.8%	8.1%	-17.8%	2.8%	4.8%
US	-9.9%	8.5%	-21.5%	2.9%	4.9%
<b>Average</b>	<b>-10.7%</b>	<b>7.0%</b>	<b>-18.0%</b>	<b>2.9%</b>	<b>4.3%</b>

Source: Iress, note dates refer to Asian time zone, other zones represent prior business day

## Table 3. ASX Market Supervision statistics.

	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09
Price Queries made by ASXMS	78	147	<b>71</b>	109	<b>211</b>
Market Manipulation Referrals to ASIC	6	4	<b>4</b>	4	<b>6</b>
Listed Entities Supervised	2142	2148	2155	2146	2138

Source: ASX Markets Supervision (ASXMS) Quarterly Activity Report – March 2009.

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