

Australian hedge funds deny market manipulation accusations

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Alex Frew McMillan

Australian regulators are looking into whether market manipulation helped drive some Australian stocks to record lows in recent weeks. Australia's benchmark S&P/ASX 200 index is down almost 20% this year, and companies such as ABC Learning Centres, Allco Finance Group, MFS and City Pacific have fallen more than 75%. Fund management companies and bank stocks have been punished particularly harshly. Macquarie Bank is down almost 50% in six months.>>The companies or their investors appear to have fielded complaints with regulators that they have been unfairly targeted and are victims of rumor mongers.

The heads of National Australia Bank and Commonwealth Bank have both criticized shorting by hedge funds that they allege may be colluding or circulating false rumors to drive down shares. >>Hedge fund managers and institutional investors in Australia have denied claims of market manipulation.>>Michael O'Sullivan, the president of the Australian Council of Superannuation Investors, believes the companies that have seen their stocks fall have complained to regulators. O'Sullivan's group represents many of the institutional investors that lend stock for short selling. >>"Many of the shares going down in Australia had absolute terrible problems," he says. "Hedge funds didn't make them go down, although they might have made them go down quicker. But they end up with a price that is fair value, and long-only buyers come back in.">>O'Sullivan said the superannuation funds do not know what company they are lending their stock to. But he believes about half of the lending goes to hedge funds. >>"There is nothing intrinsically wrong with short selling... There is nothing wrong with superannuation funds or pension funds lending your stock, as long as you make sure you have the correct steps in place and go through a prime broker.">>Kim Ivey, the chairman of the Australian chapter of the Alternative Investment Management Association, said AIMA had been having "constructive discussions" with regulators. The industry is defending itself against claims of malpractice.>>Those talks had been behind the scenes. But the Australian Securities and Investments Commission, on March 11 made public that it was investigating "a number of market participants" over the recent share movements.>>"As ASIC has publicized this and sought a public inquiry, we support ASIC's actions and are confident that they will conduct a comprehensive and thorough inquiry," Ivey said. AIMA says it supports moves toward greater transparency in the markets and better

disclosure rules on short sales.>>Short sale critics say hedge funds should have to disclose if they sell more than 5% of a company's stock short. Other market participants support requiring disclosure of the amount of stock available for shorting.>>"At its conclusion, it is fully expected that ASIC will report on their findings so that market participants can be fully versed on whether market manipulation is a problem on the ASX," Ivey noted.>>O'Sullivan is more blunt.>>"It wasn't the hedge funds' fault," O'Sullivan says. "It is a bit like blaming the media for the weather they report.">>
