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MEDIA STATEMENT



Short selling ban won't deliver market stability – AIMA Australia

The Australian arm of the Alternative Investment Management Association (AIMA), the representative body of the hedge fund industry, has expressed doubt about the effectiveness of ASIC's ban on short selling.

"While AIMA is supportive of regulators' efforts around the world to restore stability to financial markets, we are concerned this total ban on short selling in Australia may actually have the opposite effect," said AIMA Australia Chairman Kim Ivey.

"We're concerned that without any short selling, price discovery for many ASX stocks is actually in disequilibrium and as a consequence, many stocks will exhibit increased volatility.

AIMA Australia also expressed alarm at the haste in which ASIC banned all short selling, without consultation, over-reaching the Securities and Exchange Commission in the US (SEC) and the Financial Services Authority in the UK (FSA), which only banned naked short sales and restricted other forms of short selling in a limited number of financial stocks.

AIMA Australia has always maintained the position that "naked" short selling should be banned on the ASX, and has been calling on both ASIC and the ASX to instigate short selling reporting as part of a compulsory disclosure regime to improve market transparency.

"We can expect severe outcomes from this short selling ban - investors who want to adopt capital protection strategies either through short selling or through derivative instruments such as CFDs are unable to do so. Companies who want to raise equity funds will be unable to do so, as underwriters will find it very difficult to hedge their commitments. Equity capital raising is now either on a "best efforts" basis or at a complete standstill in Australia."

AIMA Australia also urged ASIC to fast-track its market manipulation review:

"ASIC needs to clearly separate legitimate short selling activity from the illegal action of spreading market rumours. Enforcement and prosecution will have a far greater effect on curtailing market manipulation than the wholesale ban on short selling.

"Short selling plays a crucial role in the market. It provides market participants with improved market liquidity and quicker pricing efficiency and it is a valuable tool for all investors who wish to protect their capital in overvalued situations.

AIMA is working with several regulators around the world, including Australia, to bring about a speedy restitution to free and open market practices.

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The Alternative Investment Management Association Limited was established in 1990 as a direct result of the growing importance of alternative investments in global investment management. It is a not-for-profit educational and research body that represents practitioners in hedge funds, futures funds and currency fund management – whether managing money or providing a service, such as prime brokerage, administration, legal or accounting advice. AIMA's global membership is in excess of 1,000 members in 46 countries. AIMA Australia has over 60 members, including fund of fund managers, institutional investors, hedge fund managers, prime brokers, lawyers, auditors and other service providers who serve the hedge fund industry.

