



# AIMA Australian Chapter

Alternative Investment Management Association (AIMA)

The Forum for Hedge Funds, Managed Futures and Managed Currencies

March 19th 2008

Dear Members,

RE: AIMA Australia's Position on Short Selling and Working with Industry Stakeholders

There are a number of issues now confronting the Australian hedge fund industry. AIMA Australia is working on a wide front with regulators, brokers, media, and other industry associations to deal with these matters.

However, today I'd like to convey to you what AIMA's position is on the interpretative changes to ASX's short selling disclosure rules so that we can push for the least disruptive and least intrusive means of implementation.

As background, there are 3 issues that have attracted significant attention from regulators and politicians. These are ASX short selling rules, margin lending disclosures and (accusations of) collusion amongst hedge funds to manipulate ASX listed shares. We have had a number of phone discussions, electronic interchanges and face to face meetings with ASIC and the ASX on all these matters over the last month. Those that wish to know more about these issues can read the ASIC and ASX media releases [here](#) on the AIMA Australia website.

The most significant change for Australian hedge fund managers, prime brokers and security lenders, and the one that may have some immediacy, is the definitional change of short selling disclosures to the ASX. In essence the ASX wishes its market participants to eventually disclose naked and covered short sales to its markets supervision division for tabulation. Historically, covered short sales, which is the market norm for HFs operating in Australia and other developed markets, have been excluded from ASX reporting because of definitional arguments. The effect of this has been that short selling volume, both in aggregate and on an individual stock basis, is significantly underestimated in ASX's short interest numbers.

The call for changes to short selling disclosure is loud and clear. After discussion within AIMA's Regulatory Committee and amongst the Chapter executives, AIMA Australia supports the move to greater transparency in calculating short interest by the ASX. The transparency benefits are self-evident. We will now publically announce this through the media and to the proper authorities.

However, AIMA Australia will be advocating that the notification of designated covered short sales, takes place between the manager/trader and the back office of their prime broker, or if no PB arrangement is in place, their custodian. This reporting between client and back office is carried out today as a normal course of trade notification and settlement. The PB and/or custodian will pass on aggregated net short interest to the ASX. We would advocate that this is done without divulging individual client details or without having volumes linked to any individual manager or trader. We strongly believe that it would NOT be suitable for manager/traders to have to notify short sales directly to broker sales personnel at the time of trading.

Understandably, many of you may have questions about this and those of you who have legal advisors are already in the process of forming your own views. AIMA Regulatory Committee will be publishing a more detailed position paper on this shortly as a guide for members.



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Finally, I share the frustration that many of you have about the uninformed and, at times, baseless accusations that are being published through the Australian media about the hedge fund industry and the practices of hedge fund managers. These perceptions require active and informed responses which are thorough and ongoing. Our media work will start immediately.

I will send through more news on ASIC's pronouncements regarding margin lending and market manipulation in the coming days.

Yours sincerely,

Kim Ivey  
Chairman