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# ESMA STUDY SHOWS IMPACT OF SHORT-SELLING DISCLOSURE ON INVESTOR BEHAVIOUR

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MARKET INTEGRITY

The public disclosure of net short positions in EU shares influences investors' behaviour, a [recent study](#) by the European Securities and Markets Authority (ESMA) finds

ESMA's latest [Trends, Risks, Vulnerabilities \(TRV\) Report No. 1, 2018](#), analysed positions reported under the Short-Selling Regulation (SSR).

Data shows that there were 210,341 net short positions reported from January 2013 to December 2016. These net short positions related to over 2,000 European shares, the majority being UK and German securities. The ESMA analysis reveals that around 1,000 different investors are active in EU shares, with the large majority of them being domiciled in the US (40%), the UK (30%), and only 15% in the rest of EU. In addition, short-selling activities appear highly concentrated, with 150 investors accounting for more than 80% of all reported short positions.

The ESMA study also provides evidence that investors seem to avoid crossing the public disclosure threshold in order to keep their strategy secret. The evidence gathered also indicates that disclosure to the public of significant net short positions might, as a side effect, re-inforce herd behaviour in short-selling activities.

## Background

Investors use short sales for directional trading or hedging purposes. Under the SSR, net short positions above 0.5% of a company's issued share capital are publicly disclosed. Firms must also report to authorities net short positions below that level – when their position is equal to at least 0.2%, and again at each further 0.1%.

The SSR is intended to reduce, inter alia, settlement risks and other risks linked with uncovered or naked short-selling carried out by investors. The Regulation came into force in 2012 and ESMA, in December 2017, advised the Commission about a possible revision of certain aspects of the SSR.

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