13 May 2020

The Alternative Investment Management Association ("AIMA"), FIA European Principal Traders Association ("FIA EPTA"), Managed Funds Association ("MFA") and the World Federation of Exchanges ("WFE") are writing to express our concern that current restrictions on short selling are hurting markets, disadvantaging investors and undermining the longer-term goal of building a Capital Markets Union.

We recognise the challenges that authorities globally face in responding to the unprecedented disruption associated with COVID-19. However, market data on securities subject to the restrictions in place in Austria, Belgium, France, Greece, Italy and Spain are available and show that those securities are not collectively performing better than those in comparable jurisdictions that are not subject to restrictions; shares are more volatile than they were prior to the bans; and markets exhibit wider spreads since restrictions were put in place.[1]

These findings reflect the long-recognised important role that short selling plays in financial markets, bringing liquidity and checking downward price pressures as short sellers cover their positions. Banning short selling significantly degrades market liquidity and price formation while increasing trading costs and volatility, something borne out by past academic research.[2]

Wider spreads also mean higher costs for investors and therefore poorer returns. These investors include pension funds and endowments looking to save for the future and manage risk on behalf of citizens.

Over the longer term, the bans risk undermining confidence in key European financial markets and hampering the goal of a Capital Markets Union, something that will be vital to European recovery from the profound economic shock caused by COVID-19. Market confidence has been further damaged by the lack of coordination when it comes to how bans have been implemented. While we welcome the recent move[3] by the European Securities and Markets Authority ("ESMA") to standardise certain elements of the various bans, the initial lack of coordination amongst public authorities caused significant market disruption and illustrates the need for reform and greater involvement by ESMA, particularly given the cross-border impact of short selling bans.

We collectively believe that now is the time for responsible policy making, recognising that the analytical data indisputably show that short selling restrictions have not been effective in delivering greater market stability; indeed, the opposite is true. We call on authorities that have imposed short-selling restrictions to lift those restrictions and enable the market to function in a way that best serves the needs of investors.

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1 See Annex 1 for summary data on the impact of the recent restrictions; also appended is a paper by FIA-EPTA, 'Analysis Of Impact Of Banning Short-Selling On Market Volatility'.

2 See the attached WFE paper, 'What does academic research say about short-selling bans?'

3 See https://www.esma.europa.eu/press-news/esma-news/esma-issues-positive-opinions-short-selling-bans-austrian-fma-belgian-fsma.

Yours sincerely,

/s/ Jack Inglis

Jack Inglis
Chief Executive Officer
Alternative Investment Management Association

/s/ Bryan Corbett

Bryan Corbett
President and CEO
Managed Funds Association

/s/ Piebe Teeboom

Piebe Teeboom
Secretary General
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/s/ Nandini Sukumar

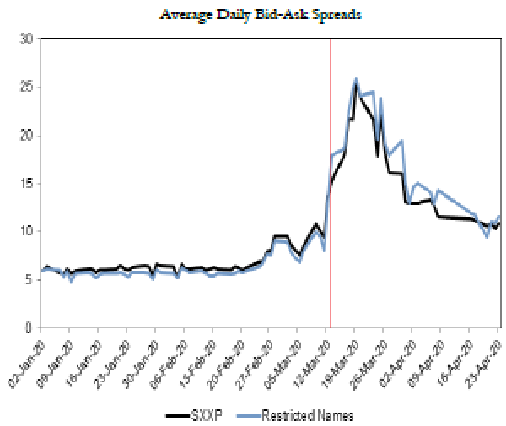
Nandini Sukumar
Chief Executive Officer
World Federation of Exchanges

Annex 1: Market Impact of March 2020 Short Selling Bans[4]

The short selling restrictions implemented last month in France, Italy, Spain, Belgium, Austria, and Greece have so far increased transaction costs, reduced liquidity, and increased volatility for affected stocks. The same negative effects occurred when short selling restrictions were established in 2008 and 2011. Taken together, the experiences of 2008, 2011, and 2020 show that short selling bans leave markets worse off in times of strain.

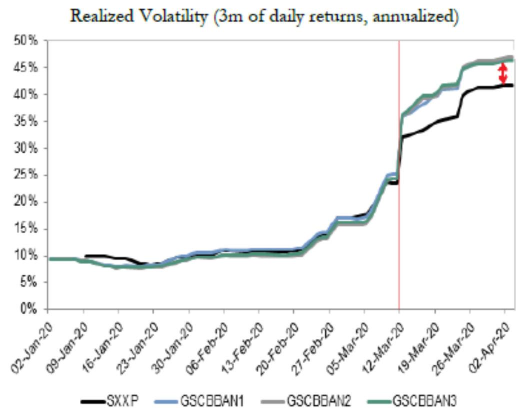
Transaction Costs Worsen

Before the implementation of short selling restrictions in March 2020, daily bid-ask spreads of shares subject to short sale restrictions were on average 7 percent tighter than the comparable spread for the SXXP index. Post-ban, the restricted names faced an average bid-ask spread 8 percent wider than the SXXP. French shares saw the biggest widening in spreads at 19 percent, followed by Austria with a 17 percent increase, and Belgium with a 15 percent increase. This widening in bid-ask spreads is a reflection of market makers seeking to insure against the risk of losing money on a transaction. The cost of wider bid-ask spreads is passed on to investors, including retail and pension funds.



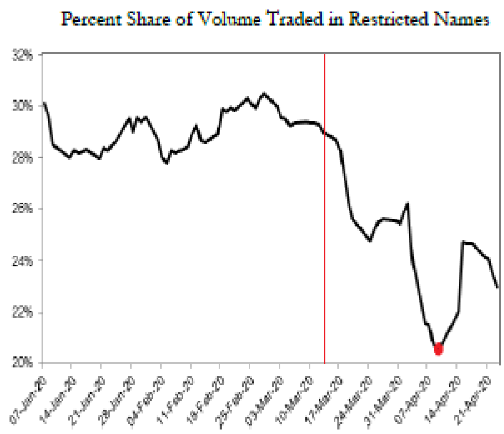
Volatility Increases

Preliminary data shows that before the implementation of short selling restrictions in 2020, the volatility of restricted names was generally in line with the SXXP. Post-ban, the volatility of shares subject to short selling bans increased to levels 15 percent higher than the SXXP and remained 11 percent higher as of 2 April. Higher volatility is associated with choppier trading conditions, reduced risk appetite, and makes market recovery more difficult.



Liquidity Suffers

Prior to the implementation of the 2020 short selling bans, volume traded in restricted shares made up 30 percent of the total volume traded in Europe. After the bans, this value dropped to 23 percent—a dramatic change. Italy was the biggest contributor to dampened volume, with the share of its restricted names down 22 percent, followed by Spain down 19 percent, and Belgium down 16 percent. When comparing across countries, trading volumes have been much weaker in countries which imposed a short selling ban. On average across sectors, trading volumes have been 13.6 percent lower for those with short selling bans. The sectors most impacted include tech, retail, and banks which show a negative divergence in volumes of -28.3 percent, -22.2 percent, and -22.1 percent respectively between



[4] Data collated by Managed Funds Association

countries with bans and countries without. Such a steep decline in volume means that capital markets are not functioning properly in the jurisdictions that have implemented short sale bans.

Annex 2: About the Associations

AIMA is the global representative of the alternative investment industry, with more than 1,900 corporate members in over 60 countries. AIMA's fund manager members collectively manage more than $2 trillion in assets. AIMA draws upon the expertise and diversity of its membership to provide leadership in industry initiatives such as advocacy, policy and regulatory engagement, educational programs and sound practice guides. AIMA works to raise media and public awareness of the value of the industry.

FIA EPTA represents Europe's leading Principal Trading Firms. Our 28 members are independent market makers and providers of liquidity and risk transfer for exchanges and end-investors across Europe. We work constructively with policymakers, regulators and other market stakeholders to ensure efficient, resilient, high-quality financial markets.

MFA represents the global alternative investment industry and its investors by advocating for sound industry practices and public policies that foster efficient, transparent, and fair capital markets. MFA, based in Washington, DC, is an advocacy, education, and communications organisation established to enable hedge fund and managed futures firms in the alternative investment industry to participate in public policy discourse, share best practices and learn from peers, and communicate the industry's contributions to the global economy. MFA members help pension plans, university endowments, charitable organisations, qualified individuals and other institutional investors to diversify their investments, manage risk, and generate attractive returns over time. MFA has cultivated a global membership and actively engages with regulators and policy makers in Asia, Europe, North and South America, and many other regions where MFA members are market participants.

WFE is the global industry group for exchanges and clearing houses (CCPs) around the world. We represent over 250 market-infrastructures ranging from those that operate the largest financial centres to those that run frontier markets. Founded in 1961, the Federation was set up to contribute to "the development, support and promotion of organised and regulated securities markets in order to meet the needs of the world's capital markets in the best interests of their users." This remains the WFE mandate today. Of our members, 37% are in the Asia-Pacific region, 43% in Europe, Middle East and Africa, and 20% in the Americas. They include over 50 distinct CCP clearing services, including stand-alone CCPs, which collectively ensure that risk takers post some $750bn (equivalent) of resources to back their positions, in the form of initial margin and default fund requirements. WFE exchanges are home to nearly 48,000 listed companies, and the market capitalisation of these entities is over $70.2 trillion; around $95 trillion in trading annually passes through the infrastructures WFE members safeguard. The WFE seeks to ensure regulatory outcomes that foster well-functioning capital markets and reinforce systemic stability in addition to developing markets. Together with our members we create and agree best practices and standards for the industry.
https://www.world-exchanges.org/