



Cass Business School
CITY UNIVERSITY LONDON

Independent academic research indicates lack of impact of short selling restrictions globally

London, 17 December 2008: Academic research from Professor Ian Marsh and Norman Niemer of Cass Business School, London, has been released by ISLA, AIMA and LIBA today, which finds no strong evidence that the emergency short selling restrictions imposed in various markets around the world have changed the behaviour of stock returns.

The International Securities Lending Association, the Alternative Investment Management Association and the London Investment Banking Association jointly commissioned this independent research to contribute to the wider regulatory reviews ongoing by various national and international regulatory bodies, including IOSCO (the International Organization of Securities Commissions) and CESR (the Committee of European Securities Regulators). The researchers examined daily returns on UK, US, Italian, French and German shares before and after the introduction of restrictions on short selling, including shares which are subject to the restrictions, and those which are not.

The main findings of the research are:

1. No strong evidence that restrictions on short selling changed the behaviour of stock returns. Stocks subject to the restrictions behaved very similarly both to how they behaved before their imposition and to how stocks not subject to the restrictions behaved.
2. Comparing behaviour across countries where the nature of the restrictions differed, the authors found no systematic patterns consistent with the expected effect of the new regulations, i.e. no evidence of a reduced probability of large price falls.
3. The authors also found no sign of any detrimental impact of the constraints in terms of reduced efficiency of pricing.
4. Regression analysis suggested that changes in stock returns were driven mainly by other factors affecting the financial sector as a whole rather than the restrictions on short selling. That is, some systematic changes in the behaviour of financial sector stocks could be discerned, but no strong evidence of a systematic impact of the restrictions could be identified.

NOTE: The report refers to one caveat which relates to the shortness of the post-restrictions period in most countries, which does not appear to the authors to change the robustness of their findings.

In a joint statement, the associations request that this research be considered carefully. They continue to offer their full support to all efforts in identifying appropriate and reasonable measures for the longer-term security and stability of the financial system. On the basis of this research, the associations see no case for continued bans on short selling as there is no strong evidence that these have been effective in reducing share price volatility or limiting share price falls.

The research is available at <http://www.cass.city.ac.uk/media/stories/resources/the-impact-of-short-sales-restrictions.pdf>.



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For media enquiries, please contact:

- For ISLA:* David Rule
Telephone +44 (0)2007 743 9314
Email: david.rule@isla.co.uk
- For AIMA:* Eoin Brophy or Evan DeBarra (Hume Brophy)
Telephone: +44 (0)20 7499 8736
Email: eoin.brophy@humbrophy.com or evan.debarra@humbrophy.com
- For LIBA:* John Serocold
Telephone +44(0)207 796 3609
Email: john.serocold@liba.org.uk
- For Cass:* Caleb Hulme-Moir
Telephone +44 (0)207 040 5147
Email: c.hulme-moir@city.ac.uk

Editors' Notes

1. About ISLA

ISLA represents the common interests of nearly one hundred lenders and borrowers of securities in Europe, the Middle East and Africa. While based in London, ISLA has members in more than twenty countries. More information can be found at www.isla.co.uk.

2. About AIMA

As the global hedge fund association, AIMA, the Alternative Investment Management Association, has 1,280 corporate members worldwide, based in 47 countries.

Members include leading hedge fund managers, fund of hedge funds managers, prime brokers, legal and accounting services and fund administrators. They all benefit from AIMA's active influence in policy development, its leadership in industry initiatives, including education and sound practice manuals and its excellent reputation with regulators, worldwide.

AIMA is a dynamic organisation that reflects its membership's interests and provides them with a vibrant global network. AIMA is committed to developing industry skills and education standards and is a co-founder of the Chartered Alternative Investment Analyst designation (CAIA) - the industry's first and only specialised educational standard for alternative investment specialists. For further information, please visit AIMA's website www.aima.org

3. About LIBA

The London Investment Banking Association is the principal trade association in the United Kingdom for firms which are active in the investment banking and securities industry. The Association represents its members on both domestic and international aspects of this business, and promotes their views to the authorities in the United Kingdom, the European Union, and elsewhere. For further information, please visit LIBA's website at www.liba.org.uk

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4. About Cass Business School

Cass Business School, City University, delivers innovative, relevant and forward-looking education, training, consultancy and research. Located on the doorstep of one of the world's leading financial centres, Cass is perfectly positioned to be the intellectual hub of the City of London. Our dialogue with business shapes the structure and content of all our programmes of study, our executive education programmes and our research. Our MBA, Specialist Masters and Undergraduate Programmes have a reputation for excellence in professional education. Our Executive MBA is ranked 13th in the world by the *Financial Times*.

The school undertakes research of national and international significance and supports almost 100 PhD students. Cass has the largest Finance Faculty and the largest Actuarial Science & Insurance Faculty in Europe. Our finance research is ranked 2nd in Europe and 4th in the World outside the US by *Financial Management Magazine* and our insurance and risk research is ranked 2nd in the world by the *Journal of Risk and Insurance*.

Within Cass, CassExec has been creating and delivering executive education to the world of business for more than 15 years. The disciplines we cover range from finance and insurance through to leadership, corporate governance and risk. At the heart of our success is the importance we place on working in partnership with our clients to construct bespoke programmes that truly meet their business needs.

Cass is a place where students, academics, industry experts, business leaders and policy makers can enrich each other's thinking. For further information visit: www.cass.city.ac.uk