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International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
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IOSCO Technical Committee Members' Initiatives Relating To Restrictions on Short Sales

The members of the Technical Committee of the International Organization of Securities Commissions (IOSCO) have taken steps, during recent weeks, to address concerns regarding short sales in their markets in light of the ongoing credit crisis. These efforts relating to short sales have focused particularly on the securities of financial institutions whose health may have an impact on financial stability. IOSCO Technical Committee members, representing major developed securities markets around the world, have coordinated with each other regarding their actions and monitoring market reactions.

The Technical Committee members note that short-selling plays an important role in the market for a variety of reasons, including providing more efficient price discovery, mitigating market bubbles, increasing market liquidity, facilitating hedging and other risk management activities and, importantly, limiting upward market manipulations.

However, short-selling may be problematic in the midst of a loss in market confidence. For example, in a context of a credit crisis where some entities face liquidity challenges, but are otherwise solvent, a decrease in their share price induced by short-selling may lead to further credit tightening for these entities, possibly resulting in bankruptcy. In addition, there are circumstances in which short-selling can be used as a tool to mislead the market. For example, short selling can be used in a downward manipulation whereby a manipulator sells the shares of a company short and then spreads lies about a company's negative prospects. This harms issuers and investors as well as the integrity of the market.

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To minimize the possibility of abusive short selling, in particular at a time when the global credit markets are experiencing significant tightening, Technical Committee members have taken steps or reconfirmed existing measures, including the following:

- Confirming or imposing new bans on naked short sales by requiring market participants to either borrow or make arrangements to borrow securities before conducting short sales transactions (in some jurisdictions this outcome was achieved with the cooperation of regulated or licensed exchanges), while ensuring bans on naked short sales do not negatively impact critical market functions such as securities lending;
- Requiring reporting by certain investors of short sales or net short sales positions to regulators, self-regulatory bodies, or the public;
- Conducting heightened surveillance of trading to detect abusive short selling; and
- Agreeing to share surveillance information among members to address abusive short selling.

In addition to the above measures, some jurisdictions temporarily have taken supplementary steps to address particular concerns in their markets, including restrictions on covered short selling.

The Technical Committee members continue to monitor the impact of their rules regarding short-selling. Regulators welcome input from market participants regarding the effects of their short sales rules.

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NOTES FOR EDITORS

1. IOSCO is recognized as the leading international policy forum for securities regulators. The organization's wide membership regulates more than 90% of the world's securities markets and IOSCO is the world's most important international cooperative forum for securities regulatory agencies. IOSCO members regulate more than one hundred jurisdictions and the Organization's membership is steadily growing.
2. The [Technical Committee](#), a specialised working group established by IOSCO's Executive Committee, is made up of fifteen agencies that regulate some of the world's larger, more developed and internationalized markets. Its objective is to review major regulatory issues related to international securities and futures transactions and to coordinate practical responses to these concerns. Mr. Christopher Cox, Chairman of the US Securities and Exchange Commission is the Chairman of the Technical Committee. The members of the Technical Committee are Australia, France, Germany, Hong Kong, Italy, Japan, Mexico, the Netherlands, Ontario, Quebec, Spain, Switzerland, United Kingdom and the United States.
3. IOSCO aims through its permanent structures:
 - to cooperate together to promote high standards of regulation in order to maintain just, efficient and sound markets;
 - to exchange information on their respective experiences in order to promote the development of domestic markets;
 - to unite their efforts to establish standards and an effective surveillance of international securities transactions;
 - to provide mutual assistance to promote the integrity of the markets by a rigorous application of the standards and by effective enforcement against offenses.

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