

ANALYSIS OF IMPACT OF BANNING SHORT-SELLING ON MARKET VOLATILITY

FIA EPTA conducted research in April 2020 on the impact of bans on short-selling in European equities indexes in March 2020 during the COVID-19 coronavirus outbreak.

We examined four indexes where a ban was applied to see whether the ban achieved its planned goal of reducing market volatility. We compared these indexes' volatility levels to indexes where no ban was introduced.

The conclusions were clear: the short-selling ban had no discernible impact on levels of volatility.

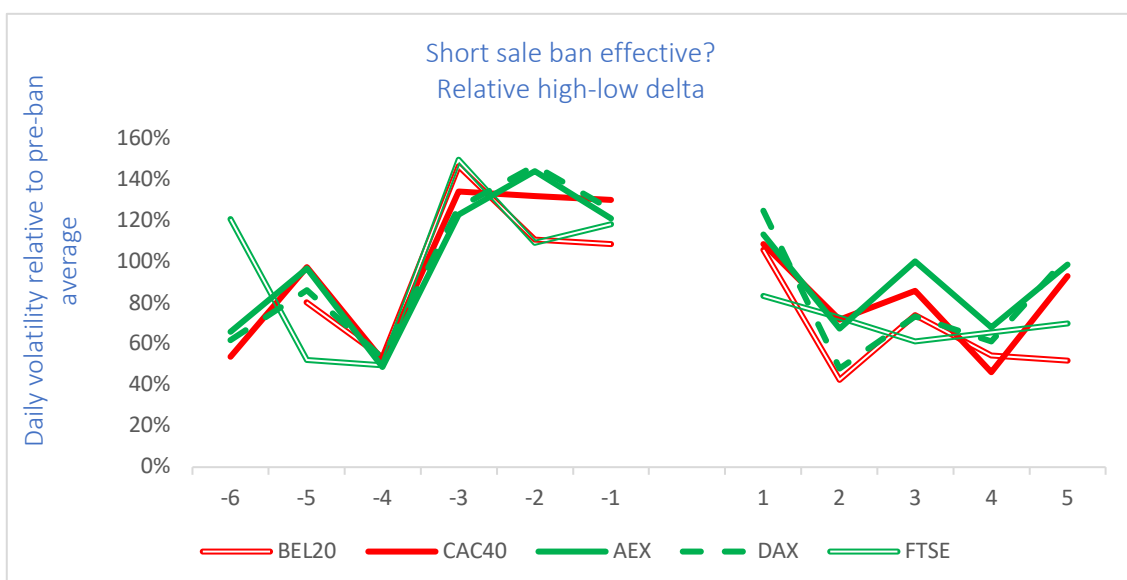
FIA EPTA's Chairman, Mark Spanbroek said: "Short-selling is a vital component of healthy and effective markets as it enables investors and market-makers to manage their risk by hedging their positions. It does not lead to greater volatility, as the data demonstrates, and instead contributes to market effectiveness and stability.

"Banning short-selling does not achieve its intended outcome therefore and can have unintended harmful consequences for markets and investors. We urge regulators, politicians and other stakeholders to review the findings and reconsider any rush to impose short-selling bans in future times of crisis on European financial markets."

Methodology

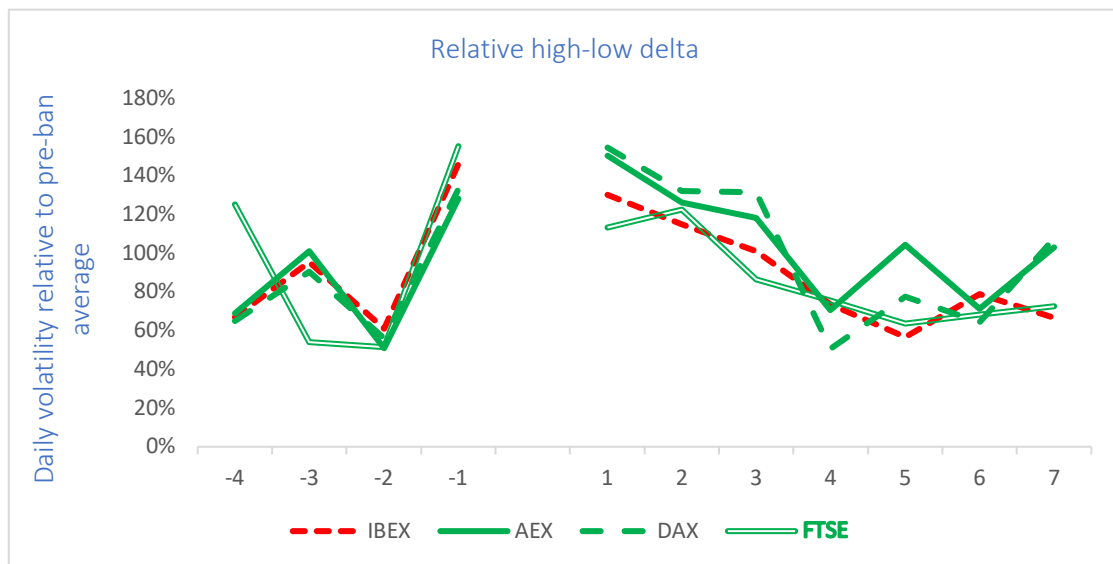
We compared four indexes where a ban was imposed: BEL-20 (Belgium), CAC40 (France), the FTSE MIB (Italy) and the IBEX 35 (Spain) against the DAX 30 (Germany), AEX (The Netherlands) and the FTSE 100 (United Kingdom). For each one, we recorded the high and low of the index the days before each ban and after each ban and made them relative to each other.

This is illustrated in the graphs below and reveals the same patterns of volatility on the markets before and after the ban. For ease of interpretation, the green lines belong to indexes which did not ban short-selling and the red ones are ones with bans





The vertical axis shows the level of volatility each day (the difference between the high and low points of the indices) and the horizontal axis relates to the period before (the negative number) and after the bans were imposed. As the graphs show, the markets with a ban (red lines) track very closely to those without a ban (green lines) – indicating the ban had no impact on daily volatility levels.



About FIA EPTA

FIA European Principal Traders Association (FIA EPTA) represents 28 independent European Principal Trading Firms (PTFs) which deal on own account, using their own money for their own risk, to provide liquidity and immediate risk-transfer in exchange-traded and centrally-cleared markets for a wide range of financial instruments, including shares, options, futures, bonds and ETFs. Our members are important sources of liquidity for end-investors and markets across the European Union.