

07 August 2023

Short Selling Call for Evidence  
Securities and Markets  
1 Red HM Treasury  
1 Horse Guards Road  
London SW1A 2HQ

Submitted by Email: [MarketConduct@hmtreasury.gov.uk](mailto:MarketConduct@hmtreasury.gov.uk)

**Re: July 2023, Short Selling Regulation – Consultation Sovereign Debt and Credit Default Swaps<sup>1</sup>**

Dear Sir or Madam,

At the Standards Board for Alternative Investments (SBAI), we welcome the opportunity to respond to the HM Treasury Short Selling Regulation – Consultation on Sovereign Debt and Credit Default Swaps (CDS). This follows on from our Response to the UK HM Treasury's Call for Evidence on Short Selling Regulation.<sup>2</sup>

The SBAI is a global alliance of alternative investment managers and investors dedicated to improving the alternative investment industry through setting standards<sup>3</sup>, providing industry guidance<sup>4</sup>, as well as facilitating collaboration and the exchange of ideas. Our community includes asset managers with over \$2tn in AUM and institutional investors responsible for over \$6tn in assets. The SBAI is an Affiliate Member of the International Organization of Securities Commissions (IOSCO), and we support global efforts to facilitate fair and efficient markets, reduce systemic risk, and enable investors to make well-informed investment decisions.

We, at the SBAI, have highlighted in previous regulatory consultations the important role that short selling plays in financial markets and the many benefits it brings to economies globally, including investor protection against market volatility, increased liquidity for market participants, dampening of price bubbles, more efficient price discovery, and ultimately more efficient capital allocations.<sup>5</sup> In particular, the presence of sophisticated investors such as hedge funds, who invest heavily in information gathering to make well-informed investment decisions (including short selling), is particularly beneficial for retail and index investors.

The SBAI agrees with the HM Treasury proposal to remove the regulatory reporting requirement of short positions of duration-adjusted outstanding UK sovereign debt (which at a 0.5% disclosure threshold is

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<sup>1</sup> [Short Selling Regulation Review - sovereign debt and CDS consultation document 1 .pdf](#)  
([publishing.service.gov.uk](http://publishing.service.gov.uk))

<sup>2</sup> <https://www.sbai.org/resource/sbai-response-to-uk-hm-treasury-call-for-evidence-on-short-selling-regulation.html>

<sup>3</sup> Alternative Investment Standards: <https://www.sbai.org/standards.html>

<sup>4</sup> SBAI Toolbox Guidance: <https://www.sbai.org/toolbox.html>

<sup>5</sup> Overview of SBAI regulatory consultation responses on short selling: <https://www.sbai.org/regulatory-engagement/short-selling-and-securities-lending.html> (ESMA, European Commission, CESR, IOSCO, UK FSA, SEC)

equivalent to a short position of £118.6bn). We agree that there is a very low likelihood of the data being useful or relevant to authorities given the size and liquidity of the market, as well as the low-level of actual reporting incidents by market participants. The requirements impose unnecessary costs to and burden investors in calculating and reporting of net short positions.

The SBAI also agrees with the proposals to remove restrictions on uncovered short positions in UK sovereign debt and to remove restrictions on uncovered short positions in UK sovereign CDS. While the SBAI has argued in favour of restrictions on uncovered short selling in its response to the HM Treasury Review on Short Selling in equity markets (where settlement failures could occur when more shares are sold short than available in the market), the size and liquidity of the UK sovereign debt market<sup>6</sup> make this requirement unnecessary. We also are not aware of any market failures in the more fragmented corporate bond markets, where there is no covering requirement under the SSR. We believe these proposals will further enhance the efficiency and liquidity of the UK's sovereign debt market and restore important hedging and risk management tools for investors.

As we have highlighted in our response to the HM Treasury call for evidence on short selling, it is important that the tools and well-meant regulatory measures deployed by authorities in times of markets distress should not become a source or amplifier of disorderly markets by preventing efficient price formation. As it is difficult to envisage situations where such powers should be used, we agree that these powers should be reserved for exceptional circumstances and anchored in a rigorous process that prevents unjustified market interventions, which can undermine investor confidence in markets and amplify disruption.

Should you wish to discuss any elements of our response, we would be delighted to make ourselves available.

Yours sincerely,

Thomas Deinet  
Executive Director  
Standards Board for Alternative Investments (SBAI)

### Specific Questions:

1. Do you agree with the analysis of the current SSR requirements set out in paragraphs 2.5-2.10 (including our view on the impact on liquidity and settlement)?  
SBAI response: Yes.
2. Do you agree with the proposal set out in paragraphs 2.13-2.15? Please provide details to support your view, including any views on benefits and risks associated with the proposal.  
SBAI response: Yes.
3. Do you have any further views on the matters set out in this consultation?  
SBAI response: No.

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<sup>6</sup> Sovereign debt market size: £2.4tn; larger than the market capitalisation of all companies in the FTSE 100 and FTSE250 combined.