



RESTRICTIONS ON SHORT POSITIONS MUST NOT PREVENT LENDING OF FINANCIAL SHARES TO SUPPORT EQUITY MARKET LIQUIDITY

Against the background of the current market turmoil, the International Securities Lending Association (ISLA), Risk Management Association (RMA), Securities Industry and Financial Markets Association (SIFMA), Pan-Asian Securities Lending Association (PASLA) and Australian Securities Lending Association (ASLA) recognise why regulators around the world have put in place temporary restrictions on short selling of financial shares and support their objective to protect the integrity of markets and guard against financial instability.

It is vital, however, that these temporary measures are designed as far as possible to avoid unintended damage to the liquidity of cash equity and related derivatives markets. In particular, dealers must be allowed to take short positions in the course of providing liquidity for their customers. They need therefore to continue borrowing financial shares from lenders, such as pension and investment funds and insurance companies, for this purpose. Continued lending is also important in order to prevent chains of failed settlements. For these reasons, we ask that regulators do not introduce measures that might prevent or discourage lending of financial shares. For example, selling shares that are currently on loan should not be treated as entering into a short position where the seller can recall the lent shares within the normal settlement cycle. Lenders should also be able to lend in good faith without requirements to make enquiries about or obtain documentary proof of the intentions of borrowers.

More generally, we encourage lenders to continue to make financial shares available for lending in order to support market making and efficient settlement. Any wholesale withdrawal of financial shares would have highly unwelcome consequences for liquidity in the cash equity and derivatives markets that would be against the interests of investing institutions and contrary to the stated intentions of regulators in introducing these measures. We are encouraged by the response of securities lenders and again urge them to continue to lend and to maintain their on-loan positions as appropriate in light of their respective goals.

We welcome statements by regulators that short selling is a legitimate investment technique in normal market conditions and look forward to the removal of these temporary restrictions as soon as the current extraordinary market conditions pass.

NOTES TO EDITORS

1. *Securities lending*. Securities lending is the temporary transfer of securities from a lender to a borrower against collateral securities or cash. The securities lending market provides liquidity to the equity, bond and money markets, reducing the cost of trading and benefiting all. The ability to lend and borrow securities underpins the services that securities dealers offer customers and the trading strategies of dealers, hedge funds and asset managers. By one estimate, the value of securities on loan internationally is close to US\$ 6 trillion.
2. *ISLA* is a trade association established in 1989 to represent the common interests of participants in the international securities lending industry. ISLA has more than 100 members comprising insurance companies, pension funds, asset managers, banks and securities dealers representing more than 4,000 clients.
3. *SIFMA* represents the industry which powers the global economy. SIFMA is the single powerful voice for strengthening markets and supporting investors -- the world over. Our dynamic organization is passionately dedicated to representing more than 650 member firms of all sizes, in all financial markets in the U.S. and around the world. We are committed to enhancing the public's trust and confidence in the markets, delivering an efficient, enhanced member network of access and forward-looking services, as well as premiere educational resources for the professionals in our industry and the investors whom they serve.
4. *RMA*. Founded in 1914, The Risk Management Association is a not-for-profit, member-driven professional association whose sole purpose is to advance the use of sound risk principles in the financial services industry. Headquartered in Philadelphia, Pennsylvania, RMA has 3,000 institutional members that include banks of all sizes as well as nonbank financial institutions. They are represented in the association by 21,000 risk management professionals who are chapter members in financial centers throughout North America, Europe, and Asia/Pacific. RMA's Committee on Securities Lending was formed in 1983. The objective of the committee is to promote sound securities lending practices within its members and the industry.
5. *PASLA* was incorporated in Hong Kong in 1995 and is an association of firms that are active in the business of borrowing and lending securities in Asian markets. It provides an important benefit to Asian securities regulators, stock exchanges and monetary authorities by presenting an industry consensus on issues that affect the development of the securities lending business.
6. *ASLA*, the Australian Securities Lending Association, was formed in August 1991 to allow industry participants a unified representation in regulatory and other issues relevant to its members. ASLA also promotes standardisation throughout the industry in terms of documentation and market practice.

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