



PROHIBITION ON SHORT POSITIONS IN FINANCIAL STOCKS

Against the background of the current market turmoil, the International Securities Lending Association (ISLA) understands why the Financial Services Authority (FSA) and other regulators around the world have prohibited temporarily the creation of new net short positions in financial shares and supports their objective to protect the integrity of markets and guard against further financial instability. Nonetheless, ISLA believes that the role of short selling in the markets for many financial shares recently has been overstated. The underlying drivers of share price movements are not the actions of particular groups of buyers and sellers but rather underlying changes in the expected future earnings of companies.

ISLA welcomes the reiteration by the FSA that short selling is a legitimate investment technique in normal market conditions and looks forward to the removal of these temporary restrictions when the current extraordinary market conditions pass.

ISLA welcomes the exemption from these restrictions for market makers, which should allow dealers to continue to perform their vital role in providing liquidity for customers in the cash equity and derivatives markets. It also notes that the FSA has not imposed restrictions on securities lending and urges lenders of financial shares to continue to lend in order to facilitate market making and efficient settlement. ISLA Chief Executive David Rule commented today, 'Any wholesale withdrawal of stock available for loan could have highly unwelcome consequences for liquidity in the cash equity and derivatives markets that would be contrary to the stated intentions of regulators in introducing these regulations'.

ENDS

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. While based in London, ISLA represents members from more than twenty countries in Europe, the Middle East, Africa and North America.

For more information please contact:

David Rule ISLA 0207 743 9314 david.rule@isla.co.uk

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