

*The Market newsletter addresses topical matters concerning interpretations, regulation, as well as supervisory findings relating to listed companies' disclosure obligation, financial reporting enforcement, securities trading and insider issues. Articles other than those pertaining to IFRS enforcement will appear mainly in English. The newsletter is published by FIN-FSA's Supervision of Markets and Conduct of Business Department.*

## In this newsletter, we discuss the following topics:

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## Study by ESMA on impact of short positions on investor behaviour

The disclosure of net short positions in European equities has an impact on investor behaviour. This is demonstrated by an analysis conducted by the European Securities Market Authority (ESMA)<sup>1</sup>.

Reports submitted to securities markets supervisors under the Short Selling Regulation (236/2012) show that 210,341 net short positions were reported between January 2013 and December 2016. The disclosed positions concerned over 2,000 European equities, most of which were issued either in the UK or Germany. The ESMA analysis shows that approximately 1,000 different investors accounted for the positions reported. The clear majority of the investors were from the United States (40%) and the UK (30%), while only some 15% were from other EU countries. The positions also seem to be concentrated in 150 investors, accounting for over 80% of all disclosed positions.

11,062 of the reported positions were in Finnish shares. 47% of them were from the USA and 40% from the UK.

Indications were found in the ESMA analysis of short-sellers seeking to avoid positions requiring disclosure. The reason for this may be that a short-seller does not want to reveal its position or view to market participants. The analysis also shows that the disclosure of significant short positions may, as a negative side-effect, strengthen herding behaviour by investors. 33% of the notifications submitted to the FIN-FSA exceeded the disclosure threshold.

<sup>1</sup> The public disclosure of net short positions in "ESMA Report on Trends, Risks and Vulnerabilities (1/2018)", pp. 60–67: [https://www.esma.europa.eu/sites/default/files/library/esma50-165-538\\_report\\_on\\_trends\\_risks\\_and\\_vulnerabilities\\_no.1\\_2018.pdf#page=60](https://www.esma.europa.eu/sites/default/files/library/esma50-165-538_report_on_trends_risks_and_vulnerabilities_no.1_2018.pdf#page=60).

## Background

The FIN-FSA publishes notified net short positions on its website when the position reaches, exceeds or falls below the threshold of 0.5% of a company's issued share capital. The FIN-FSA must be notified when a short position exceeds the 0.2% threshold and of each 0.1% change thereafter, upwards or downwards.

In general, short selling can be considered to improve market efficiency, liquidity and price formation. Investors use short-selling for hedging purposes, for example, or purely as directional trading based on their market view.

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## Basic information on Benchmark Regulation on the FIN-FSA website

Our website now contains basic information on the EU Benchmark Regulation (2016/1011). The Regulation prescribes on the administration, data sources and use of indices, for example reference rates, foreign exchange rates as well as equity and commodity indices. In accordance with the transitional provisions of the Regulation, benchmark administrators may continue to provide benchmarks without authorisation or registration until 1 January 2020. Supervised entities may also continue to use benchmarks provided by such providers during the transitional period, but thereafter it will be forbidden to use benchmarks whose administrator does not have authorisation or registration required by the Regulation. The Regulation also imposes certain obligations as of 1 January 2018 on supervised entities and other users of benchmarks.

For more information (in Finnish), see our website at <http://www.finanssivalvonta.fi/fi/Saantely/Saantelyhankkeet/Vertailuarvoasetus/Pages/Default.aspx>.

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