

Asia Short-Selling Bans Rattle Traders

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BY ELLEN SHENG

HONG KONG—Asian hedge funds, already struggling with underperforming Asian stock markets this year, are bracing for another blow after Australia and Taiwan moved to ban short selling in their markets.

Following actions taken in the U.K. and the U.S. last week, regulators in Australia and Taiwan instituted bans on short selling. The action helped buoy stock markets around the region.

But hedge-fund managers, scrambling to assess how the moves will affect funds, are anticipating volatility while still awaiting clarity from authorities on the implementation of the rules.

David Lee, managing director at Ferrell Asset Management Pte. Ltd. in Singapore, said the impact on Asian portfolios is likely to be less severe than in Eu-

rope or the U.S. Asian markets have more restrictions on short selling than the U.S. or Europe in the first place; many markets don't allow short sales at all.

"One way or the other, the funds will have to unwind the shorts over the next few days unless one is sure that similar rules will not be imposed in Japan and Hong Kong—the two larger markets in terms of capitalization. As of now, Asia funds, investing in many different markets, could still run a market-neutral portfolio or arbitrage fund," Mr. Lee said.

On Sunday, Australia banned placing short sales on any stock, broadening a ban on so-called naked short selling imposed just two days earlier. It said the ban would remain in place for at least one month. Naked short selling occurs when positions aren't covered with borrowed stock.

Also, Taiwan's Financial Su-

pervisory Commission said it is banning short selling of 150 of the market's biggest stocks when they trade below the previous session's closing levels. The restriction covers the two weeks that began Monday.

The announcements left traders and legal teams at Asian hedge funds scrambling for clarification on how the bans would be implemented. Hedge-fund players complained that the hasty actions left more questions than answers.

"It's a joke. It's been very badly implemented and badly thought out," said James Chirnside of Asia Pacific Asset Management, a fund of hedge funds based in Sydney.

—Susan Murdoch in Melbourne, David Rogers in Sydney and Tomoyuki Tachikawa in Tokyo contributed to this article.