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Additional Information

Level 1 Regulation

Short Selling Regulation (SSR) Regulation (EU) No 236/2012

Topic

Determination of net short position

Subject Matter

Calculation of the duration-adjusted net short position

Question

How should an investor calculate the duration-adjusted net short positions on sovereign debt?

ESMA Answer

10-10-2012

Original language

[ESMA70-145-408 SSR Q&A, Q&A 7.2]

For a particular sovereign issuer, the method to calculate the net short position is to multiply the duration of each individual issued debt instrument in which the investor has, at the end of the day, a long or short position by the nominal value of each of those positions, with a positive sign for long positions and a negative one for short positions, and add up all the products.

For each short and long position held on sovereign debt instruments (i) and being D= Modified Duration of each instrument held and V=Nominal volume (in €) of each position debt instrument held, the “nominal value duration adjusted” (NVDA) would be:

$$NVDA = \sum_{i=1}^n (D_i \times \pm V_i)$$

For example, an investor with a short position of 10 million € in a bond with Modified Duration 5 and a 1 million € short position in a bond with Modified Duration 3,5 will have a net short position equivalent to -53,5 million € (-10 x 5) +(- 1 x 3,5).

Since only net short positions are to be communicated, the negative sign shall not be included in the official notification.