European Securities and Markets Authority

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Additional Information

Level 1 Regulation
Short Selling Regulation (SSR) Regulation (EU) No 236/2012

Topic
Uncovered short sales

Subject Matter
Correlation test between two sovereign issuers

Question
When firms are comparing the correlation between two sovereign issuers (under Article 3(5) of the Regulation and Article 8(5) of the DR) should they do this on an issue per issue basis, or by comparing the yield curve of the two issuers?

ESMA Answer

10-10-2012

Original language

[ESMA70-145-408 SSR Q&A, Q&A 10.10]

Since net short positions are to be calculated on a sovereign issuer basis, ESMA considers that the calculation of correlation should be undertaken on the basis of the issued sovereign debt. So it would be a matter of comparing the yield curves of the two sovereign issuers to determine whether the test of high correlation as defined in the DR was met.

Reminder on the locate requirements

The requirements for the "locate" vary according to the financial instrument concerned and to the fact that the short sale will be covered by same day purchases (i.e. intraday short selling), as follow:

1. for sovereign debt, at least one of the conditions set out in Article 7 of ITS has to be satisfied;
2. for MiFID liquid shares and shares included in the main national index, all the conditions set out in Article 6(4) of ITS have to be satisfied; alternately, the person can meet the conditions set out in Article 6(3) – in case of intraday short selling - or Article 6(2) of ITS;
3. for other shares and in case of intraday short selling, all the conditions set out in Article 6(3) of ITS have to be satisfied; alternately, the person can meet the conditions set out in Article 6(2) of ITS;
4. for other shares and cases, all the conditions set out in Article 6(2) of ITS have to be satisfied