Introduction

- Good afternoon, my name is David Carruthers. I am the Head of Quantitative Services at Data Explorers. We welcome the initiative the SEC is showing in hosting these roundtables. I would like to thank the Chairman for the opportunity to address you today and I look forward to answering any questions that you and colleagues may have.

- Our corporate objective is “to be the industry’s most complete source of data, analysis and insight into short selling and securities financing”

- Any discussion of short selling disclosure has to clarify the reason why disclosure is deemed to be useful. For long positions, disclosure is mainly aimed at avoiding the stealthy buildup of a controlling stake – in other words it is to protect the interests of shareholders, especially minorities. For short positions, disclosure is aimed at preventing market abuse; in particular where market participants may take advantage of a vulnerable company or a thin market for a stock.

- In our experience, short selling has a number of facets. Short selling is primarily used for hedging, by market makers, option dealers, and arbitrageurs. Such short selling is, in general, covered by a stock loan, especially since the 2008 crackdown on naked shorting.

- Much of the concern about short selling is actually centred on the illegal and increasingly well policed activity of naked shorting, although directional shorting is also controversial. Anecdotal evidence suggests that covered directional shorting accounts for around 20% of the total.

- The key question is: does short selling create false markets? Various academic papers suggest that covered short selling is generally beneficial, giving greater liquidity and hence smaller bid offer spreads. There are documented cases where an investor has profited from a negative view of a company where they suspect fraud.

- Since all sales need a buyer, the impact should only be market negative if there is an imbalance of buyers and sellers. Naked shorting allows unlimited creation of synthetic shares, but covered shorting is limited by the actual number of shares in issue. In our experience, most short positions build up slowly, in a way that is unlikely to move the market. On the other hand, the accumulated short position may have to be unwound in a hurry and this may move the price sharply upwards. The Volkswagen case of 2008 was an extreme example of such a short squeeze. It could be argued that such volatility is an indirect result of short selling.

- Our experience is that changes in institutional ownership can be just as powerful an indicator of future share price performance, as changes in short positions. Neither side of the market has a monopoly on informed trading.

- Anonymous disclosure of short positions is unlikely to directly harm the market, especially when short positions have so many facets – hedging as well as directional. The disclosure may alter market behaviour, leading to a ‘reflexive’ feedback loop and generating volatility. Real time disclosure would accentuate this effect. Delayed information would reduce this secondary impact.

- Public reporting is always more trusted; private reporting may result in a more user friendly product…

- Those are our introductory comments – we expect lots of questions!