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Proposals to halt short selling in France will prove ineffective, says AFME

New proposals from the Finance Commission of the French National Assembly to reduce the securities settlement cycle in France from three days to one (“T+3” to “T+1”) in a bid to prevent short selling have been criticised by the Association for Financial Markets in Europe (AFME).

AFME's concerns about the proposal reflect the views of its pan-European membership, including leading representatives of the French securities market. It believes that such legislative change would not be helpful to settlement efficiency in general and prove ineffective at preventing short selling.

- T+1 does not provide sufficient time to enable an orderly settlement process, in particular in cross-border transactions with numerous parties involved. The proposed legislation would therefore increase operational risk rather than reduce it. Clearing and settlement has proven to be resilient throughout the recent financial crisis. Reducing the settlement cycle from T+3 to T+1 would serve to destabilise post-trading systems and processes in France and beyond.

- The proposed introduction of T+1 in France undermines harmonisation efforts initiated by the European Commission and the European Central Bank regarding post-trading rules and processes across Europe.

- A reduced settlement cycle of T+1 would not succeed in preventing short selling and is impractical.

Jane Levi, Managing Director, AFME comments, “This proposal would increase operational risk and fragmentation in Europe while bringing no practical benefit and could result in a number of unintended negative effects.”

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AFME (Association for Financial Markets in Europe) was formed on 1 November 2009 following the merger of LIBA (the London Investment Banking Association) and the European operations of SIFMA (the Securities Industry and Financial Markets Association). AFME represents a broad array of European and global participants in the wholesale financial markets and its 197 members comprise all pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. AFME participates in a global alliance with SIFMA in the US, and the ASIFMA (Asian Securities Industry and Financial Markets Association) through the GFMA (Global Financial Markets Association). AFME provides members with an effective and influential voice through which to communicate the industry standpoint on issues affecting the international, European, and UK capital markets. For more information please visit the AFME website, www.AFME.eu.

AFME/ESSF (AFME/European Securities Services Forum) is the European post trading centre of competence of the Association of Financial Markets in Europe (AFME). Our members are the major users of international securities markets. Representing its members as towards market infrastructure organisations and public authorities, the ESSF acts as an agent for change providing and supporting solutions in the securities clearing, settlement and custody space to reduce risks and costs to market participants.