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Comisión Nacional del Mercado de Valores (CNMV) / Spain

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ANALYSIS OF THE EFFECT OF RESTRICTIONS ON SHORT SELLING SPANISH SHARES BETWEEN MARCH AND MAY 2020

23 July 2020

- The study, carried out by experts from the CNMV's Research and Statistics Department, is based on a comparative analysis of the trends in the shares that form part of the Spanish Ibex 35 and the German Dax 30, considering various variables (in Germany, no restrictions on short-selling were applied during the Covid-19 crisis)
- The study found no significant evidence of effects in terms of prices, trading volumes, volatility, market depth or credit spreads, although it did find a moderate increase in one particular liquidity measure (bid-ask spreads)

The Spanish National Securities Market Commission (CNMV) has published a report, "[*Analysis of the effect of restrictions on short selling Spanish shares between March and May 2020*](#)", which analyses the impact, in terms of market efficiency, of the restrictions on short selling introduced in Spanish markets during the session of 13 March 2020 and subsequently from 17 March to 18 May.

The establishment of such restrictions is intended to preserve financial stability and investor confidence in exceptional times when there is turbulence that can lead to disorderly price movements. But this action can affect the efficiency of the markets, that is to say, a ban of this type can, as has been demonstrated by empirical studies carried out following the adoption of such measures during the previous financial crisis, reduce the speed at which prices are adapted to the information available and impair some liquidity measures such as the bid-ask spread or the trading volume itself.

The study, performed by Ramiro Losada and Albert Martínez Pastor from the CNMV's Research and Statistics Department, analyses the impact on some liquidity measures (such as the bid-ask spread, trading volume and the Amihud ratio) and also on intraday trends and volatility of prices. In addition, it also assesses whether the ban may have influenced the credit risk of financial and non-financial issuers whose securities are listed on equity markets.

To conduct the analysis, variables related to the returns, volatility and liquidity measures of the shares listed on the stock exchanges that make up the Ibex 35 stock exchange index in Spain and those that are

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part of the German Dax 30 are studied. The German Dax 30 has been chosen to carry out the analysis, firstly, because its financial market regulator did not take the decision to restrict short selling and, secondly, because the evolution of prices, volatility and liquidity measures in the period prior to the implementation of the measure in Spain was similar in the financial markets of both countries.

From both descriptive and econometric analyses, it can be deduced that the securities affected by the ban experienced a greater increase in bid-ask spreads, which then persisted to some extent. However, the analysis performed has not found any significant evidence of effects attributable to the ban on other relevant variables such as trading volumes, prices, volatility, market depth or credit spreads of the issuers.

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