

Corporate & Financial Weekly Digest

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European Commission Publishes Proposed Short Selling and Credit Default Swap Regulation

On September 15, the European Commission published its proposal for the regulation of short selling and credit default swaps (CDS). The proposal largely follows the Committee of European Securities Regulators' recommendations, as described in the [March 5](#) and [June 18](#) editions of *Corporate and Financial Weekly Digest*.

The three main objectives of the regulation are: (1) the creation of a harmonized pan-European short selling regulatory regime; (2) increased transparency; and (3) the reduction of risk.

The Commission has proposed a two-tier disclosure regime: investors will be required to disclose net short positions to their national regulators once a threshold of 0.2% of the issued share capital of the relevant company is crossed and to make public disclosure to the market at a higher threshold of 0.5%. Naked short selling is severely restricted. There will also be a regime whereby market participants must inform regulators about credit default swap positions related to EU sovereign debt issuers.

The regulation contemplates the possibility of competent national authorities being given the power to temporarily ban or restrict short selling and CDS in emergency circumstances.

The proposal is now with the European Parliament and the European Council for their approval. Once adopted, the regulation would apply from July 1, 2012.

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