

EU Short Selling – Sovereign Debt

The Council of the European Union has, on 1 December 2014, published a provisional version of a press release announcing its decision not to object to the adoption by the Commission of a regulation on the notification of significant net short positions in [sovereign debt](#). Following the press release, the regulation, a delegated regulation supplementing the EU Short Selling Regulation,¹ can be published in the Official Journal of the European Union and enter into force, unless the European Parliament objects.

The new [delegated regulation](#) confirms the application of the rules on notifying national regulators of significant net short positions in sovereign debt when different entities in a group have long or short positions in the debt of the same sovereign issuer. Currently, the rules, which are set out in the original delegated regulation supplementing the EU Short Selling Regulation,² explicitly refer to the thresholds for the notification to national regulators of significant net short positions in shares, but do not mention the thresholds for the notification of significant net short positions in sovereign debt. The current rules will be amended by the new delegated regulation to include an express reference to the thresholds for the notification to national regulators of significant net short positions in sovereign debt.

Under the amended delegated regulation, the following rules on notifying national regulators of individual/group significant net short positions in sovereign debt will apply:

- A legal entity which reaches or crosses a notification threshold for significant net short positions in sovereign debt must report its net short position in the particular sovereign issuer, unless it is a member of a group whose aggregated net short position in the same sovereign issuer simultaneously reaches or crosses a notification threshold for significant net short positions in sovereign debt. The aggregated net position at the group level is calculated by aggregating and netting the net positions, long and short, of all the legal entities within a group, with the exception of net positions resulting from management activities by one or more of the group entities.
- The aggregated net short position in a particular sovereign issuer (if it reaches or crosses a notification threshold for significant net short positions in sovereign debt) should be reported at the group level when either no legal entity within the group reaches or crosses a notification threshold for significant net short positions in the same sovereign issuer or a legal entity within the group and the group both reach or cross a notification threshold for significant net short positions in that sovereign issuer at the same time.

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¹ Regulation (EU) No 236/2012 of the European Parliament and of the Council of 14 March 2012 on short selling and certain aspects of credit default swaps.

² Commission Delegated Regulation (EU) No 918/2012 of 5 July 2012 supplementing Regulation (EU) No 236/2012 of the European Parliament and of the Council on short selling and certain aspects of credit default swaps with regard to definitions, the calculation of net short positions, covered sovereign credit default swaps, notification thresholds, liquidity thresholds for suspending restrictions, significant falls in the value of financial instruments and adverse events, Article 13.