

Dilwyn Griffiths
Head of Market Monitoring
The Financial Services Authority
25 The North Colonnade,
Canary Wharf,
London E14 5HS

7 August 2008

Dear Dilwyn,

Short-selling during rights issues

The CFA Society of the UK (CFA UK) would like to take the opportunity to provide some comments on the disclosure regime introduced in June, for short positions in companies undertaking right issues.

We would like to state at the outset that CFA UK strongly supports the principle of pre-emption which is protected by both UK and European law and is a fundamental plank of shareholder rights in the UK's free enterprise system. Nonetheless we feel that more could be done to improve the current rights issue mechanics. We have written to the Chairman of the Pre-emption Group in that regard and we support the FSA's investigation of this matter.

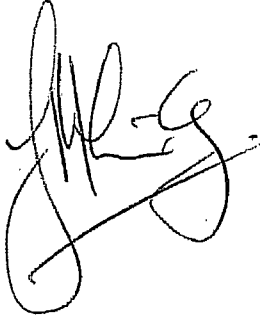
The society is also of the view that short selling is a necessary part of the functioning of a liquid market and nothing should be done which would inhibit the legitimate use of that practice. Consistent with the society's belief in openness and transparency, it also supports the FSA's introduction of new provisions in the Code of Market Conduct. We do, however, have some reservations. The introduction of the new rules (with good reason) without proper consultation has resulted in the anomalies listed below, which we urge the FSA to address:

- (i) Long positions have to be reported on a gross basis but short positions on a net basis. Thus an investor with a 10% long position and a 10% short position (zero net position) would be required to report the long position but nothing more. This would mislead, rather than inform, the market.
- (ii) The 0.25% short reporting requirement is perverse. It requires no disclosure when the short position rises further or falls below that level.
- (iii) It is illogical to require aggregate short positions of discretionary clients but not (it would appear) of separate legal entities.
- (iv) It is not obvious why this reporting requirement should apply to the equity of non-UK companies with non-UK primary listings.
- (v) It is not logical to propose disclosure of short positions only during a rights issue period. Capital markets should have a consistent set of rules which offer transparency and protection at all times.
- (vi) It is not logical to have different thresholds for short-selling from those which apply to long positions. We therefore argue for higher thresholds on a symmetrical basis with the long disclosure rules.

Finally, CFA UK believes that the FSA should promote transparent and liquid markets. In view of the latter consideration, we believe the FSA should not restrict the lending of stock for the purpose of short-selling during rights issues. We also believe that it should not restrict short-sellers from covering their positions by acquiring the rights to the newly issued shares. We understand that both of these moves are being considered currently.

I hope these thoughts are of use.

Yours sincerely



Geoff Lindey FSIP
Chairman
Investment Professional Advocacy Committee