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Germany moves against short sellers

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German authorities on Tuesday night cracked down on what Berlin views as destablising speculation in the financial markets by implementing a partial ban on naked short-selling of certain stocks.

The German action against **naked shorting** – or selling securities such as shares and bonds that are not owned or borrowed – comes amid heated discussion in Europe of regulatory curbs on speculative trading, which has been widely blamed by politicians for exacerbating the Greek debt crisis.

Bafin, Germany's financial regulator, said the ban was needed because of the "exceptional volatility" in eurozone bonds and the considerable widening of spreads on credit default swaps. Large-scale short-selling could have "endangered the stability of the entire financial system", Bafin said.

The ban, which would be effective immediately and last until the end of March next year, would be regularly scrutinised, Bafin said. It would apply to eurozone sovereign bonds and credit default swaps as well as the shares of a group of 10 leading German financial stocks.

The **euro dropped more than a cent against the dollar** on the news, reaching a new four-year low of $1.22.

"The market took this as a sign that eurozone officials are continuing to search for some way to control the markets while they try to sort out the eurozone government financial malaise," said Mike Berg, an analyst at the 4Cast consultancy. The rapidity of Berlin's move also appears targeted at domestic lawmakers to shore up **parliamentary support for Germany's €123bn contribution** to the €750bn eurozone rescue package agreed last week.

Wolfgang Schäuble, finance minister, briefed lawmakers from the ruling Christian Democratic Union about the move late on Tuesday, shortly after returning from a meeting of EU finance ministers in Brussels.

The EU finance ministers had earlier backed controversial new rules imposing tighter controls on hedge funds and private equity funds operating in Europe. People briefed on the German action said no other European Union country would enact a similar ban immediately. But the German government hopes some other EU states will fall in line after the European Commission presents long-scheduled recommendations for curtailing short-selling.

This week Michel Barnier, EU internal market commissioner, confirmed that the European Commission would present an initiative to deal with short-selling this autumn including "appropriate measures for sovereign credit default swaps".

An Austrian finance ministry spokesman said: "It's our intention to get this on the agenda of the finance ministers' task force meeting on Friday, aiming towards a European ban on naked short selling."

Market participants have questioned the practicality of any ban on CDS, which are traded over-the-counter, meaning Germany has little authority to stop a trade occurring in London or New York, for example.

Additional reporting by Ben Hall in Paris and Jennifer Hughes in London and Christopher Bryant in Vienna