MarketWatch

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EU Commission calls for joint action after German bans

U.K. regulator says steps don't cover German institutions outside of Germany

By Polya Lesova, MarketWatch

FRANKFURT (MarketWatch) -- The European Commission called on Wednesday for coordinating regulatory actions across the union, after Germany unexpectedly banned last night certain trading practices, saying they generate excessive volatility and threaten financial stability.

EU Internal Market Commissioner Michel Barnier said that such actions would be "even more efficient" if they are coordinated at the European level, according to media reports on Wednesday. The topic should be discussed at a meeting of EU finance ministers on Friday, Barnier also said.

Germany's Federal Financial Supervisory Authority, or BaFin, announced late Tuesday that it has prohibited so-called "naked" short-selling of some assets. Naked short-selling refers to selling shares or other assets that aren't owned or borrowed.

The measures went into effect at midnight and will be valid through March 31, 2011.

The U.K. Financial Services Authority said Wednesday that Berlin's actions don't relate to branches of German institutions outside of Germany.

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"We note what Germany has implemented and will assist BaFin wherever appropriate," an FSA spokesman told MarketWatch. "The scope of these bans relates to German participants or business taking place inside Germany and does not cover branches of German institutions outside of Germany or in the U.K."

An Austrian finance ministry spokesman told the Financial Times that the aim was to achieve a European ban on naked short-selling.

French Finance Minister Christine Lagarde said Wednesday her country doesn't plan to ban naked credit-default swaps, adding that it's a very narrow market, according to media reports.

European stocks dropped on Wednesday, with the Stoxx Europe 600 index (STOXX:ST:SXXP) falling 2.3% in afternoon trade.

"Just when markets were slowly regaining some poise, yesterday saw a strange political announcement that sapped strength from a still fragile market," said strategists at Deutsche Bank.

The timing of the decision is likely to create market uncertainty, they said.

"What we've learnt repeatedly in this crisis [is] that every action has an equal and opposite reaction," the Deutsche Bank strategists said. "If the authorities prevent free market activities in some areas, the risk is that the pressure moves somewhere else."

The bans

BaFin imposed several prohibitions late Tuesday. It banned naked short selling of the shares of 10 German financial institutions, including Allianz SE (FRANKFURT:DE:ALV) , Commerzbank AG (FRANKFURT:DE:CBK) , Deutsche Bank (NYSE:DB) (FRANKFURT:DE:DBK) and Deutsche Boerse AG (FRANKFURT:DE:DB1) .

Regulators also banned naked short selling of euro-zone debt securities, which are listed for trading on one of Germany's domestic exchanges.

In addition, BaFin prohibited investors from buying credit-default swaps, where the reference liability is at least one debt obligation issued by a euro-zone member, and that don't serve the purpose of hedging against default risk.

Reuters

A CDS contract can be used as an insurance policy against the default of a bond or loan, but German regulators believe that speculators use CDS contracts to place bets on the creditworthiness of a country, thus triggering volatility and market disruption.

BaFin cited "the extraordinary volatility" in debt securities issued by euro-zone countries, adding that euro-zone CDS spreads have widened significantly. These "excessive price movements" could threaten the stability of the whole financial system, BaFin said.

The measures announced on Tuesday night come as investors have been spooked by the high levels of sovereign debt in the euro zone, triggering selloffs in European stocks, government bonds and the euro.