Press release | 05.07.2011

EU financial rules/ sovereign debt speculation

EP votes for ban on naked credit default swaps of sovereign debt and curbs on naked short-selling

The European Parliament today adopted a report by Green draftsman Pascal Canfin, setting out its position on draft EU legislation aimed at regulating short selling and credit default swaps (CDS), including of sovereign debt (1). The report, adopted by a large majority of MEPs, significantly strengthens the initial legislative proposal, notably providing for a ban on naked CDS of sovereign debt and curbs on naked short selling. After the vote, draftsman (rapporteur) and Green MEP **Pascal Canfin** said:

"The EP has today clearly set out its stall for curbing sovereign debt speculation in Europe. This reckless speculation continues to cause chaos and undermine the fiscal viability of EU member states, and we urgently need regulatory measures to prevent speculators from profiting on the backs of EU taxpayers.

"Crucially, MEPs have supported a ban on uncovered credit default swaps of the sovereign debt of European countries. This would be a major step forward for addressing the major destabilising impact of these products, ensuring that hedge funds would no longer be able to buy Greek CDS products without holding Greek sovereign bonds, for example, thereby preventing these funds from betting on the bankruptcy of Greece or other countries.

"The EP also voted for stricter rules to curb the naked short selling of shares, as well as for strengthening the role the of the European Securities and Markets Authority.

"The ball is now in the court of member state governments, with a view to securing a deal on this vital legislation as soon as possible. The EP has a set out a clear mandate for the negotiations and the Council cannot remain intransigent on these key issues."

(1) The European Parliament adopted the resolution clearly setting out its position but did not vote on the final legislative resolution, with a view to securing agreement with EU governments on the final legislation in first reading.

* "Naked" or uncovered short selling or credit default swaps denotes the current market practise by which traders sell shares or other financial products that they do not possess at a fixed price on the basis of a price fall expectation in order to purchase the share at a lower price, and then to deliver the share to the customer who has committed to buy at the price determined initially.

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