

RESEARCH NOTE ON SHORT SELLING



1. Introduction

A desirable feature of any capital markets is market liquidity and efficiency. In an efficient market, the prices of financial assets reflect the available information in the market — favorable and unfavorable.¹ From a macro perspective, liquid capital markets are essential for the efficient allocation of capital, which results in lower cost of capital for issuers. At a micro level, a liquid market ensures access to a diversity of investors with different investment strategies.² A liquid market attracts more investors, who in turn increase the chances of more companies successfully raising long-term capital from the capital markets. This is because companies are motivated by the fact that the market has enough investors who are ready to buy securities on offer.

Liquidity on the Uganda Securities Exchange (USE) remains low even by regional standards.³ As an illustration, in the year 2017, only 7.70 % of the total free float⁴ available was traded, with Umeme having the highest percentage of its available free float being traded (25.47%) (*see table 1*).

Table 1: Free Float and Shares Traded per Domestic Counter, 2017

Company	Free Float (million)	Total Number of Shares Traded (million)	Percentage of Shares Traded out of Free Float (%)
BATU	4.91	0.02	0.50
BOBU	500	23.80	4.76
DFCU	198.77	15.06	7.57
NVL	35.69	0.06	0.16
SBU	10,237.73	726.17	7.09
UCL	900	65.84	7.32
NIC	566.31	11.54	2.04
UMEME	647.93	165.06	25.47
TOTAL	13,091.35	1,007.54	7.70

Source: USE

The USE also faces securities supply constraints (*see table 2*). Out of the 58 billion shares outstanding, only 13 billion shares (22.51 %) are available to the public as free float. Uganda Clays Limited (UCL) is the only domestically listed company on the USE with all outstanding shares floated on the market.

¹ <http://whitepapers.stern.nyu.edu/summaries/ch12.html>

² IOSCO Report on Factors Influencing Liquidity in Emerging Markets (2007)

³ Liquidity describes the degree to which a security can be quickly bought or sold in the market without affecting the asset's price

⁴ Free float refers to the number of outstanding shares that are available to the public for trade.

Table 2: Percentage of Free Float out of Outstanding Shares per Domestic Counter

Company	Total Number of Outstanding Shares in 2017	Free Float in 2017	Percentage of Free Float out of Outstanding Shares as at December 2017
BATU	49,080,000	4,907,984	10
BOBU	2,500,000,000	500,000,000	20
DFCU	415,779,718	198,774,358	47.81
NVL	76,500,000	35,694,900	46.66
SBU	51,188,669,700	10,237,733,940	20
UCL	900,000,000	900,000,000	100
NIC	1,415,779,718	566,311,887	40
UMEME	1,624,278,005	647,927,324	39.90

Source: USE

Short selling has been identified as one of the way of improving market liquidity, supply of securities, price discovery and efficiency in Uganda’s capital markets. In fact, the capital markets regulatory framework allows short selling.

2. What is Short Selling

Although the definition of short selling varies according to jurisdiction, a transaction is generally defined as a short sale when it involves the sale of a security that the seller does not legally own at the time of the sale with a view of buying back the security at a lower price in the future. There are two types of short selling:

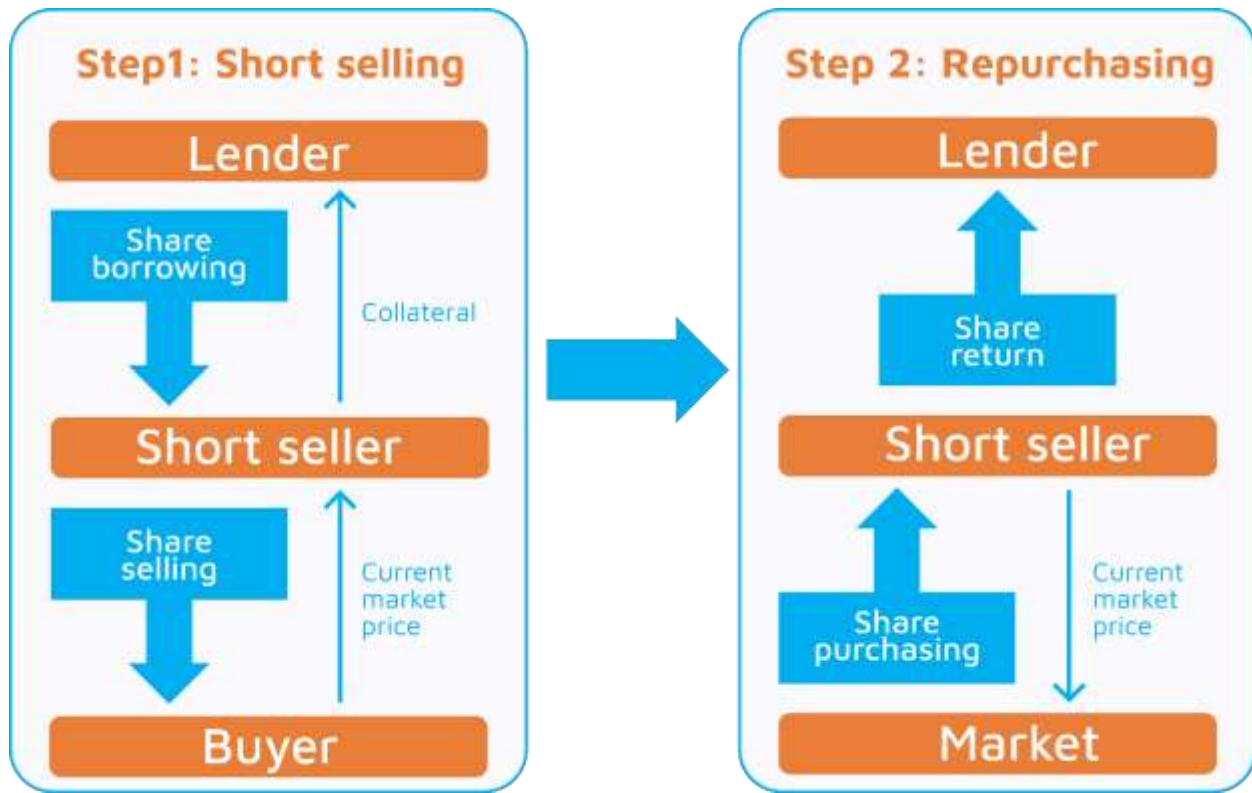
- ✚ Covered short selling – the sale of securities that have been borrowed from the holder for a fee, so that the short seller can ensure delivery of the security at settlement.
- ✚ Naked short selling – this is when securities have been sold but there is no arrangement in place to borrow or locate the securities.

An investor who wants to carry out a short sell transaction must first find a party who is willing to lend securities. Once a lender has been located and the securities are sold short, the short-seller delivers the securities to the buyer in the market and deposits collateral with the lender.⁵ The collateral on the short sale ensures that the borrowed securities will be returned to the lender in future. While the securities are on loan, the lender can invest the collateral and receive interest on the investment.⁶ The seller must eventually purchase the security back from the market and give it back to the lender.

Figure 1: The Short Selling Process

⁵ http://www.dmf.unisalento.it/~straf/allow_listing/fabio/fabio3.pdf

⁶ Wiley Finance. Shorting selling – strategies, risks and rewards (2004)



An increase in the price of the security results in the lender requiring additional collateral, and a decrease in the price results in the lender returning some of the collateral to the borrower. When the securities are returned to the lender, the collateral is also returned. The lender returns part of the interest to the borrower in the form of a negotiated rebate rate.⁷

While market makers use short selling to help clients purchase a security that cannot be easily bought, some short-seller are motivated by the hope of profiting from a decline in the price of the security between the time of sale and repurchase or the hope of hedging⁸ against certain risks.

Short sellers hoping to profit from a decline in the price of a security use technical and fundamental analysis to identify securities for short selling. Technical analysis is a methodology of forecasting the direction of prices through the study of past market data, primarily price and volume.⁹ When using technical analysis, the short seller uses the price history of the security, and the price patterns formed as a basis for making short selling decisions. Fundamental analysis on the other hand is a method of evaluating a security in an attempt to assess its value, by examining

⁷ Rebate is a portion of interest or dividends earned by the owner of the shares that is paid by a short seller of the borrowed shares

⁸ Hedging is an investment taken to reduce the risk of adverse price movements in an asset

⁹Kirk Patrick and Dahlquist (2006)

related economic, financial, and other qualitative and quantitative factors. Under fundamental analysis, there are a number of ways to pinpoint a security for short selling, including: announcement of lower than expected earnings, lawsuits against a company, and changes in legislation that have a negative impact on a company. Short sellers have to make an informed decision on whether the event happening is short-term or long-term because a negative news event could cause a fall in market price and not set up a good long-term decline in price. The short-seller incurs a loss if the price of the security rises, as he/she will have to buy back the security at a higher price. There is no limit to the loss that a short seller can incur. A short seller has the potential to incur unlimited losses if the price of a security continuously rises rather than falls.

3. Role of Short Selling in the Capital Markets

Short selling plays numerous significant roles in the capital markets including but not limited to:

Facilitating hedging and risk management

The objective of hedging is protection against risk. Hedging is undertaken to protect gains or mitigate losses in an investment portfolio or by a business to protect itself against a downturn in certain industries or change in input prices. If an investor owns shares whose price is expected to decline, but does not want to sell the shares, the investor can hedge the shares by short selling. The seller in this case sales the shares at the existing high market prices and buys them back when prices fall. This helps the investor offset the risk of any adverse price movements of the shares. An investor can purchase convertible bonds of a company and sells short the company's stock, this is called a convertible bond arbitrage.¹⁰ A convertible bond can be converted into stock at a pre-determined time and price. In this strategy, the investor uses short sales to reduce some of the risk of holding the convertible bonds.¹¹

Increasing market making

Suppose an investor wants to buy shares but there are no owners willing to sell their shares immediately and the market maker does not hold any itself. In this case, the price would jump higher to attract the interest of the owners of the shares until an owner is willing to sell, however this might take some time. Therefore, market makers fill customer orders for shares that they do not already hold in their inventory through short selling, creating market liquidity in the process. Liquid markets promote capital formation because investors prefer to invest capital in markets with low transaction costs and in which they can quickly establish and liquidate positions (buy

¹⁰ Arbitrage is the simultaneous buying and selling of securities in different markets to take advantage of differing prices for the same asset.

¹¹ Managed Funds Association, An Introduction to Short Selling (2018)

and sell securities).¹² Market makers also use short selling to facilitate customer orders in other types of securities, such as equity based options.¹³

Price discovery

Short selling helps to generate more accurate pricing and prevents securities from becoming overvalued. One could even say it reduces the risk that when someone buys a security it will be overpriced. If a security is overpriced, the selling pressure from the short sellers will drive the price lower. Valuable information from short selling activity, if widely available and accessible, could enhance market transparency, which happens to be one of the theoretical conditions required for a free market to function efficiently.

Mitigating price bubbles

When investors think that market prices can only go up, share prices continue to increase, creating a price bubble. This bubble has to eventually burst, putting most investors at risk, as the share prices drastically fall. The share prices return to fair market value once the bubble has burst. When buyers and short sellers counterbalance each other, prices are more likely to reflect the actual value of the assets, lowering chances of the formation of a price bubble.

Balancing investments

An investor who has a short position (by holding securities with the intention of selling them) may decide to take a long position. A long position is the buying of a security with the expectation that the security will rise in value. Investors who are constantly engaged in fundamental analysis and extensive research are usually able to determine if a company has become undervalued and change from a short position to a long position. This helps them balance their portfolios and lower risks.

4. Risks of Short Selling in the Capital Markets

To some, short sellers are financial demons who distort the financial market. Critics argue that it is a high risk and speculative activity. Market regulators are concerned that unregulated short selling may lead to more serious and damaging risks such as settlement disruptions; creation of disorderly markets; and market abuse. These risks are explained below:

Market abuse/manipulation

Short selling has the ability to add incremental weight to a downward trend, or be used in conjunction with insider dealing by those with adverse information about an issuer to drive down

¹² Managed Funds Association, An Introduction to Short Selling (2018)

¹³ Managed Funds Association, An Introduction to Short Selling (2018)

the price of the security and trigger a large profit at the expense of the issuer whose security is being oversold.

This does not mean that short selling in itself is abusive but it may provide a valuable tool for those who intend to abuse the market. A regulator having ready access to information on short selling may provide real time insight into market dynamics and early warnings of potentially disruptive or abusive use of short sales.

Potential for settlement disruption

This may result in the context of naked short selling, where the short seller has not borrowed or arranged to borrow the securities ahead of the sale. The seller therefore fails to deliver the securities to the buyer when delivery is due. This eventually gives rise to potential corporate governance issues especially in a scenario where timely delivery may be particularly important for a buyer to be able to exercise voting rights. The potential difficulties in this area are likely to arise from two sources i.e. where the short seller has not arranged borrowing ahead of his sale and feels under no strong incentive to deliver (and the rules/disciplines of the system provide latitude not to); and changing supply and demand in the securities lending markets.¹⁴ Though rare, covered short selling could also lead to settlement disruption. For example, a short seller may borrow a security for a week to sell it, believing he/she will be able to buy it back in time. However, he/she fails to buy it back in time and is therefore unable to give the security back to the lender.

Banning naked short selling and imposing mandatory collateral requirements helps to mitigate the settlement disruption effects of short selling.

Disorderly markets

Although short selling is perceived to facilitate a more rapid repricing of overvalued securities, it also has the potential to create disorder owing to the speed of this repricing. The speed may cause market disorder if investors do not have enough time to respond to the rapid price decline. This may cause potential buyers to restrain from buying the securities due to uncertainty about what exactly is happening in the market. The issuers may also have difficulty attracting investors, making it hard for them to improve their financial situation before the stock becomes worthless.

A market player may believe that the price of the security should be lower than it currently is based on his/her analysis. The analysis by the market player may not be right, but by engaging in short selling, the market price might be driven down, scaring investors who want to buy the security into holding off.

¹⁴ IOSCO Technical Committee report on report on the regulation of short selling (June 2009)

Imposing controls on the price of the security and imposing restrictions on the size of securities allowed for short selling helps to control the speed of the repricing.

5. Regulation of Short Selling

Short selling has a relatively long-standing tradition in the financial markets, but over the last few decades, there have been regulatory concerns arising against the backdrop of the global financial crisis, stock market collapses and scandals. Complaints about short selling usually arise right after a market crash – the stock market crash of 1929 (Black Thursday), 1987 (Black Tuesday), and 2008. The tumultuous events leading up to the financial crisis in 2008 resulted in the rapid enactment of global securities rules and regulations that were designed to limit, curb, or outright ban short selling activity.¹⁵ For example, as part of its response to the ensuing market instability in 2008, the Securities and Exchange Commission (SEC) issued a temporary order restricting the short selling in the shares of 19 financial firms deemed systemically important.¹⁶

Regulators from different jurisdictions have set up initiatives to regulate short selling with an objective of retaining the benefits while mitigating the risks associated with the practice. This section reviews the International Organization of Securities Commission (IOSCO) guidelines on short selling regulations; short selling guidelines in Malaysia, short selling regulations in Singapore, Nigeria and Kenya.

5.1 IOSCO Guidelines on Short Selling Regulations

Following the 2008 global financial crisis, regulators across the globe imposed bans or additional restrictions on short selling with little or no notice. Due to the 2008 financial crisis, IOSCO set up a Task Force on short selling with a mandate of developing high-level principles for the effective regulation of short selling. The goal of IOSCO’s proposed principles was to develop a consistent approach to short selling regulation in the international community. The four principles recommended by IOSCO were:¹⁷

Table 3: IOSCO Principles

No	Principle	Recommendations
1	Short selling should be subject to appropriate controls to reduce or minimize the potential risks that could affect the orderly and efficient	<ul style="list-style-type: none"> ✚ Enforcement of strict settlement of failed trades. ✚ A shorter trade settlement cycle to avoid the risk of settlement disruption.

¹⁵ Zlotnikova Eleanora. The Global Dilemma in Short Selling Regulation: IOSCO’s Information Disclosure Proposals and the Potential for Regulatory Arbitrage (2010).

¹⁶ Searching for the Naked Truth (17 August 2008), The Economist. Available at https://www.economist.com/node/11951246/print?story_id=11951246

¹⁷ IOSCO Technical Committee report on the regulation of short selling (2009).

	functioning and stability of financial markets.	
2	Short selling should be subject to a reporting regime that provides timely information to the market or to market authorities. ¹⁸	<ul style="list-style-type: none"> ✚ Reporting should be made to market authorities for markets where reporting to the market is considered inappropriate. • Regulators must establish a reporting regime to: provide ready access to information on short selling; deter market abuse; mitigate the potential disorderly market effects of short selling; provide early warning signs and alerts to prompt investigation into suspicious activities; and provide evidentiary proof that aids in post-event investigation and disciplinary action.
3	Short selling should be subject to an effective compliance and enforcement systems.	<ul style="list-style-type: none"> ✚ Market authorities should consider whether they are able to extend their power to require information from parties suspected of breach beyond the scope of licensed or registered persons. ✚ Market authorities with a reporting regime should establish a mechanism to analyze the information obtained to identify potential market abuses.
4	Short selling regulation should allow appropriate exceptions for certain types of transactions for efficient market functioning and development.	<ul style="list-style-type: none"> ✚ Short selling regulations should consider building in flexibility for activities like hedging, market making and arbitrage activities where appropriate.

The above principles are meant to serve as a minimum guide for securities regulators when developing their short selling regime, depending on their domestic circumstances.

¹⁸ Market authorities referred to in the ISOCO report include securities regulators, self-regulatory organizations, exchanges and alternative trading facilities.

5.2 Short Selling Regulations in Different Jurisdictions

5.2.1 Malaysia

In 2007, Malaysia lifted a nine-year ban on short selling imposed in the wake of the 1998 Asian financial crisis. Short selling was limited to less than 100 stocks out of the nearly 1000 listed on the exchange. The Securities Commission (SC) issued a set of revised guidelines to facilitate the reintroduction of securities borrowing and lending (SBL) in Malaysia. The guidelines allow SBL activities under two models i.e. the SBL – Central Lending Agency (CLA) model; and the SBL – Negotiated Transactions (NT) model.

Under the SBL – CLA model, all the activities must be made through an approved clearinghouse. The approved clearinghouse acts as a Central Lending Agency that borrows securities from lenders and lends them to borrowers. All short selling participants are deemed to be lenders or borrowers authorized by the SC. Any person (retail or institution) who has the requisite number of stocks may lend stocks to the CLA. On the other hand, only approved local stockbrokers may borrow stocks from the CLA.¹⁹ An approved clearinghouse under the SBL – NT model, must facilitate all SBL activities. All short selling agreements must follow the rules of the approved clearinghouse.

In Malaysia, only securities considered eligible by the SC are available for short selling activities, and all eligible participants are required to obtain prior approval of the approved clearinghouse. Bursa Malaysia Securities Clearing is the authorized CLA by the SC for all SBL activities conducted in Malaysia.

The short selling guidelines require all eligible participants to carry out SBL transactions in accordance with the rules and directives of the approved clearinghouse, central depository and stock exchange. Where relevant, a readiness assessment or audit on eligible participants that intend to carry out SBL activities may be conducted. The audit is conducted by the stock exchange or approved clearinghouse.

5.2.2 Singapore

The Monetary Authority of Singapore (MAS) issued guidelines on the regulation of short selling in May 2018, to be used in conjunction with the provisions of the Securities and Futures (Short Selling) Regulations 2018. The regulations come into operation in October 2018. The short selling rules apply to specified capital markets products listed below:

- ✚ shares (both primary and secondary listings and whether ordinary or preference shares);
- ✚ units in a business trust ("BT"); and

¹⁹ http://www.securitieslendingtimes.com/countryfocus/country.php?country_id=45

✚ Units in a real estate investment trust ("REIT").²⁰

The key obligation of the MAS short selling regulations relates to disclosure and reporting. All those who make short sell orders on an approved exchange will be required to disclose the short sell order to the approved exchange. As a requirement, a person who owns some but not the full amount of securities to be sold should split the sell order into two i.e. one that is marked as a short sell order in relation to the securities owned and the other marked as a short sell order in relation to the balance owned.

If the borrowed shares exceed the given threshold, which is the lower of: 0.2 % of the total issued securities; or SGD 2,000,000 (USD 1.5 million) in aggregate value, the borrowed shares should be reported to MAS within two business days.²¹

In Singapore, an investor can place a short sell order without going to a broker. The short selling regulations allow the delegation of the short sell order disclosure obligation to a broker if a person is placing the order through a broker. However, the obligation to report a short position is less amenable to delegation because the legal duty to report lies with the person who has the short position. For investors who may have several brokers executing their short sell orders, the regulations provide flexibility to report at the broker level. For investors who use multiple fund managers with each holding a discretionary portfolio, the regulations require reporting to be done at the fund manager level. This is because it may be impracticable for the investor to aggregate data across all fund managers but the fund manager ought to be able to report for the investor.²² Similarly, if a trustee acts as a trustee for multiple trusts managed by one or more fund managers, reporting is required at the trust level. A fund manager should not aggregate across the trusts it manages when it determines a short sell order or a short position.

The regulations exempt both designated market makers and registered market makers from disclosing short sell orders, so as not to impede the efficiency of market making activities. However, the exemption only applies to orders for the purpose of market making. Market makers are not exempt from reporting short positions because, unlike short sell orders, holding short positions could represent a directional interest on the part of the market maker.

5.2.3 South Africa

Throughout the global financial crisis, South Africa managed to maintain a consistent approach to short selling activities. This was largely attributed to a strong regulatory framework, as well as the rules, risk management systems, and surveillance capabilities of the Johannesburg Stock

²⁰ The Securities and Futures (Short Selling) Regulations 2018

²¹ The Securities and Futures (Short Selling) Regulations 2018

²² Monetary Authority of Singapore Guidelines on the Regulation of Short Selling 2018

Exchange (JSE).²³ The regulations prohibit naked short selling. South Africa permits regulated covered short selling which requires a short seller to first set aside time and resources to borrow shares before they are short sold. This reduces the speed at which short sales take place in the market and therefore reduces the risk of settlement failures, and the risk that more shares may be short sold than are currently in issue by a particular issuer.²⁴

The JSE has risk mitigating and surveillance capabilities that allow it to scrutinize trades all the way down to client level. Investors are required to provide evidence that they own securities to be short sold and to confirm that such securities will be available at settlement. No broker is allowed to enter any trade on the JSE trading system unless appointed as a Central Securities Depository Participant (CSDP).

The CSDP is licensed to perform custodial and administrative services or settlement services or both, and must be appointed by each short seller to perform electronic net or gross settlement of securities on behalf of the short seller. Settlement must occur within 3 days of the trade date with rolling of settlements not permitted. According to the JSE, rolling means every business day is a trade day and a settlement day, with corresponding contractual obligations placed the brokers and clients to ensure settlement takes place.²⁵

5.2.4 Nigeria

The Nigerian Stock Exchange (NSE) introduced short selling and securities lending in 2012. However, the short selling regulations are very brief with only four substantive provisions. The regulations allow the short sell of a listed security below the last sale price. Initially, short selling on the NSE was only open to approved market makers but to increase liquidity in the market, everyone is now allowed to short sell after making the necessary arrangements with a registered securities lender. As a way of tracking short sales in the market, all short sell orders must be marked as a short sale. Naked short selling is prohibited by the NSE.

Despite attempts to encourage short selling, it is yet to fully take off.²⁶ Executing a successful short sale on the exchange is hindered by a raft of bureaucratic processes created by the NSE itself.²⁷ The bureaucratic processes that were put in place to manage risk have discouraged interested traders, and the parties most likely to lend securities for short selling are put off by the risk of not recovering the security from the borrower.²⁸ The short selling strategy is unappealingly risky for the typical Nigerian trader as while it can be profitable, its underlying

²³ <https://www.sciencedirect.com/science/article/pii/B978012387724600026X>

²⁴ <https://www.cover.co.za/short-selling/>

²⁵ JSE. The move to T+3 Settlement and the Securities Borrowing and Lending Industry (2014)

²⁶ <http://sunnewsonline.com/why-nses-securities-lending-short-selling-initiatives-failed-to-fly/>

²⁷ <https://www.stearsng.com/article/nigerias-big-short>

²⁸ <https://www.stearsng.com/article/nigerias-big-short>

success is contingent upon a decline in the market – or at least a stock, contrary to the long-term upward trend in equity markets.²⁹

5.2.5 Kenya

The Capital Markets (Securities Lending, Borrowing and Short Selling) Regulations 2017 were enacted for the introduction of securities lending and covered short selling in the Kenyan capital markets. Naked short selling is prohibited within the Kenyan legal framework. The regulations restrict the transactions to be carried out to regulated persons or any other person specified by the authority. In effect, a seller is only allowed to enter a short selling transaction if he/she provides documentary evidence showing that he/she:

- ✚ Entered into an agreement to borrow the securities to cover the short sale;
- ✚ Has reasonable grounds to believe that the securities will otherwise be delivered to him or her in time to cover the short sale; and
- ✚ Entered into an arrangement with another party under which that party has confirmed in writing that it will have the securities and will deliver them in time to cover the short sale.³⁰

The regulations have disclosure requirements in place. Sellers who engage in a short selling transaction are required to declare to the exchange or a market intermediary (if acting through a market intermediary) that it is a short sale when submitting an order. As far as limits on short positions are concerned, participants in an exchange or trading platform who hold a short position in a security of 5 percent or more of the total amount of the security in issue are required to report the position to the relevant exchange or trading platform and the CMA.

Under the regulations, it is the responsibility of the CMA to prescribe the criteria to identify securities that may be subject to short selling. Section 17 of the regulation further provides the operational responsibility for the regulator to preview and impose price controls, or suspend short sales of a security, on a weekly basis. The price controls or suspensions may be imposed:

- ✚ Where the price movements of the security meet the conditions set out in the relevant rules of a regulated securities exchange or other infrastructure provider for the imposition of price controls or suspension of trading;
- ✚ Where the short sales of the security have been temporarily prohibited under the rules of a regulated securities exchange;
- ✚ Where the short sales of the security that is trading in Kenya have been prohibited in another jurisdiction or have been made subject to price controls as a result of concerns about market order; or
- ✚ To maintain or restore the fair, efficient and transparent trading in the security.³¹

²⁹ <https://www.stearsng.com/article/nigerias-big-short>

³⁰ The Capital Markets (Securities Lending, Borrowing and Short selling) Regulations, 2017

³¹ The Capital Markets (Securities Lending, Borrowing and Short selling) Regulations, 2017

6. Key Considerations for Uganda in Regulating Short Selling

Given the benefits of short selling such as: facilitating hedging and risk management; increasing market making; mitigating price bubbles; price discovery; expressing views about the value of a company; and reducing risk in positions in the same company, regulations operationalizing short selling should be enacted. The following should be considered in developing a regulatory framework for short selling in Uganda's Capital Markets:

Table 4: Key Considerations for Regulation Shorting Selling

Area	Comment
The regulatory framework should be based on guidelines	Compared to regulations, guidelines are more flexible and can be easily framed as regulations. Given the fact that it takes a while for regulations to be drafted and approved, short selling guidelines can be used in the interim.
Prohibition of naked short selling	Naked short selling should be prohibited as it has been known to increase the potential for market abuse by manipulating the price of a security.
Institution of mandatory short position reporting requirements	Regulatory access to information on short selling should be granted without impediments to provide the regulator information on market dynamics and early warnings of potentially disruptive or abusive use of short sales, or expedite post event investigations.
Establishment of collateral requirements	Collateral requirements of between 150% - 200% should be imposed for all short sales at the time the short sell is initiated. The collateral should be either cash or bank guarantees deposited with the lender of the securities. The collateral requirements should be strictly adhered to and failure to comply should be punishable by imposing heavy fines.
Enhancement of surveillance capacity at CMA and the exchanges	The regulator and exchanges should enhance the capacity of their surveillance departments to handle short selling activities. The market surveillance team should be trained and

Area	Comment
	equipped with skills to identify suspicious short selling transactions that destabilize the market.
Identification of securities that may be subject to short selling	CMA as the regulator should have the power to identify securities that may be subject to short selling.
Reinforcement of the Uganda Securities Exchange insider dealing rules	Short selling can be used in conjunction with insider dealing by short sellers with adverse information about an issuer to drive down the price of the security and trigger a large profit at the expense of the issuer whose security is being oversold. Reinforcing the rules on insider dealing would help to mitigate this problem.
Readiness assessment / audit of participants	CMA should give the exchanges power to audit short selling participants. This will be done to determine the readiness and ability of the participants to undertake short selling, and to ensure that there are safeguards in place to protect against those who plan to use short selling to manipulate the market. The authority should also have the power to request for the audit of suspicious short selling participants.
Suspensions / bans	CMA should have the power to suspend or ban the short sale of a security: to maintain or restore the fair, efficient and transparent trading in the security; where the short sale of the security have been temporarily prohibited under the rules of the exchange; and where the short sales of the security that is trading in Uganda have been prohibited in another jurisdiction or have been made subject to price controls as a result of concerns about market order.
Threshold on outstanding shares that can be sold short	CMA should impose a threshold of 5% of the total amount of the shares outstanding for a participant involved in a short sell transaction. A threshold helps to minimize or eliminate abusive short selling that could be part of a

Area	Comment
	scheme to manipulate the price of a stock. A participant who exceeds the threshold should report this to the Authority and the exchange.
Market makers	Market makers should be exempted from disclosing short sell orders. This is to avoid impeding the efficiency of their market making activities. However, they should not be exempted from reporting short positions.