



AUTORITÉ
DES MARCHÉS FINANCIERS

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French and Dutch market authorities publish a joint analysis of the impact of the short selling ban at the onset of the Covid-19 crisis

Returns, volatility and market depth: the Autorité des Marchés Financiers (AMF) and the Autoriteit Financiële Markten (AFM) have examined the effects of the temporary ban applying to French securities by comparing their respective markets.

In March 2020, as the pandemic triggered exceptional lockdown measures around the world, financial markets underwent an episode of high volatility and sharp price declines. To curb any amplification of the unidirectional nature of the markets and restore investor confidence, six European regulators, including France's Autorité des Marchés Financiers, imposed a temporary ban on short selling.

Other European regulators chose not to take any temporary measures. In particular, the Netherlands Authority for the Financial Markets (AFM) considered that it had not observed any market failures requiring supervisory intervention, and therefore did not consider a short selling ban as an effective measure against the effects of the pandemic on the markets.

As part of their remit to monitor the proper functioning of markets, the AMF and AFM have analysed the impact of these intervention measures on their respective markets. Managed by the same market operator, the French and Dutch markets operate according to the same rules and have a similar structure, making it easier to compare the effects on the two markets.

In analysing returns, volatility, trading volumes and transaction costs, the study shows that the ban had mixed effects. These effects were in particular observed for the sectors that were hit the hardest and most subject to selling pressure during the crisis.

Among the main findings of the short selling ban period, the AMF and the AFM found:

- an increase in returns, with no significant difference between the two markets;
- a lower volatility on French equity securities, with a more pronounced effect on large caps;
- a greater decline in trading volumes in French equity securities, mainly explained by a decrease in the number of transactions and not so much by a reduction in their size;
- a dip in both selling pressure and aggressive buy orders (aggressive orders are orders that consume liquidity directly available in the market, as opposed to passive orders that wait to find a counterparty), with a more noticeable effect on the French market;
- the absence of a significant deterioration in the liquidity available at the best bid and offer prices between the French and Dutch markets. This, however, comes with a reduction in available depth synonymous with an increase in transaction costs beyond these best prices on the French market. This increase is only observed for the sectors that were hardest hit by the crisis;
- a decrease in short positions in both markets and the absence of a transfer effect of positions from one market to the other.

About the AMF

The AMF is an independent public authority responsible for ensuring that savings invested in financial products are protected and that investors are provided with adequate information. The AMF also supervises the orderly operations of markets. Visit our website <https://www.amf-france.org>. URL = [https://www.amf-france.org/]

About the AFM

The AFM is committed to promoting fair and transparent financial markets. As an independent market conduct authority, we contribute to a sustainable financial system and prosperity in the Netherlands.

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