



Plan, Prepare, and Defend Against Short Selling Activists

Are you actively monitoring your stock price and trading activity?

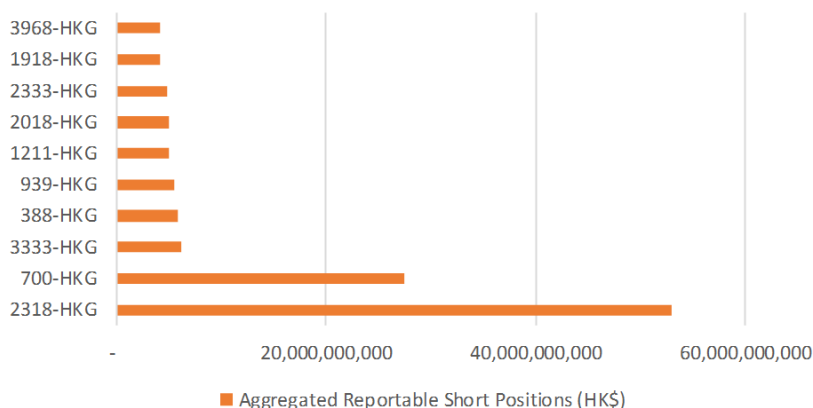


Periods of Heavy Short Sales

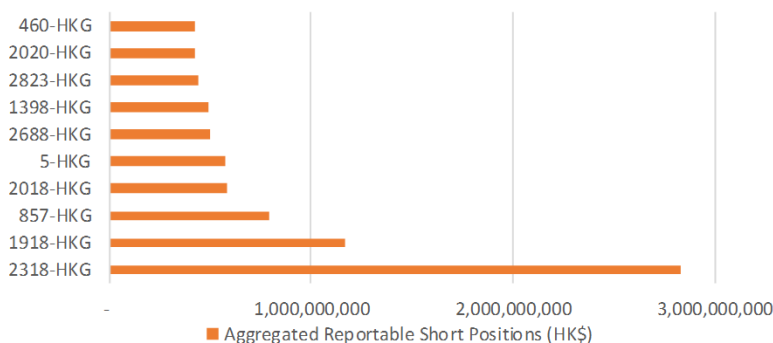
- ▶ Activist short sellers are focusing more on Hong Kong equities this year
- ▶ Are you actively monitoring your stock price and trading activity?
- ▶ Is your shareholder base comprised of strong institutional investors with long-term investment strategies to hinder short selling activists?

Over the past few months, Hong Kong publicly-traded equities have come under pressure by short sellers, adding to market volatility and corporate anxiety. In an interview with Bloomberg in early June, short-seller Carson Block implied a new Hong Kong-traded short position. Just after that announcement the Hang Seng dropped nearly 100 points, while traders sold off a number of potential candidates. As of June 30, 2017 there were 42,505,000,000 aggregated shares, (\$338 billion) across 578 listed companies, reported as being sold short to the Hong Kong Securities Futures Commission (“SFC”). The two charts below show the top ten largest short positions in Hong Kong dollars and the top ten short position increases from May 2017 to June 2017.

Aggregated Reportable Short Positions (HK\$)



Aggregated Reportable Short Positions Change May 2017-June 2017 (HK\$)



Monitoring and Interpreting Trade Settlement

Monitoring trade settlement can provide insight into whether there is a potential short seller. Significant accumulations at broker participants like UBS Securities Hong Kong, Deutsche Bank AG, and Merrill Lynch Far East Ltd., to name a few, may be an indication a selling broker may be stockpiling shares for lending purposes.

Simultaneous significant decreases at custodial participants, Hong Kong and Shanghai Banking, JPMorgan Chase Bank, National, and Citibank N.A., to name a few, could indicate large institutional investors are lending shares to the selling broker.

The potential for short selling becomes clearer if both the accumulations and reductions in CCASS occur on days in which trading volume was lower than settlement. This situation indicates an inter-custodial transfer of shares as a selling broker increases inventory for a short seller.

What Should Be Done When the Situation Above is Observed?

1 Frequent monitoring of trading and trade settlement

? How often?

💡 *A month or a quarter may be too late as short sellers can strike quickly, as seen in the opening above. Trade and settlement (T+2) tracking on a daily and weekly basis will provide an ability to alert internal departments in a timely fashion and eliminate potential short selling surprises*

2 Identifying brokers, hedge funds, institutional investors, and all relevant parties participating in the short sales; these participants have their shares in custody at CCASS custodian and broker participants

? Why identify underlying parties?

💡 *Gain insight into the motivations behind institutional shareholder movements and if these will be impacted by any significant short selling activity, identify activists or other non-traditional investors that may be inclined to advance the short sellers' agenda*

3 Outreach to the identified institutional investor base by the Investor Relations team to put an accurate and detailed story in place; rebutting any story put out by the short selling activist

? Who to contact?

💡 *Knowing your current institutional investors makes this task more efficient, giving you the chance to head off adverse effects of short sales; institutional investors may be likely to purchase the short sellers' shares, increasing positions at a lower price while ultimately creating a potential short squeeze*

For more information, please contact your local Ipreo sales representative.