Hedge funds say they have absorbed new EU rules on short selling

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LONDON (Reuters) – European rules requiring short-sellers to report positions are an irritation rather than a danger to the hedge funds industry, managers and investors said after reports the rules had prompted one fund to close.
Short-selling, or "shorting", is a method used to make money on an asset price falling.

It usually involves borrowing a financial instrument and then selling it, hoping the price will fall so they can make a profit when they buy it back to cover their position.

Earlier, Bloomberg reported British based hedge fund Meditor Capital Management is closing its European business, blaming the new European rules, introduced in 2012 that require short-sellers to report positions above a certain threshold.

Meditor Capital Management refused to comment.

Hedge fund industry insiders reacted in surprise, however, arguing the sector had learned to live with the regulations, that also cover coordinating temporary short-selling bans.

"The rules add a layer of regulatory burden and yes, it makes life more difficult but it's an irritation, not a game changer," said Christian Howells, a product specialist in the hedge funds team at Aberdeen Asset Management <ADN.L>.
Critics argued measures such as temporary bans on short selling would hamper liquidity and increase price volatility.

However, in September Europe's securities regulator said the rules had not had a significant impact on market prices while hedge funds had learned to live with them.

"The increasing regulatory burden is not making our life easier, that's for sure. But we believe that overall the current European framework offers enough flexibility to manage efficiently hedge fund strategies like ours," said Fabrice Seiman co president of Paris based hedge fund Lutetia Capital.

The rules were brought in after politicians accused hedge funds of worsening the banking and euro zone debt crises by shorting bank shares and using credit default swaps (CDS) to short bonds of debt-laden governments.
Hedge fund investors acknowledged there is a potential for additional disclosure to complicate relations between investors and the companies they are shorting.

"Managers who short companies will find it increasingly difficult to maintain a good relationship with that company and will have reduced access to information about that company," Nicolas Rousselet, head of hedge funds at Swiss investor Unigestion, said.

"The knock on effect will be that investment opportunities could be restricted and in turn investment trends could shift."

(Reporting by Chris Vellacott)