

Short Selling Activist Asensio Says Naked Short Selling Should Be Legal

By Reggie Abaca, Published: April 7th, 2009 3:25 PM PDT



In a response to former SEC Commissioner Roel Campos stating that there ought to be a certain level of short selling regulation, New York hedge fund manager and activist short seller Manuel Asensio responded on Bloomberg-TV: "There should be no reason to borrow stock," referring to the requirement that one should borrow stock that they sell short. He went on:

"One should be able to sell stock at will, regardless of whether the people that are manipulating the stock up are willing to lend it to short sellers...There is absolutely no economic reason why America should cause and force short sellers to borrow stock."

He argued that because short sellers may have to pay interest and therefore take a risk, there should be no requirement for them to borrow stock in a short sell trade.

Short selling fund managers have often been suspected of lobbying the American government with arguments like this, but never before has one stated it in this manner in a live interview. In other words, if Mr. Asensio had his way, a hedge fund would have the legal ability to sell short a company at least up to 100% of the shares, and maybe more than that.

Many investment professionals will be quick to point out that lack of short selling regulations will lead to bear raids of vulnerable companies - especially those whose value depends on a certain level of stock price support. With excessive short selling of a particular stock, there may not be enough demand to meet supply.

More importantly, most legal experts agree that owners of stock have the right not to lend their shares for short selling.

Judd Bagley, who is an activist against naked short selling, had this to say about Mr. Asensio's interview: "What this represents, more than anything, is confirmation of the long-suspected belief that naked short sellers inhabit an alternate moral universe, complete with an alternate version of reality."

Indeed, it may be a warning to all investors of even high profile but recently vulnerable companies like Citigroup (C) that powerful short selling activists like Mr. Asensio may be openly attempting to deregulate short selling, even at a time when naked short selling has been partially blamed for the downfall of many financial companies.

