Financial Services Commission
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# Press Release

June 27, 2012

## Short Position Reporting Rules to be Introduced

### Background

The Financial Services Commission (FSC), Financial Supervisory Service (FSS) and Korea Exchange (KRX) are aiming to introduce a rule that will make it mandatory to file a report on short positions with regulators from August 30, 2012. The rule should help regulators to have better access to data on short selling activities in the Korean markets.

Short selling provides liquidity through diverse investment strategies and is an efficient price discovery mechanism. However, there were also concerns that short selling would distort market order and be abused for unfair trading in times of unstable stock markets.

The proposed rule is designed to have a better picture of the overall short selling activities and a systematic collection of data on outstanding short positions so that regulators can cope with unfair trading in a timely manner.

The way to adopt the new reporting requirement has been paved as proposed amendments to Enforcement Decree of Financial Investment Services and Capital Markets Act was approved by the cabinet council on June 26, 2012 and is due to be promulgated on June 26, 2012.

Regulators will develop detailed provisions by collecting industry feedback and studying the short position reporting regime in other markets and reflect them in Regulation on Financial Investment Services.

### Proposed Rules

An investor, as opposed to a brokerage house, who has an open short position[1] resulting from short sales that amounts to or exceeds the threshold of 0.01 % of the issued share capital of a listed company[2] at the end of each trading day has an obligation to report the short position to the regulators.

[1] Open short position means the quantity of shares that are borrowed and sold. As brokerage firms have limitations in access to information of each investor, an individual investor has the obligation to report the short position.

[2] Australia: 0.01%, Hong Kong : 0.02%, EU: 0.2%, UK: 0.25%, Japan: 0.25%

An investor that runs a number of units in pursuit of investment strategies independent from each other would be required to aggregate the short positions in a particular stock of all units ("Aggregation Units").

The regulators set the threshold at 0.01%, a level that can help strengthen monitoring of short selling activities and cope with unfair trading acts. IOSCO suggested that the threshold level has to be tailored to the circumstances of a particular market.

An individual investor who has the reporting obligation should report his reportable short position within three business days from the day when short position reaches the threshold. If the daily short positions continue to amount to or exceeds 0.01 % of the issued share capital of a listed company, the investor who has the reporting obligation should report to the regulators each day.

The reporting requirement applies only to short positions resulted from trading shares listed on the exchange. Short positions created via trading of other securities or derivatives will be excluded for reporting purpose.

Short sale positions incurred from market makers' activities to provide liquidity in the markets will not be counted for the threshold positions.

Details that should be reported are the name of the short-sold stock, the name and other personal information of reporting individual, total quantity of open short positions of the short-sold stock and the proportion of short positions to the issued share capital.

The short positions report would be submitted electronically through the FSS website.

A notice on amendments to the Regulation on Financial Investment Services will be published for 40 days from June 27 to August 5, 2012 and the proposed reporting rule will be submitted for FSC approval in August so that it can come into effect from August 30, 2012.

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