

## IMPROVED SECURITIES LENDING SYSTEM FOR RETAIL INVESTORS TO COME INTO PLACE FROM MAY 3

The FSC announced that the improvements made to the securities lending system for retail investors will come into place from May 3, 2021.

From May 3, seventeen securities firms will begin to provide stock lending services in the amount of about KRW2 trillion to KRW3 trillion. Retail investors wishing to participate in stock short selling are required to complete pre-learning and mock trading programs which will be available from April 20. Based on the level of experience of individual investors, the maximum investment amount allowed for short selling will be differentially applied.

### **KEY DETAILS**

Retail investors' access to stock short selling has been limited as a shortage in securities lending led to the decline in the demand for stock borrowing and number of securities firms offering such service. As of the end of February 2020, securities lending services were available from only six securities firms<sup>1</sup> in the amount of about KRW20.5 billion.

In order to improve retail investors' access to stock short selling, the FSC and financial investment businesses will begin to offer more opportunities for stock borrowing. A total of twenty-eight securities companies will provide securities lending services. However, as these companies have different schedules for completing the development of their IT system, from May 3, stock lending service will be available from seventeen securities firms first with the rest expected to join within this year. As such, it is expected that a total of KRW2.4 trillion in stock lending will become available for KOSPI 200 and KOSDAQ 150 stocks on May 3.<sup>2</sup> For retail investors, a maximum of sixty days of stock borrowing period is guaranteed unlike institutional or foreign investors.

### **SAFEGUARDS AND REGULATIONS FOR RETAIL INVESTORS**

The following safeguards have been put in place to bolster investor protection against excessive loss. First, investors should have securities lending agreements with their trading firms and those without an existing account need to create a new securities account. Second, investors with no prior investment experience in short selling should complete a pre-learning program and a mock investment tryout offered

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<sup>1</sup> NH Investment & Securities, Kiwoom Securities, Shinhan Investment, Daishin Securities, SK Securities and Yuanta Securities Korea

<sup>2</sup> Please click [here](#) to see the announcement on partial resumption of stock short selling on Feb. 3, 2021.

by the Korea Financial Investment Association and the Korea Exchange, respectively. Third, the restriction on the total investment amounts for short selling will be differentially applied to retail investors based on their investment experiences—(a) KRW30 million for novice investors, (b) KRW70 million for those with five times or more of short selling experience and KRW50 million or more in stock borrowing and (c) unlimited amount for those qualified for the “b” category for two or more years and professional investors.

Retail investors are also subject to the restrictions prescribed by the revised Financial Investment Services and Capital Markets Act as follows.<sup>3</sup> Short sellers are restricted from participating in a company’s capital increase via issuing new shares once the company has made such a plan public. If an investor has shorted a company’s stock within the period of one day after the announcement of the company’s capital increase plan until the determination of the issuing price, the investor is not allowed to participate in the company’s capital increase. A monetary penalty of up to 1.5 times the undue profit gained from violating this rule can be imposed. Investors with net holding balance above a certain level<sup>4</sup> due to short sale activities should report to the FSC and the KRX. A monetary penalty of up to KRW30 million can be imposed for violating this rule on each incident.

## **OTHERS**

Regulatory improvements have been made to the rules on the securities firms’ credit offering limit to facilitate their securities lending services. Prior to the revised FSCMA taking effect on April 6, the maximum limit on a securities firm’s credit offering—which is one hundred percent of equity capital—was calculated as a sum of credit loans and stock loans without paying attention to their individual ratio to equity capital. This led to securities firms focusing on credit loans while disincentivizing them to offer stock lending to individual investors. In this regard, the revised FSCMA requires a separate calculation on credit loans and stock loans to be within ninety-five percent and five percent of equity capital, respectively.<sup>5</sup>

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For press inquiry, please contact Foreign Media Relations at [fsc\\_media@korea.kr](mailto:fsc_media@korea.kr).

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<sup>3</sup> Please click [here](#) to see the press release dated March 30, 2021.

<sup>4</sup> (a) Net holding balance is 0.01% or more of the total number of listed stocks with appraised value of KRW100 million or more, or (b) appraised value is KRW1 billion or more

<sup>5</sup> Calculating the maximum limit on credit loans: the amount of credit loans minus ½ the amount of stock loans should be 95% of equity capital or less.

Calculating the maximum limit on stock loans: the amount of stock loans minus ½ the amount of stock loans should be 5% of equity capital or less.