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Press Release

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PLAN TO IMPROVE REGULATIONS ON SHORT SELLING

BACKGROUND

Short selling is one of investment techniques that investors sell either securities they do not own or ones they borrowed. Short selling can contribute to enhancing market efficiency as it provides liquidity and serves as a hedging tool for investors when stock prices fall. However, it has side effects as well. Naked short selling involves a risk of unfulfilled settlement. Speculative short selling prevents fair price forming the market.

The Korean government has been strictly regulating short selling, compared to other countries.¹ Naked short selling is prohibited. Since October 1, 2008, covered short sales of all stocks were banned. Short sales of financial stocks have been banned since then, while ban on short selling of non-financial stocks was lifted in June 1, 2009 except for the period from August 10 to November 9, 2011 when the ban was temporarily reinstated due to concerns about the European debt crisis.

As the stock market have stabilized since the second half of 2013, however, there is a need to shift the government's regulatory approach to short selling from direct regulations, which has been in place since the financial crisis in 2008, to indirect ones.

After reviewing short-selling regulations in other advanced countries and problems raised about the current regulations, the FSC announced today its plan to improve regulations on short selling so that we can minimize side effects of short selling, while boost trading activities.

KEY CONTENTS

1. Lift ban on short sale of financial stocks

Ban on short sales of financial stocks, which has been in place since October 2008, will be lifted from November 14, 2013.

¹ Since the financial crisis in 2008, naked short selling was banned in most countries. Major countries including EU and Japan strengthened investors' obligations of disclosing their short-selling positions. It is more common among global regulators to indirectly regulate short selling by imposing on investors duties of reporting and disclosure than directly banning covered short selling.

2. Introduce disclosure requirements of investors' short-selling positions

Investors whose short-selling position in a stock exceeds 0.5% of total shares will be required to disclose their position on the KRX website.

3. Improve effectiveness of the current regulations on disclosure of short-selling positions

The FSC will establish a legal ground to sanction with corrective order and fine those who violate disclosure duties on their short-selling position. Short-selling positions for each stock will be made public on the KRX website on a daily basis for investors' reference. Short sales less than KRW 100 million will be exempted from disclosure requirement, while it will become mandatory to disclose short sales exceeding KRW 1 billion.

EXPECTED OUTCOMES

The lifting of short-selling ban on financial stocks is expected to boost trading activity since financial stocks represent 12% of total market capitalization.² The disclosure requirement of short-selling position will make short selling activities more transparent and enhance credibility in Korea's capital markets.

IMPLEMENTATION SCHEDULE

Ban on short sales of financial stocks will be lifted starting from November 14, 2013. The FSC will revise relevant laws and regulations in order to ensure other measures including strengthened disclosure requirement are implemented as soon as possible.

Measures	Implementation schedule
Lifting of short-selling ban on financial stocks	November 14, 2013
Disclosure requirements of investors' short-selling positions & improvement to the current regulations on short-selling disclosure	Revision to Capital Markets Act* (scheduled in the first half of 2014)

(*The implementation schedule may be changed depending on legislative procedure)

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² Daily average trading value of financial stocks (KRW 100 million): 9,352(2008), 9,214(2009), 7,302(2010), 7,108(2011), 3,773(2012), 3,525(the 1st half of 2013)