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Government Strengthens Short Selling Rules

South Korea: Financial Services Commission

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GOVERNMENT STRENGTHENS SHORT-SELLING RULES

The government will tighten regulations on stock short-selling for three months beginning on March 10 in response to the recent market volatility. While closely monitoring market developments, the government will continue to take appropriate measures based on contingency plans.

MEASURES TO TIGHTEN SHORT-SELLING RULES

In March 2017, the government introduced the designation scheme for overheated short-selling stocks, which began to prohibit for the next trading day the short-selling of stocks with an abnormal increase in short-selling trading volume and a price falling rate.

The government will lower the bar for designating such overheated short-selling stocks. In the KOSPI market, an issue will be designated as an overheated short-selling stock if it has a price falling rate of 5% or higher and a short-selling trading volume of 3 times above the average (currently 6 times above the average).¹ In KOSDAQ, the standard for short-selling trading volume will be lowered from 5 times above the average to 2 times above the average.

Stocks with price falling rate of 20% or more will be designated as overheated short-selling stocks if the increase in short-selling trading volume is 2 times and 1.5 times the average in the KOSPI and KOSDAQ market, respectively.

<Changes in Overheated Short-selling Rules>²

Market	Price falling rate	Short-selling ratio ³	Increase in short-selling trading volume
KOSPI	5~10%	3 times or more of short-selling stocks in KOSPI during the preceding quarter	From 6 times the average to 3 times the average
	10% or above	-	-
	20% or above	-	2 times the average
KOSDAQ	5~10%	3 times or more of short-selling stocks in KOSDAQ150 during the preceding quarter	From 5 times the average to 2 times the average
	10% or above	-	-
	20% or above	-	1.5 times the average

The period of the short-selling ban on the designated stocks will be extended from one to 10 trading days (2 weeks).

¹ Short-selling trading volume within a trading day divided by average short-selling trading volume of previous 40 trading days

² Changes and new measures are indicated in red

³ Short-selling trading volume within a trading day divided by total trading volume within a trading day