

## **Notice of Amendment of Enforcement Rules to Strengthen Designation System for Overheated Short Selling Issues**

### **1. Overview**

As a follow-up measure to the "Enhancement of Illegal Short Selling Detection and Punishment and Improvement of Short Selling System" announced jointly by related authorities\* on July 28, 2022, the Korea Exchange (KRX) plans to revise the enforcement rules of business regulations for its securities markets (KOSPI, KOSDAQ and KONEX) in order to strengthen the designation system for stocks under overheated short selling.

\* Financial Services Commission, Supreme Prosecutors' Office, Financial Supervisory Service, and Korea Exchange

### **2. Details of amendments** (Significant increase in the designation of overheated short selling stocks)

**Addition of criterion for overheated short selling stocks:** Type 4 (short selling proportion of 30% or more / stock price decrease rate of -3% or more / increase rate of short selling trading value is double or higher) will be added to the current criteria for overheated short selling stock detection system.

According to the simulation, the new criteria will increase the number of designated overheated short selling stocks to 785 from 690 in a year (+95 cases, +13.8%).

<Addition of Criterion for Overheated Short Selling Stocks (new details are in blue)>

Type	Stock price decline rate	Short selling proportion <sup>1)</sup>	Increase in short selling trading value <sup>3)</sup>	Weighted average of short selling <sup>4)</sup>
Type 1 (All securities markets)	-5% or more ~under -10%	<ul style="list-style-type: none"> <li>○ KOSPI: 3 times or higher than the proportion of short selling on the KOSPI in the previous quarter<sup>2)</sup>(maximum 20%)</li> <li>○ KOSDAQ and KONEX: 3 times or higher than the proportion of short selling on the KOSDAQ 150 in the previous quarter (maximum 20%)</li> </ul>	KOSPI: 6 times KOSDAQ: 5 times KONEX: 5 times	-
Type 2 (All securities markets)	-10% or more	-		-
Type 3 (KOSDAQ only)	-	-	KOSDAQ: 5 times	5% or more
Type 4 (All securities markets)	-3% or more	30% or more of the short selling trading value in comparison with the total trading value on the day for stocks	KOSPI: 2 times KOSDAQ: 2 times KONEX: 2 times	-

- 1) Short selling proportion: Short selling trading value on the day / Total trading value on the day
- 2) Short selling trading value of KOSPI (KOSDAQ 150) constituents in the previous quarter / Trading value of constituents of KOSPI (KOSDAQ 150) index in the previous quarter
- 3) Short selling trading value on the day / Average short selling trading value during the last 40 trading days
- 4) Average short selling proportion per day during the last 40 trading days

**Extended prohibition period of short selling:** If a stock price decreases 5% or more on the prohibition day or on the extended prohibition day of short sale, the period of short selling prohibition is extended to the next trading day.

According to the simulation, the number of days designated as a overheated short selling stocks will increase from 690 to 796 in a year (+106 days, +15.4%).

<Criteria for Resumption of Short Selling or Extension of Prohibition on Short Selling for Designated Overheated Short Selling Stocks>

T day	T+1 day		T+2 day		T+3 day		T+4 day(...)	
designation of overheated short selling stock	Prohibition on short selling	Rate of return > -5%	Resumption of short selling	Current criteria for overheated short selling stocks apply				
		Rate of return <= -5%	Extension of prohibition on short selling	Rate of return > -5%	Resumption of short selling	Current criteria for overheated short selling stocks apply		
				Rate of return <= -5%	Extension of prohibition on short selling	Rate of return > -5%	Resumption of short selling	(…)
						Rate of return <= -5%	Extension of prohibition on short selling	

### 3. Implementation schedule

After revising the enforcement rules of business regulations and issuing an advance notice in August, the KRX will implement the new short selling issue designation system as soon as possible considering the IT system development.

For any inquiry, please contact International Relations Team at [world@krx.co.kr](mailto:world@krx.co.kr)

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