

Short selling regulation made more robust via reporting implementation

18 Jun 2012

With effect from today, market participants are required to report short positions to the Securities and Futures Commission (SFC) under the Securities and Futures (Short Position Reporting) Rules (Rules) (Note 1).

This means that, those who have reportable short positions as at Friday, 22 June must report to the SFC by the following Tuesday, 26 June (Note 2).

“We already have in place a number of measures to regulate appropriately short selling activities,” said Mr Ashley Alder, the SFC’s Chief Executive Officer. “Short position reporting will now enable us to monitor more closely short selling activities. This will give us more visibility of short selling activities overall, help us detect unusual or abnormal trading pattern and thereby allow us to better determine how to respond as the securities market regulator.”

Short selling can facilitate efficient price discovery process. However, in order to limit activity that may affect the orderly functioning or stability of the market, restrictions of short selling are in place in most jurisdictions.

Hong Kong’s existing short selling regulations have the following main features:

- “Naked” short selling is prohibited, which means short sellers need to arrange to borrow stocks before they execute short sales.
- To make a short sale easily identifiable, exchange participants are required to put a marker on each short selling order when they submit it to The Stock Exchange of Hong Kong Ltd (SEHK) for execution.
- Short selling is only allowed for more liquid stocks determined by SEHK.
- The “uptick rule”, where short sales cannot take place at less than the best ask price, imposed by SEHK helps prevent short sales having an abnormal effect on market prices.

End

Notes:

1. The Securities and Futures (Short Position Reporting) Rules (L.N. 48 of 2012) can be viewed online via Hong Kong’s Department of Justice Bilingual Laws Information System:
<http://www.legislation.gov.hk/eng/home.htm>
2. Under the Rules, those who have reportable short positions must notify the SFC within two business days after Friday, 22 June.

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