

SFC IMPOSES PENALTY SURCHARGES ON GLOBAL INVESTMENT BANKS FOR ILLEGAL SHORT SELLING ACTIVITIES

- The SFC decides to impose penalty surcharges (KRW26.52 billion in total) on two global investment banks and an affiliated domestic securities firm for engaging in naked short selling activities over a four-to-nine-month period.
 - It is the severest level of monetary punishment imposed on short selling violations.
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The Securities and Futures Commission, a sub-commission within the Financial Services Commission responsible for the oversight of the securities and futures markets, decided to impose KRW26.52 billion in penalty surcharges on two global investment banks (“Company A” and “Company B”) and an affiliated domestic securities firm (“Company C”) for violating short selling regulations under the Financial Investment Services and Capital Markets Act (FSCMA). The SFC also decided to report violations committed by “Company A” and “Company B” to the prosecutors’ office for investigation. The authorities found that the naked short selling activities committed by these financial companies over an extended period (about four-to-nine-months) constitute a grave offense harming capital markets’ trading order and investor confidence. Thus, the SFC reached a decision to bring the severest level of penalty surcharges against them since the penalty surcharge system for short selling violations became available in April 2021.

“Company A” based in Hong Kong was found to have placed short sale orders amounting to about KRW40 billion on 101 stock items between September 2021 and May 2022 without first borrowing the shares. The SFC found the naked short sale orders placed by “Company A” to be intentional. An affiliated domestic securities firm (Company “C”) of “Company A” also violated short selling regulations by continuously handling consigned orders.

“Company B” based in Hong Kong was found to have placed short sale orders of about KRW16 billion on nine stock items between August 2021 and December 2021. Although the company was well aware that its ordering process and computer system were not consistent with domestic regulations, “Company B” continuously and repeatedly placed short sale orders first and then borrowed shares afterwards for a prolonged period of time. The authorities found these breach of rules to be intentional.

The financial authorities will continue to strictly deal with unfair trading activities and violations of short selling regulations in capital markets, while working on short sale reform measures to improve the system.

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