



Measures to strengthen the supervision of short selling

Short selling refers to the trading activity where an investor sells borrowed securities on the open market with the aim of buying them back when the stock price drops to return such securities to the lender; short sellers make profits out of the differences between the higher selling price and the lower purchasing price. Short selling activities are regulated by the Securities and Exchange Commission (SEC).

There have been concerns about the potential naked short selling activities in Thai stock market which led to the uncertainty about the ability of the SEC to inspect such illegal transactions. Naked short selling refers to illegal short selling activities where the investor short sells the securities that do not exist or without first borrowing or securing the right to borrow the securities.

The Stock Exchange of Thailand (SET) proposed for the SEC approval the measures to strengthen the supervision of short selling and the supervision of the usage of Algorithmic Trading with objectives to enhance the mechanisms for building trust and confidence in securities trading and to hinder the violation of short selling rules and improper trading behaviors.

The proposed measures include the enhancement of the quality of securities eligible for short selling such as by increasing the requirement in terms of size and liquidity of the securities, amendment to the law is to increase liabilities across the entire chain such as by adding a mechanism for identifying the end beneficiary and by increasing penalties for naked short selling and non-compliance of short selling rules, the development of the central system to serve as a source of information for the securities companies to check pre-trade risk on clients' stock balances, the price fluctuation control, the enhancement of the oversight quality of intermediaries such as the SET and the securities companies, and measures relating to inappropriate trading behaviors. The proposal also covers the measures to control the impact caused by short selling such as by implementing "Uptick Rule" when the closing price of any security has dropped by at least 10 percent from its

closing price in the previous day. The Uptick Rule requires all securities to be short-sold at prices higher than their previous trade price instead of the current rule which allows securities to be short-sold at the same price as the previous trade price. The aim is to mitigate the downward momentum of securities prices.

The proposed measures were approved by the SEC and have been implemented on 1 July 2024.

Should you have any question, please do not hesitate to contact us via info@bgloballaw.com

