Short selling activities in Hong Kong

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There has to date been no indication that recent declines in the Hong Kong stock market have been caused by short selling activities, the Chief Executive Officer of the Securities and Futures Commission (SFC), Mr Ashley Alder said, adding that the SFC will not hesitate to take immediate action to deter any manipulative or abusive short selling practices.

Mr Alder pointed out that stock markets around the world have seen significant downward adjustments and increased volatility in recent months against the background of an uncertain global economic outlook and the Eurozone sovereign debt crisis.

“Short selling is a trading and hedging tool commonly and legitimately used by a range of market participants. It is not unusual to see the level of short selling increase significantly in the market environment we have been experiencing in recent months,” Mr Alder said.

“Extreme volatility has reflected global concerns centred on an evolving financial crisis which started three years ago, and which is now centred on sovereigns and exposed banks, particularly in the Eurozone,” he added.

In relation to the market rally in the last two days, Mr Alder pointed out that markets are currently very sentiment driven. “We can see this from the market rebound following reports of greater political resolve in Europe to address the debt crisis, and news of further market stimulus by the Bank of England and the extension of unlimited liquidity by the European Central Bank to Eurozone banks.”

The SFC will remain vigilant and continue to closely monitor market developments to ensure that market integrity is maintained at all times, he added.

Mr Alder reiterated that Hong Kong has a robust short selling regulatory regime that is more stringent than most overseas markets, and that the SFC will be introducing legislation shortly to implement a short position reporting regime to further enhance the transparency of short selling activities (Note 1).

End

Note:
1. Short selling in Hong Kong is permitted only if it is “covered”, that is, at the time of the sale, the seller must have borrowed the stock or obtained a confirmation from the lender that he has the stock available to lend to the seller. The seller and his broker are required to confirm that the short selling orders were “covered” before executing the transaction, and short selling orders must be flagged when submitting to the Stock Exchange of Hong Kong (SEHK) for execution. Breaches of these statutory requirements may result in criminal prosecution.

In Hong Kong, only liquid stocks are permitted by the SEHK for short selling. In other major markets, short selling is generally allowed for all stocks listed on the respective markets. In addition, the “uptick rule” imposed by the SEHK requires that a short sale cannot be made on the SEHK below the best current ask price. Furthermore, the SEHK requires compulsory buy-in for failed trades if sellers cannot deliver the stocks for settlement.

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