

SEC Supervision of Short Selling Transactions

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The Securities and Exchange Commission (SEC)

When stock markets tumble, “short selling” is often claimed to be a major factor driving down stock prices, amplifying volatility or draining market liquidity. Yet this characteristic overlooks the legitimate role that short selling plays as a trading mechanism in stock markets worldwide based on the principle of “borrowing shares to sell first and buying them back later (at a lower price).” This mechanism actually helps to enhance liquidity and serves as a risk management tool for investors. Nevertheless, there are always two sides to every coin. Short selling can be most effective only when the transactions are fair and conducted normally without taking advantage of others. Recognizing this balance, the SEC has continually refined regulations governing short selling transactions to ensure transparency, fairness and accountability, thereby strengthening confidence in Thailand’s capital market.

In late 2023, the Thai stock market faced a situation where both trading volume and share price levels declined significantly compared to stock markets in other regions. Additionally, there were concerns from investors regarding short selling transactions that may not have been conducted in accordance with the governing regulations, which affected overall confidence in the Thai stock market.

In July 2024, the SEC and the Stock Exchange of Thailand (SET) jointly discussed measures for enhancing short selling supervision by benchmarking against regional countries such as Singapore, Japan, and Malaysia, in order to strengthen the mechanisms and investor confidence in securities trading. The actions that have been implemented are as follows:

- Revising the eligibility criteria for securities in the Non-SET100 Index group that can be short sold by increasing the market capitalization requirement and raising the liquidity threshold (Turnover Ratio);
- Amending the trading rules for short selling by implementing the Uptick Rule, requiring short sales to be executed at a price higher than the last traded price, for all securities. This aligns with the practices of the Indonesia Stock Exchange and is a more appropriate approach than banning short selling entirely.

Later, in April 2025, the SEC and the SET monitored and evaluated the results of implementing these measures, finding that short selling transaction volume decreased significantly. However, at the same time, it also affected the overall market liquidity.

Therefore, the criteria for securities eligible for short selling were revised to include only stocks in the SET100 Index and stocks that serve as underlying securities for DW/ETF and SSF on Thailand Futures Exchange (TFEX), effective since April 16. The removal of stocks in the Non-SET100 Index group was intended to reduce volatility in mid-cap and small-cap stocks that may not have sufficient trading liquidity. Meanwhile, the SET is considering revising the Uptick Rule criteria by applying it on a per-security basis when the closing price of any security drops to a specified level, in order to reduce the impact on overall trading conditions without excessive market intervention after gathering feedback from stakeholders.

Regulatory amendment to penalize those who engage in short selling without possessing the securities (Naked Short Selling)

Recently, suspicions have emerged regarding such transactions, with claims that they may have caused SET Index to decline significantly, affecting investor confidence and market credibility. Therefore, to enhance supervisory efficiency, the SEC has amended the governing law and established additional necessary provisions that are beneficial for comprehensive monitoring of short selling and timely law enforcement, as well as maintaining orderly securities trading on the stock exchange.

On 24 September 2025, the SET and the SEC received recommendations from securities companies regarding the monitoring of short selling transactions on the stock exchange, particularly concerning short selling transactions combined with the use of HFT (High Frequency Trading), which has a high-level impact on the capital market. Both agencies have considered and provided their views on the recommendations as follows:

1. Proposal to repeal locate requirement for borrowing shares, suggesting guidelines for securities companies' practices in cases where clients request a locate for securities that are unclear, and preventive measures during the transition period before repeal:

Allowing securities companies to accept short sale orders from clients who have confirmed the arrangement of share borrowing sources, or have located shares (in addition to borrowing securities into their portfolio before executing a short sale order) is an internationally accepted practice, as clients do not yet know whether they will be able to execute the short sale or in what quantity. However, securities companies must verify in advance to ensure that clients are able to borrow shares required for delivery under the short sale order. The share borrowing arrangement must take effect immediately once the short sale order is matched.

The SEC is revising regulations and circulars for greater clarity, having already conducted focus groups and provided clarification to the Federation of Thai Capital Market Organizations (FETCO). Securities companies will be able to accept short sale orders from clients who request locate confirmation only when complying with the specified criteria.

As for the additional measures proposed, such as securities lending and borrowing service providers must notify clients who lend shares in advance, the immediate reservation of shares that have been located for clients without allowing them to be lent again, or charging of locate fees, etc., these proposals are already in accordance with existing rules and standard market practices. Additionally, regarding the current regulations that allow securities companies to require collateral from institutional clients differently from general investors, this is in line with the general principle that allows securities companies to manage clients based on their risk exposure.

2. Proposal that the sale of borrowed shares should be considered short selling every time, even if there has been a buyback in the interim: The view is that if a client borrows shares and flags them as “S” (short sale) at the beginning of the day, and subsequently buys back the shares during the day, the sale of those shares that have already been bought back should also be regarded as a short sale:

The proposed approach is inconsistent with the practices specified in the law and relevant notifications. This is because general investors, regardless of whether they have previously engaged in short selling, have the right to buy shares and subsequently sell those shares as a long sale. Therefore, in practice, investors borrow securities according to the amount they short sell. If a buyback and sale occur during the same day, such sale may be treated as a long sale, and investors will borrow securities overnight based on the net amount of shares remaining after accounting for the buyback.

3. Proposal for the SET to review the monitoring practices of short selling transactions by requiring verification through supporting documents instead of relying on netting-based inspection:

On this matter, the SET has already informed securities companies of the inspection process at a joint meeting with member companies and the SEC on 21 August 2025, regarding the netting of trading transactions used to determine whether there were any sell orders placed without prior possession of securities. It was clarified that such inspection serves as one of the tools for identifying suspicious transactions, and that the SET may also detect suspicious transactions through other appropriate methods as well.

If suspicious transactions are identified, securities companies are obligated to submit supporting documents within the specified timeframe to ensure that the suspicious sell orders were backed by securities held before the orders were placed. These supporting documents must be reliable, such as evidence from lenders or evidence from custodians. Requesting supporting documents only for suspicious transactions is a standard supervisory practice to avoid imposing undue burden on investors and compliance officers, most of whom already comply with the relevant regulations.

These comprehensive measures and regulatory improvements reflect the firm commitment of the SEC and the SET to protecting market integrity. Through ongoing collaboration, both agencies have closed loopholes that enable irregular transactions while implementing rigorous monitoring frameworks. These collective efforts aim to cultivate a fair and effective capital market, reinforcing confidence in Thailand's capital market.
