

SECURITIES FINANCE TIMES

The primary source of global securities finance news and analysis

Issue 399 31 March 2026



A resurgence in the market

One year on from the reintroduction of short selling in South Korea, participants react to activity that exceeded expectations

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South Korea: A resurgence in the market

One year on from the lifting of South Korea's short selling ban, Carmella Haswell explores continued spikes in activity, new trends, and where the market is heading

South Korea's short selling ban was first implemented in domestic markets by the Financial Services Commission (FSC) in November 2023. It followed the discovery of a number of illegal naked short selling practices, which were conducted by foreign and institutional investors. Despite an intention to lift the ban in June the following year, it was kept in place for 17 consecutive months.

During the ban, the South Korean government intended to work on a three-fold plan to improve the system and root out illegal activities. The FSC looked to focus on measures to 'level the playing field' between institutional and retail investors.

For Peter Kim, head of Global & Wholesale Division and global

investment strategist at KB Securities, the ban lift was not simply a return to the past, but rather it represented a transition to "a more advanced market structure" with enhanced systems and controls.

The core of this new framework is a naked short selling prevention system built around institutions' own IT systems, internal control standards, and the Korea Exchange's central monitoring system, otherwise known as the naked short selling detecting system (NSDS).

"While there were initial operational burdens associated with building these systems, the full expansion of the eligible securities universe restored the effectiveness of long-short and hedging strategies,



allowing domestic and foreign investment demand to quickly return to a normalised trajectory,” Kim states.

This demand is reflected in the data supplied by EquiLend. Here, South Korea was named the fifth-highest revenue-generating equity market in 2025, generating US\$404 million, as the semiconductor-heavy market removed short selling bans. Immediately after the ban lifted, the Korean securities lending market saw a sharp rise in the second quarter of 2025.

As restrictions fell away, EquiLend reports that demand to borrow securities had surged almost immediately, pushing on-loan balances from roughly US\$5.5 billion in the first quarter of 2025 to more than US\$14.7 billion in the second quarter. Utilisation more than doubled to 10.5 per cent, and fees jumped accordingly as shorts rushed back into the market.

Exploring this surging activity, Matt Chessum, executive director, equity and analytic products at S&P Global Market Intelligence, notes that

once the market reopened, conditions normalised quickly. Short selling ‘readiness’ rebuilt at pace, with balances recovering toward pre-ban levels by late 2025 and early 2026.

Figures from S&P Global Market Intelligence reveal that stock on loan rose to approximately US\$32.7 billion in the fourth quarter of 2025, increased to US\$36.3 billion in January 2026, and peaked at US\$42.5 billion in February 2026 — evidence of a rapid return of borrowing, shorting, and hedging activity as confidence in the regulatory framework improved.

“Candidly, saying mission accomplished is an understatement,” notes Stephen Howard, CEO of Securities Finance Association Asia Pacific.

“If we take the simple metrics of trade volumes, notional outstanding, equity market participation, and the robust equity market returns from the South Korean market, then this is a stand out success regionally and, in some respects, globally,” he continues.

This is not to say that market structure challenges do not remain, Howard warns, and that the frictional costs of market participation are increased — however, the objective was achieved. Howard adds: “With the benefit of hindsight would we have expected this, no. I was expecting a more progressive level of caution combined with market driven optimism.”

Continuing his analysis of market performance, Chessum highlights that geopolitics and volatility also played a role in shaping post-reopening demand. Renewed global risk episodes, particularly Middle East tensions feeding into oil-price volatility, tend to increase dispersion at both the index and single-stock level.

“The more advanced a market becomes, the more attractive it is from the perspective of global investors, and the importance of short selling as a hedging tool is only expected to grow”

Through this exploration, Chessum notes: “That environment is typically supportive of hedging and relative-value strategies that rely on stock borrowing. Korea-specific considerations, including ongoing security risks and trade-related frictions, have continued to influence foreign investor positioning, even as policymakers work to narrow the long-standing ‘Korea discount’ through governance and market reforms.”

At the same time, the equity market backdrop became increasingly supportive, highlights Chessum. The KOSPI’s “powerful rally” into early 2026, led by semiconductor and AI bellwethers such as Samsung Electronics and SK Hynix, boosted securities lending in two ways. Rising market capitalisations increased lendable supply and balance values, while stronger two-way flows, momentum-driven longs,

alongside hedged and relative-value shorts, pushed utilisation higher, particularly in large-cap and thematic names.

Similarly, Kim highlights that the resumption of short selling has been a key driver in bringing foreign investors, including hedge funds, back to the market.

“It has had the effect of broadening market participation and improving liquidity, and — in conjunction with government policy — has helped transform the market into a healthier investment environment,” he explained. “The more advanced a market becomes, the more attractive it is from the perspective of global investors, and the importance of short selling as a hedging tool is only expected to grow.”

An appealing new structure

Post-March 2025 market structure in Korea centres on much tighter control over short position management and reporting, says Jae Woo Ha, CEO of Korea Securities Lending.

Institutional investors are required to either implement computerised controls to prevent naked short selling or enter borrowed stock into their accounts before placing orders. Investors are also subject to enhanced internal control standards, says Ha, while brokers must verify compliance before routing orders. In parallel, the Korea Exchange’s NSDS was established to support central monitoring.

This reform has led to two outcomes, Ha explains. Firstly, it has raised the operational bar, especially for institutions that need to manage inventory, booking, and reporting with much greater precision. Second, it has improved confidence in market access, particularly for global investors who had long viewed Korea’s market-wide ban as a major obstacle.

Ha observes: “I see the increase in offshore participation as a function of both market size and market accessibility. Korea is a sizeable and liquid equity market within Asia, and once short selling was restored

under a more credible control framework, offshore investors naturally had more confidence to re-engage.”

An increase in offshore participation can deepen liquidity, improve price discovery, and support the development of a more sophisticated securities finance ecosystem. Ha believes Korea offers foreign institutions scale, liquidity, and a “much broader opportunity set than many regional markets”.

Speaking of improved confidence in the market, Kim identifies this trend on the retail investor side for short selling. He explains: “Even after the resumption of short selling, the Korean market’s rally has helped reduce the previously negative perception of short selling among retail investors.

“The improved fairness of the system has also contributed to a restoration of market confidence, which has translated into increased sign-ups for retail stock lending services and a larger lending pool in the market.”

In terms of opportunities, Kim believes now is the right time for the National Pension Service (NPS) to resume its Korean equity lending programme. In 2018, the NPS suspended the programme following criticism by investors who were concerned that stocks lent by the entity could be used by short sellers, which critics suggested could lead to a decline in stock price.

Kim comments: “Major overseas pension funds are already actively generating returns through securities lending. Highlighting this sends a powerful message that the Korean market is moving toward global standards.

“An increase in lendable inventory leads to a more stable securities lending market and greater transaction efficiency — and above all, it would contribute significantly to enhancing pension fund returns.”

In line with this environment, KB Securities intends to play a central

role in expanding its SBL and synthetic business in collaboration with global investment banks, to meet the long-short and hedging needs of offshore clients.

Breaking down operational challenges

Despite a positive attitude towards a newly revamped South Korean SBL market, several challenges remain, as summarised below.

Market participants are steadily improving regulatory compliance efficiency through the adoption of external post-trade management platforms and the enhancement of internal systems. A significant challenge is the precision required for real-time balance management.

Any discrepancy in reflecting real-time data at the point of order submission directly translates into regulatory violation risk, explains Kim. The high standards demanded of management systems also serve as a limiting factor for foreign institutions looking to participate in the short selling market.

Furthermore, the one-year maturity restriction on securities lending for short selling purposes is — “contrary to the intent of the regulation” — serving only to increase operational burdens and raise transaction costs in the market, he highlights. It would be desirable, from Kim’s perspective, to ease this restriction in order to stimulate activity in the securities lending market, and to also benefit MSCI Developed Market Index inclusion.

Recall management, borrow booking, item-level inventory control, and timely data submission remain difficult also, especially when parts of the workflow are still fragmented across multiple systems and manual touchpoints, notes Ha. Korea’s reforms require daily submission of short position balance and securities lending transaction data to the Korea Exchange, which has made operational precision “much more important than before”.

Market participants are responding through phased digitisation, according to Ha. The first stage was to meet the mandatory short

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sale control requirements. The next stage is broader front-to-back automation: better inventory and locate controls, more structured recall processing, and tighter integration between lending, trading, and reporting, Ha notes.

“In other words, the market has already moved a long way toward digitisation, but there is still room for further automation across the full SBL workflow.”

The revised market structure introduced significant regulatory, commercial, and infrastructural changes for firms operating in South Korea. Two of these features, as highlighted by Howard, are: a prescribed 90-day loan tenure (renewable up to three times, to a 360 day maximum) and a requirement to specify the purpose of each borrow — whether for short selling or another objective.

These changes have required institutions of all kinds to adapt their business activity.

Adjustments have included changes to crossborder flow management, modifications to client servicing and risk frameworks, and, in some cases, meaningful alterations to franchise footprint and capacity, says Howard. “Such evolution is to be expected: where gaps emerged, other market participants have expanded capacity to absorb the resulting demand, as reflected in observable data and flow patterns.”

South Korea’s position on the Asia stage

With a boost in volumes in South Korea, where does the country now stand within the Asian securities lending market in terms of its significance and contribution? “In my view, Korea is re-emerging as one of the major securities lending markets in Asia,” Ha concludes.

“It combines scale, established liquidity, active institutional participation, and a growing offshore investor base. Importantly, following the recent reforms, the market is also regaining its position as a more stable and credible market, supported by a stronger regulatory, and operational framework,” he confirms.

With participants highlighting the country’s 2025 performance and contributions to equity lending revenues, for instance, in the Asia market — alongside its concentration on AI and biotech and its growing offshore investor base — it is evident that South Korea is a stand out market within the continent.

Looking ahead to the next 12 months, Kim says South Korea should be moving beyond the ‘system stabilisation phase’ and into a period of ‘revenue maximisation’. “The full normalisation of the short selling framework will lead to an increased allocation to Korea within global long-short strategies,” he predicts.

“Driven by factors such as the resolution of the Korea discount and the possibility of Korea being added to the MSCI watch list for developed market inclusion, we anticipate significant growth in demand for the Korean SBL market.”

Meanwhile, Ha believes the next year will be defined by further operational digitisation, as he anticipates the market will invest in automation around borrow booking, recall processing, as well as reporting and supervisory data flows, in a “full post-reform operational modernisation” era.

Providing the association perspective, Howard understands that as investor interest in South Korean equities grows, demand for a broad suite of hedging solutions will continue to rise.

“Despite recent repricing episodes, 2026 has begun on a robust footing for the Korean equity market. We expect increased issuance — particularly from innovative technology firms seeking equity capital — and a resurgence in hybrid capital raising,” he expands.

“Although the year-end outcome remains uncertain, beta-based revenues in excess of two per cent make market participation attractive for fund managers. The decision is no longer whether to engage but how, when, and to what extent — providing a constructive backdrop for both supply and demand.” ■