Is Short Selling Banned in China?

BY CHIZOBA MORAH | Updated Jun 25, 2019

Short selling is the sale of a security that the seller does not own and is borrowed. Short sellers believe that the price of a security will decline in the near future, and can be bought back at a lower price to make a profit.

How Short Selling in China Started

The Chinese stock market has a very limited history of short sales. Starting in 2007, the Chinese government, in an effort to increase the types of financial instruments available to market participants, considered introducing short selling to the market.

By 2008, the China Securities Regulatory Commission (CSRC) announced that it would introduce margin trading and short selling on a trial basis, which was briefly delayed due to preparations for the 2008 Summer Olympics. After the Olympics concluded, a group of 11 top brokerage firms in China — including CITIC and Haitong Securities — received authorization to start the trial short sales program.

In March 2010, the CSRC began to allow a limited number of stocks to be sold short or bought on margin. It started with fewer than 100 stocks, but over the next few years climbed to nearly 700.

The CSRC issued guidelines stating that both short selling and margin buying were to be allowed for eligible "blue chip" stocks with good earnings performance and minimal volatility. Firms were required to disclose short-selling trading information on a daily basis before 9:00 a.m. on the next trading day.

Regulations Following the Stock Market Crash

In the middle of 2015, many Chinese trading firms voluntarily — with pressure from the government — halted all stockshorting activities during the country's stock market crash. The CSRC began to crackdown on “malicious short sellers” whose high-frequency trading practices were believed to be akin to market manipulation. By August of the same year, regulators discontinued the practice of same-day transaction settlements for short-sellers.

Regulators say they were looking to eliminate a practice where a trader submits an order but quickly withdraws it before the trade is completed, known as "spoofing."

By March 2016, short-selling had resumed at a number of brokerages. In May 2017, a set of revised rules designed to strengthen and stabilize Chinese markets was announced. One of the key provisions included regulating sales by major shareholders of listed companies.

(To learn more, see our guide on Short Selling.)

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