

**Short Sell Policy & Procedure and Long Sell Only Confirmation**

(Month, Date Year)

To:

From: CLSA Securities Korea Ltd.

We wish you prosperity.

We write to inform you that the existing business regulations governing the confirmation and closing of short sale orders on the Korea Exchange were amended as of March 4, 2009 and have come to effect on March 16, 2009 (the “Amended Regulations”).

In order to verify whether a sales order is for a short sale at the time of quoting the order, the Amended Regulations require that investors and securities companies confirm whether each sale order is a short sale order and, if it is, whether the order is “covered.” The Amended Regulations also instituted the long sell only confirmation in order to alleviate the inconveniences arising from the Short Sell Confirmation Procedure.

We would like to explain the “Short Sell Confirmation Procedure” and the “Long Sell Only Confirmation”. If you wish to execute the Long Sell Only Confirmation, please fill out the *Long Sell Only Confirmation Form* attached hereto as Exhibit A and send it to us. If you do not reply within 5 business days from receiving this letter, please be informed that you will be considered as long sell only capable accounts and blocking short sale on our order system will be followed. Therefore, if you are to do a short selling or if you have an account for a short sale, please let us know ASAP.

If you are to send the “*Long Sell Only Confirmation Form*” to CLSA Securities Korea, please send the signed one by an e-mail and send the original form to below postal address with the attention of Eun Sun Lee, the Head of Settlement.

- Name: Eun Sun Lee (Head of Settlements) / 822-397-8411
- E mail address: settlement\_seoul@clsa.com
- Postal Address: 30F, One-IFC, 10 Gukjegeumyung-Ro, Yeongdeungpo-gu, Seoul 150-945, Korea

## Short Sell Policy & Procedure

If you are classified as a customer who is capable of quoting short sale orders, under the Financial Investment Services and Capital Markets Act (“FSCMA”) and the Amended Regulations, you are required to go through the following Short Sell Confirmation Procedure with respect to every sale order you entrust to us.

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## 1. Short Sell

### 1.1 Short Sell Order

- ① You must give us notice by a written statement, telephone call or e-mail when you entrust us with short sale orders.
- ② Concurrently, you are required to confirm by written statement, telephone call or e-mail whether such orders are “covered”.
- ③ “Covered” means that a loan agreement (the “Loan Agreement”) has been entered into

to settle the stocks that will be traded through a short sale order. The execution of a master loan agreement alone is not enough to “cover” a short sale order; a specific loan agreement must be executed prior to quoting a short sale order to cover the stocks of a number equal or exceeding those to be sold through such order.

- ④ You may not quote a short sale order without confirming in advance by written statement, telephone call or e-mail that the short sale order is “covered”. Without such confirmation, your short sale orders will not be effective and you may not hold us responsible for any damages you incur as a result.
- ⑤ In order to satisfy the short sale orders verification for FIX/DMA trading, you must confirm the “short sale” and “covered” as follows:
  - a. Tag 54 (Side): Indicate a short sell order as “Sell Short,” and
  - b. Tag 114 (LocateReqd): Indicate “No” to confirm that a cover arrangement on the concerned securities is already in place in whole prior to the short sell order, or
  - c. Tag 58 (Text): Indicate “Covered”, “Borrowed” or “Located” to confirm that a cover arrangement on the concerned securities is already in place in whole prior to the short sell order.

### 1.2 Timing of Recognizing Borrowed / Lent out Stocks as Holding Position

- Borrowed stocks: To settle a sell order with newly borrowed stocks, holding position will be recognized only when stocks are borrowed or a borrowing contract is confirmed prior to the sell order.
- Lent out stocks: Selling “lent-out stocks” is considered as long selling if the return of which is confirmed and there is no possibility of settlement failure. The lent out position can be recognized as holding position if a return request is made before a sell order or if it is reasonably predictable under the SBL contract and business-practice that settlement is available by settlement date. In the latter case, the return request shall be made right after the execution of the sell order at the latest.

### 1.3 Settlement Delay Follow-up

- In case where a sell trade is not fully settled by noon on T+2 due to insufficient positions, the custodian bank will send the details to the broker by filling out the “Settlement Failure Status Notification Form.” Upon receiving the notification, the broker must obtain information such as borrowing agreement, loan return request, etc. from the concerned investor to verify whether there was a violation of the short selling rule and maintain

record of verification for at least three years. Details of all settlement delays due to short holding are reported to the Korea Exchange (“KRX”) each month.

- In case where a sell trade is not settled on the settlement date, the entire entrusted securities may be collected for a further sell trade for a period of 120 days from the trading day following the settlement date. The following cases, however, shall not be applied: the natural disaster, emergence situation, computer failure, error made by the broker or other cause that the broker acknowledges that the customer has not committed an intentional or wrongdoing.

#### 1.4 Long Sell Order

- In case you wish to quote a long sale order, you must inform us of the fact that such order is not a short sale order by written statement, telephone call or e-mail. We will then accept such order as “Long Sell” without any further examination.

#### 1.5 Overheated Short Sale Issues

- KRX may restrict the covered short sale of any issue by appointing an “Overheated short sale issues” if all of the following requirements are satisfied:
  - a. The closing price of the day shall be 95/100 or lower of the base price of the day;
  - b. The proportion of the trading value of covered short sale to the trading value of the day shall be at least three (3) times the proportion of the trading value of covered short sale of the quarter immediately preceding the quarter in which the concerned trading day falls to the total trading value of listed stocks of the same period; and
  - c. The trading value of covered short sale of the day shall be at least six (6) times the average of the trading value of covered short sale for the latest forty (40) trading days.
- In case where a sell trade is quoted for “Overheated short sale issues”, the order system shall automatically block the quotation so that the sell trade is not able to be placed in the market.

#### 1.6 Up-tick Rule

- When conducting a covered short sale or placing a quotation entrusted for a covered short sale, we shall not submit the quotation at a price that is lower than the most recent price.

It, however, may be quoted at the most recent price if the most recent price is higher than the price immediately preceding the most recent price (referring to a price that is different from the most recent price, which has been established most recently).

## **2. Long Sell Only Confirmation**

### 2.1 Executing Long Sell Only Confirmation

- If you do not intend to quote short sale orders through the accounts you opened with us, you may execute a Long Sell Only Confirmation in advance prior to making any sale orders or your accounts will be considered as a long sell only capable accounts if you don't reply back to us with the Long Sell Confirmation Letter within 5 business days from receiving this letter. We will then regard all sale orders you entrusted us with to be Long Sell only, and you need not go through the Short Sell Confirmation Procedure described above in Section 1. Besides, all your long sell only accounts will be blocking short sale on our order system.
- If several accounts are opened under a same or different name, the Long Sell Only Confirmation can be executed with regards to all or a portion of those accounts.
- Once the Long Sell Only Confirmation is executed or not reply to the Long Sell Only Confirmation with respect to certain accounts ("Long Sell Only Confirmed Accounts"), it will be deemed as though you will not submit any short sale orders through such accounts, and you need not go through the required Short Sell Confirmation Procedure described in Section 1. However, as to any other accounts with respect to which a Long Sell Only Confirmation has not been executed or notification has not been delivered to CLSA, the sale orders made through such accounts will be effective only if the Short Sell Confirmation Procedure described in Section 1 is followed.
- When executing a Long Sell Only Confirmation, please list up all the accounts you opened with us and divide them into one group of accounts through which short sale orders may be submitted and the other with Long Sell Only Confirmed Accounts only. Please use the *Long Sell Only Confirmation Form* attached hereto as Exhibit A.
- Please note that a separate Long Sell Only Confirmation must be executed with respect to each account you open in the future.

## 2.2 Quoting Sale Orders After Long Sell Only Confirmation

- Once you execute a Long Sell Only Confirmation or not reply to Long Sell Confirmation, you are classified as a customer who will quote Long Sell only, and we will electronically preclude any short sale orders from being quoted through your Long Sell Only Confirmed Accounts.
- Our electronic system will automatically reject any short sale orders that are quoted through a Long Sell Only Confirmed Account.

## 2.3 Quoting Short Sale Orders after Long Sell Only Confirmation

- If you want to submit a short sale order through a Long Sell Only Confirmed Account, please give us written notice or email of such intention by 3 business days prior to the date on which you have scheduled to quote the short sale order so that we can clear the automatic electronic preventive measures to allow the short sale order to be quoted through such account.
- Please note that we shall make the verification for a period of 120 days from the trading day following day when we recognized that you have conducted a short sale from the relevant account.

# 3. Reporting / Public Disclosure of Net Positions

## 3.1 Reporting on Net Positions

- Any of the following sellers shall file a report stating matters concerning the net position with the Financial Services Commission (“FSC”) and KRX within three (3) days from the date on which a relevant event occurs or 2<sup>nd</sup> business day after the date such event occurs. Also, the investor must file a report on the net short position with the FSS on a daily basis until the net short position falls below the reporting threshold:
  - ① A person in whose case the ratio of daily net position to the total issue of the relevant securities is a negative number (-) and the absolute value of which is not less than 1/10,000 (0.01%) and the net position value is not less than KRW100,000,000.
  - ② A person in whose case the ratio of net position is a negative number and the

appraised value of daily net position is not less than KRW 1,000,000,000.

※ *Reporting obligation: net short position ratio  $\geq -0.01\%$  and net short position value  $\geq$  (KRW 100 million); or net short position value  $\geq$  (KRW 1 Billion)*

### 3.2 Public Disclosure of Net Positions

- Where the ratio of daily net position of each issue of listed securities held by a seller to the total number issued listed securities is a negative number (-) and the absolute value of which is not less than 5/1,000 (0.5%), the seller shall disclose the following matters within three (3) days from the date on which a relevant event occurs or 2<sup>nd</sup> business day after the date such event occurs. Also, the investor must file a report on the net short position with the FSS on a daily basis until the net short position falls below the reporting threshold:
  - a. Matters concerning the listed securities;
  - b. Matters concerning the seller: Name, Address, Nationality, Date of Birth, Investor ID; and
  - c. Matters concerning the net position value etc.

※ *Disclosing obligation: net short position ratio  $\geq -0.5\%$*

## 4. Sanctions upon Violation

### 4.1 Follow-up Management of Short Sale Quotations

- Under the KRX regulation, in the event the KRX confirms through a member firm that the end investor has violated any short sale regulations under the FSCMA or is notified by the FSC of such violation during the preceding 6 months, each member firm is required to verify whether the end investor has delivered the underlying shares prior to such investor placing a covered short sale order, among other things.

Also, when an investor breaches the provisions on short sale as below cases, the Korea Exchange will notify such breach to the relevant securities companies, who will share such information with the entire community of securities companies.

The investor (client), in advance;

- ① Has to deliver the short selling shares in the account for 40 days if (i) such breach has occurred on one trading day and the total sold amount is over KRW 500 million and KRW 1 billion or less or (ii) such breach has occurred for 2 or more and 4 or less days and the accumulative amount sold is KRW 500 million or less
- ② Has to deliver the short selling shares in the account for 80 days if (i) such breach has occurred for 1 trading day and the accumulative amount sold is KRW 1 billion (ii) such breach has occurred for 2 or more and 4 or less days and the accumulative amount sold is over KRW 500 million and KRW 1 billion or less, (iii) such breach has occurred for 5 or more days and the accumulative amount sold is KRW 500 million or less,
- ③ Has to deliver the short selling shares in the account for 120 days if (i) such breach has occurred for 2 or more and 4 or less days and the accumulative amount sold is over KRW 1 billion, (ii) such breach has occurred for 5 or more days and the accumulative amount sold is over KRW 500 million and KRW 1 billion or less
- ④ Has to deliver all the selling shares in the account for 120 days if such breach has occurred for 5 or more days and the accumulative amount sold is over KRW 1 billion

<Pre-Delivery Requirement for Clients Violated Short Sell Regulations>

Accumulative amount sold No. of days sold	KRW 500 million or less	Over KRW 500 million and KRW 1 billion or less	Over KRW 1 billion
1	-	delivering the short selling shares for 40 days	delivering the short selling shares for 80 days
2~4	delivering the short selling shares for 40 days	delivering the short selling shares for 80 days	delivering the short selling shares for 120 days
5 or more	delivering the short selling shares for 80 days	delivering the short selling shares for 120 days	delivering all the selling shares for 120 days

- During a period of thirty 30 calendar days after the Korea Exchange confirm the breach, when an investor, who committed the breach, quotes a short sale order through a notified securities company, the securities company is required (i) to verify that the short sale order is “covered” by requesting the submission in advance of the Loan Agreement, etc. and (ii) to reject such short sale order if the investor fails to submit such documents or evidence.

#### 4.2 Administrative Fines

- In case of breach of the short sales provisions, according to the FSCMA Article 449 & the

Enforcement Decree of the FSCMA Article 390, the investor and/or the securities company may be subject to administrative sanctions such as a fine in the amount of less than hundred million (100,000,000) Korean Won for each case and an order of suspension of business.

<Exhibit A>

### Long Sell Only Confirmation

To: [CLSA Securities Korea]

We hereby confirm that we will not submit any short sale orders through the accounts listed below, which we opened with your company. In this regard, we hereby acknowledge that the sale orders we quote through the accounts with respect to which we execute this Long Sell Only Confirmation will be deemed to be for Long Sell only and not short sale orders; that a quote for a short sale order through such accounts will be ineffective and that your company will not be held liable for any damages arising therefrom; that in order to submit a short sale order through an account with respect to which a Long Sell Only Confirmation has been executed, we must inform you in advance of such intention at least [\*\*] business days prior to the date we scheduled to quote such order; and that a separate Long Sell Only Confirmation will be required with respect to an account we will open with your company in the future.

<Note> Please check the box (☐).

#### 1. Long Sell Only Confirmation with Some Accounts

Accounts subject to Long Sell Only Confirmation

Account Number	Long Sell Only Confirmation

#### 2. Long Sell Only Confirmation with All Accounts Currently Opened and Held

We hereby execute this Long Sell Only Confirmation with respect to all the accounts we opened and hold with your company as of [Month], [Year].

<Note> Please fill in the specific record date.

[Month] [Date], [Year]

Company Name:

Address:

Representative Director:

(Signature / Stamp)