

Enhancement in the Soundness of the ELW Market

According to the analysis conducted on the effectiveness of the measures taken by the Korea Exchange (KRX) for the soundness of the ELW market since 2011, healthy trading practices have been well established in the ELW market as indicated by the fact that the premium rate that had long been applied to the index ELWs compared to the index options was eliminated and the function of risk management also improved.

<Effect of Regulatory Improvement>

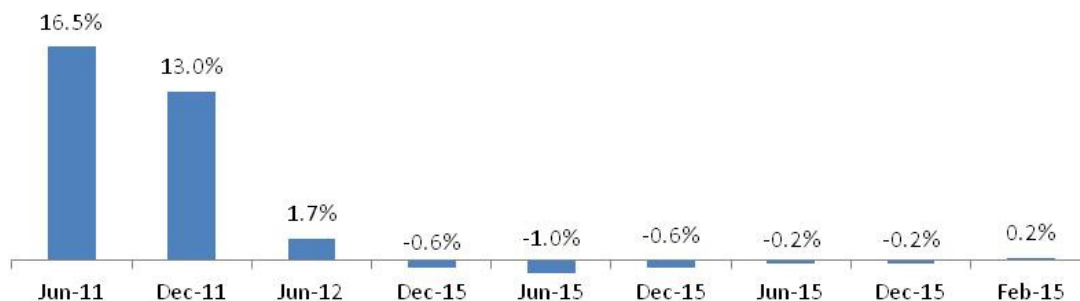
(1) The price premium applied to the index ELWs compared to the index options, which was pointed out as a problem in the ELW market, has been eliminated according to the standardization of the ELW products.

Before standardization* of the index ELW products, the index ELWs were traded at a price 16% higher than that of the index options. After the standardization, ELWs are traded without any premium rate applied thereto.

** Standardization of the issuance terms of the index ELW (July 2011): Maturity has been set at the same dates as the index options maturity dates, and the conversion rate at 100.*

<Premium Rate of Index ELW against Index Option>

In other words, the pre-existing practice that liquidity providers used to sell ELWs at a higher price for the purpose of shifting the loss incurred from scalpers to individual investors no longer exists.



(2) Due to the recent standardization of the issuance terms of stock ELWs (November 2014), the number of stock ELWs has decreased*, and the comparability among different ELWs has improved**.

* The number of listed ELWs: 7,155 in 2011 → 2,715 in February 2015

**Before standardization, comparability was merely at 8%. After standardization, comparability increased to 75%. (Please refer to the Appendix for details.)

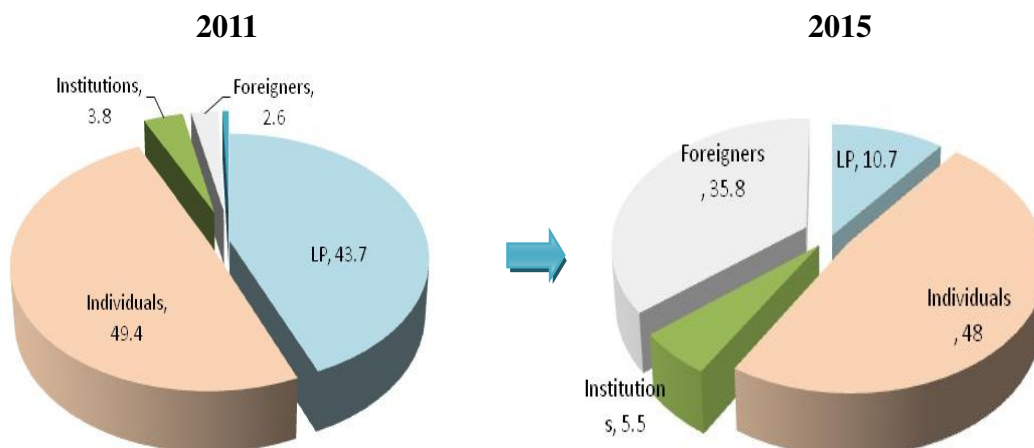
On the back of increased comparability, investors are able to conduct trading based on more favorable terms and conditions than before, thus leading to reduction in transaction costs.

(3) The proportion of the exercise amount* keeps rising due to the restriction placed on the issuance of deep out-of-the-money ELWs (July 2011, November 2014).

* Average Daily Trading Value & Proportion of Trading of the ELW Market vs. KOSPI: 0.5% in 2011 → 4.3% in 2014

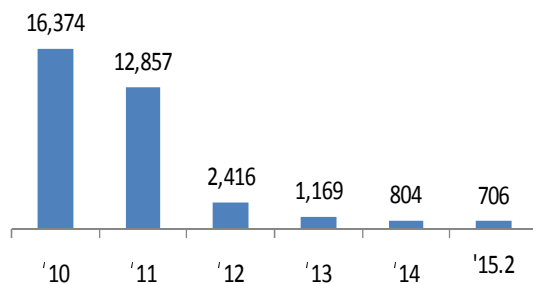
In particular, the majority of the exercise amount (59.8% in 2014) is attributable to the ELWs held by institutional investors until maturity. This indicates that the function of risk management has been enhanced through hedging and arbitrage in the ELW market.

(4) Since the measures for the ELW market soundness were taken, the proportion of trading by foreigners and institutional investors has increased, diversifying the participants in the ELW market.

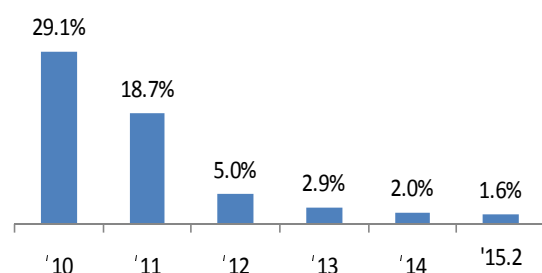


In 2015, the average daily trading volume decreased to less than 1/20 of the level recorded in 2010, and the proportion of trading value against the KOSPI market dropped from 29.1% to 1.6% during the same period.

<Average Daily Trading Value of ELWs (in KRW 100 million)>



<Proportion of Average Trading Value of ELWs vs. KOSPI>



The number of investors decreased to 1/3 of the level recorded in the period prior to standardization, indicating that most of the scalpers who focused on day trading exited the market.

* The number of active accounts of investors: 9,898 in 2011 → 3,458 in February 2015
(Decrease to 1/3 of the previous figure)

2. Way Forward

The Korea Exchange will continue with regulatory improvement efforts for the soundness of the ELW market, for example, by reducing the loss incurred by individual investors.

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<Appendix: Data on the Effect of Regulatory Improvement in 2011>

1. Index ELW Premium against Index Options

(%)

	Jun. 2011	Dec. 2011	Jun. 2012	Dec. 2012	Jun. 2013	Dec. 2013	Jun. 2014	Dec. 2014	Feb. 2015
Premium rate*	16.5	13.0	1.7	▲0.6	▲1.0	▲0.6	▲0.2	▲0.2	0.2

* Average monthly figure of the given month, Premium rate= (LP quotation/Options price-1),
Excluding ELWs with trading value worth less than KRW 1 million

2. Before and After the Standardization of ELW Issuance Terms

Period	Number of newly listed issues	Comparable issues **	Proportion of comparable issues
After standardization*	1,203	903	75.1%
Before standardization*	11,973	947	7.9%

* Issues subject to standardized terms: Issues initially listed from November 3, 2014 to February 27, 2015

Issues not subject to standardized terms: Issues initially listed before November 3, 2014 and then continued to be listed during the same period as above

** Issues of which issuance terms and conditions are exactly the same or of which only the last trading date or exercise price is different

3. Proportion of the Exercise Amount

(KRW billion, %)

	2011	2012	2013	2014	Feb. 2015
Trading value of investors (A)	179,671.3	39,481.2	25,287.2	17,449.7	2,397.2
Exercise amount (B) (Proportion of the index ELW *)	861.9 (92.3)	703.4 (95.2)	1076.7 (97.7)	752.7 (97.6)	63.4 (98.4)
Proportion (B/A)	0.5	1.8	4.3	4.3	2.6

*The proportion the exercise amount of the index ELWs

Proportion of Each Investor in the Right Exercise Amount

(%)

	2011	2012	2013	2014	Feb. 2015
Institutions	6.2	15.7	56.5	59.8	43.9
Foreigners	82.4	78.0	39.4	36.4	49.9
Individuals, etc.	11.4	6.3	4.1	3.8	6.2
Total	100.0	100.0	100.0	100.0	100.0

* Estimated based on the transactions of respective issues by Investors

4. Average Daily Trading Value by Investor Type

(KRW billion, %)

	2010		2011		2012		2013		2014		Feb. 2015	
	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%
LPs	734.8	44.9	563.1	43.7	82.5	34.1	14.5	12.4	9.2	11.4	7.5	10.7
Individuals	858.1	52.4	634.7	49.4	121.6	50.3	56.3	48.2	37.5	46.6	33.9	48.0
Institutions*	16.7	1.0	4.85	3.8	10.8	4.5	7.0	6.0	5.5	6.9	3.9	5.5
Foreigners	15.6	1.0	33.9	2.6	25.4	10.5	37.1	31.7	27.9	34.7	25.3	35.8
Others	12.2	0.7	.75	0.6	1.3	0.6	20	1.7	0.3	0.4	0	0.0
Total	1,637.4	100	1,285.7	100	241.6	100	116.9	100	80.4	100	70.6	100

* Non-LP financial investment company

5. Average Daily Trading Value & Proportion of Trading of the ELW Market vs. KOSPI

(KRW billion)

	2010	2011	2012	2013	2014	Feb. 2015
Average daily trading value (A)	1,637.4	1,285.7	241.6	116.9	80.4	70.6
Trading value in KOSPI market(B)	5,619.8	6,863.1	4,823.6	3,993.4	3,983.6	4,460.4
(Proportion against KOSPI: A/B)	29.1%	18.7%	5.0%	2.9%	2.0%	1.6%

6. Active Accounts of Investors

	2010	2011	2012	2013	2014	Feb. 2015
Number of active accounts*	21,280	9,895	4,534	4,663	3,727	3,458

* The number of accounts where transactions occurred at the last month of each year