

## Major Institutional Changes in the KRX Securities and Derivatives Markets in 2015

### <Summary>

- ① Expansion of daily price limit in the stock market (1st half 2015)
- ② Introduction of market making system for low liquidity issues (1st half 2015)
- ③ Improvement in the price range of quotes for treasury stocks (1st half 2015)
- ④ Provision of more market data (1st half 2015)
- ⑤ Opening of new derivatives market to strengthen the capital market dynamics (Derivatives, In 2015)
- ⑥ Provision of risk management tools for the capital market (Derivatives, In 2015)
- ⑦ Reinforced investor protection in derivatives market (Derivatives, Dec 29, 2014)
- ⑧ Improvement in price stability (Derivatives, 1st half 2015)
- ⑨ Change in quotation unit (Derivatives, 1st half 2015)
- ⑩ Exemption of the Securities Transaction Tax for derivatives market makers (1st half 2015)
- ⑪ Reprioritization of financial resources for resolving settlement failure (after law amendments)
- ⑫ Launch of Carbon Emission Rights (CERs) market (Jan 12, 2015)

#### ① Expansion of daily price limit in the stock market (KOSPI/KOSDAQ)

The Korea Exchange (KRX) will expand the daily price limit in the KOSPI and KOSDAQ markets to  $\pm 30\%$  from the closing price of the preceding trading day. To prevent such expansion from leading to excessive volatility, the scheme for market stability will be overhauled.

#### ② Introduction of market making system for low liquidity issues (KOSPI/KOSDAQ)

For issues of which fair price is difficult to be formed due to low liquidity despite their good business performance, the market making system is expected to mitigate volatility and provide more liquidity.

#### ③ Improvement in the price range of quotes for treasury stocks (KOSPI/KOSDAQ/KONEX)

The KRX will expand and simplify the price range of quotes for treasury stocks to attract more trades and raise the level of investors' understanding.

#### ④ Provision of more market data (KOSPI/KOSDAQ/KONEX)

1. In order to enhance the transparency of short sales trading and curb speculative short sales, the KRX will adopt an information disclosure system whereby the information on the balance of share sales will be provided for investors.
2. Improvement in the information to be disclosed for investors
  - Short sales : The short sales issues that ranked an upper trading group on the preceding trading day will be disclosed via the Check Information Terminal

- Information on volatility mitigation : The details on the volatility interruption triggered on the trading day will be provided after market closing
- Index arbitrage trading : The information on the aggregate balance of index arbitrage trading tallied for a certain period will be disclosed later on
- \* Currently, the daily balance of index arbitrage trading reported by members is aggregated on a daily basis and then disclosed immediately.

⑤ Opening of new derivatives market to strengthen the capital market dynamics (Derivatives)

1. The dividend index futures will be listed for the purpose of supporting the government's dividend tax policy and facilitating the development of new financial products such as ETF and index funds, etc.
2. KRX will list the Chinese Yuan futures in order to provide a tool for the risk management of foreign exchange in the Chinese Yuan spot market that has been established to vitalize the Chinese Yuan trading according to the government policy.
3. KRX will introduce short-term interest futures products to raise confidence in an indicator of short-term interests and boost the short-term money market.

⑥ Provision of risk management levers for the capital market (Derivatives)

1. KRX will open the KOSDAQ single stock futures and KOSDAQ index futures markets to achieve "creative economy" by facilitating fund raising for SMEs and venture companies.
2. ETF futures will also be introduced as a risk management tool for overseas index-based ETFs of which trading by domestic investors has increased rapidly.
3. To diversify products with medium risk and return, the line-up of futures products of which underlying assets are constituents of KOSPI 200 sector indices based on the Global Industry Classification Standard (GICS) will be expanded further.

⑦ Reinforced investor protection in derivatives market (Derivatives)

1. General individual investors are required to equip themselves with a strong capacity to invest in derivatives. To this end, the KRX will provide a 50-hour mock trading program, and the Korea Financial Investment Association will also open a 30-hour lecture program.

\* "General individual investors" mean individual investors except for professional investors defined in the law (including the ones who have at least one year of investment experience and have financial assets of KRW 5 billion or more), legal entities, associations and foreigners.

\* Please visit ([www.kifin.or.kr](http://www.kifin.or.kr)) for lecture and ([trn.krx.co.kr](http://trn.krx.co.kr)) for mock trading.

2. The basic deposits applicable to simple futures trading and options/volatility index futures trading will be KRW 30 million and KRW 50 million, respectively. However, the amount will be varied according to the probability of settlement failure.

\* The trading of options and volatility index futures will be permitted for a period of one year from the opening of accounts by general individual investors.

⑧ Improvement in price stability (Derivatives)

The expansion of the daily price limit raises the need for price stability in the derivatives market to be enhanced further. The KRX will take a phased-in approach to expanding the price limit of stocks and index based derivatives.

⑨ Change in tick size of KOSPI 200 Options and VI futures (Derivatives)

The tick size of KOSPI 200 options will be simplified to 0.01 point from the current 0.01-0.05 points. Also, the tick size of volatility index futures will be reduced to 0.01 point from the current 0.05 points.

⑩ Exemption of the Securities Transaction Tax for derivatives market makers

1. Target taxpayer: financial investment companies that have concluded market making contracts with the KRX
2. Target trading: stock sales trading that is conducted for the purpose of avoiding risks that may occur in the process of market making for derivatives products with underlying assets of stocks. However, it is limited to a risk-averse stock trading that is conducted through the accounts dedicated to market making.
3. Target period: 1<sup>st</sup> half 2015- December 31, 2017

⑪ Reprioritization of financial resources for resolving settlement failure

Pursuant to the "global standards on financial resources allocation for resolution of settlement failure", the KRX will appropriate its partial reserve first before tapping into the joint clearing fund.

⑫ Launch of Carbon Emission Rights (CERs) market

1. Trading products: Korean carbon allowance unit (KAU) and offset CERs in each phase
2. Trading period: from the first day of the planned period to the end of June of the year following the year of implementation.
3. Trading hours: 10:00 AM to 12:00 PM (2 hours)