Press Release

FINACIAL SERVICES COMMISSION

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JOINT RELEASE WITH KRX:
REMODELING CURRENCY FUTURES PRODUCTS MARKET

I. Background

In response to increasing demand for Currency Futures Products (CFPs) for hedging purpose, especially by corporate international traders, the Financial Services Commission and Korea Exchange (KRX) have decided to push ahead with "remodeling" the currency futures market so as to allow easier access of the instruments in place of riskier OTC derivatives.

Currently, CFPs in major currencies--US$, Euro, Yen--are traded in large units with rigid trading restrictions,* failing to meet the demands in the market which becomes increasingly diversified in terms of units, maturities, and contract conditions.

*CFPs in US dollars are limited to minimum trading units of 50,000 US$ with six maturity terms.

Because of rigid CFPs trading restrictions, international traders prefer OTC derivatives for foreign currency hedging as the latter allows more flexibility for the traders and their counter parties in forging contracts.

Most OTC derivatives carry high risks especially for traders with insufficient knowledge in such complex products as KIKOs. Further, the OTC derivatives markets have shrunk under high pressures of current crisis.

II. Key Revisions

Notwithstanding the market condition, CFPs carry lower risks than OTC derivatives in a number of ways:

- less counter party default risks
- less risks from inappropriate trading methods
- less monitoring risks in terms of types of produces traded and trading volumes

The government plans to promote active engagement of currency futures products trading as alternatives to OTC derivatives by pursuing following steps:

1. Lowering bars for minimum trading units from 50,000 US$ (50,000 Euro/ 5mil. Yen) to 10,000 US$ (1/5 of current limit)
2. Diversifying maturity terms of CFPs by increasing the limit of settlements from six settlements (three consecutive months + three quarterly moths ex. Starting in Feb, March, April, May, June, Sept., Dec.) to eight terms (six consecutives + two quarterlies)
3. Implementing Exchange of Futures for Physicals (EFPs) and FLEX

III. Expected Outcomes

1. Reduced minimum units with diversified maturities will allow easier access of CFPs for currency hedging by smaller traders.
2. More flexibility is allowed through EPFs in making payment date adjustments and other changes to trading contracts among exporters.
3. Through FLEX system, big trading volumes of Currency Futures that exceed 100,000 US$ will be induced to trade through the counter.
4. By increasing the counter trading of CFPs, systemic risks are expected to be reduced, thereby contributing to reinstating stability in the financial market.

IV. Implementation

FSC will draft proposals to amend operational provisions of futures markets, which are necessary to execute these changes. The Securities and Futures Commission and Financial Services Commission will deliberate on the proposals at their regulator meeting in March.

Once approved, the plan be implemented in phases starting from April.
- By end of April: Revisions to minimum trading units and maturities
- By end of June: Implementation of EFP and FLEX systems

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