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Press Release

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COUNTERMEASURES AGAINST KOSPI'S SUDDEN PLUNGE ON NOVEMBER 11

Background

The KOSPI index plunged 48 points in the last ten minutes before the market closed on November 11, the options expiry date of the month, as foreign investors cleared their arbitrage positions by selling off KRW2.4 trillion worth of shares.

Out of the sell-off worth KRW 2.4 trillion, it turned out that 97% of sell orders were made through a single trading desk. We, the FSC/FSS and Korea Exchange, are currently investigating whether the massive sell-off through the brokerage involved any alleged act of unfair trading.

We are also probing into a local investment company, WiseAsset, who suffered huge losses from options trading on November 11, with particular focus on any illegality of the company's asset management and its internal risk management system.

Fluctuations in stock prices are inherent part of capital markets; however, severe volatility over a short period of time caused by a few market forces could leave individual investors unprotected and undermine investors' credibility in Korean capital markets. In this respect, we plan to thoroughly investigate causes of the incident and come up with needed measures to make capital markets in Korea more stable.

Upon a thorough investigation on whether there was any act of unfair trading involved and whether the financial investment company properly managed its investment risks, any violation of relevant laws and regulations will be dealt with strict sanctions to prevent a recurrence of a similar event.

Measures to come

The FSC/FSS will thoroughly review vulnerabilities of Korea's capital markets as revealed on Nov. 11 and take prompt actions to bring immediately needed reforms to the current market system and practices. Depending on the results of the investigations, we will come up with follow-up measures for the longer term.



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A. Immediate actions

1. Strengthening brokerage firms' settlement risk management

Brokerage firms are exposed to the so-called settlement risk because they are the first to take responsibility for settlement when their clients suffer huge losses from their investment in derivative products and cannot afford payments. To mitigate the settlement risk, we are considering measures to strengthen margin deposit requirements and introduce guidelines for risk management.

2. Strengthening financial investment companies' internal risk management system

After the November 11 market shock, the FSS decided to conduct a comprehensive examination on financial investment companies' internal risk management system. Based on the results of the examination, we will seek further measures to strengthen financial investment companies' internal risk management system and establish a mechanism for constantly monitoring the system.

B. Follow-up measures to be considered

The FSC/FSS will review measures to revise the current system regarding program trading, under which brokerage firms are allowed to trade at a single price for the last ten minutes before the market closes at 3pm, and they are also required to report their programmed trades to the stock exchange by 2:45 pm in advance of the market close. We will seek to improve credibility in public disclosure of remaining balance of arbitrage trading.

We will also work with affiliated institutions, traders, and experts to come up with a long term plan to further develop Korea's derivatives market in a sound manner by thoroughly reviewing how on- and off- exchange derivatives markets work, how they are interconnected with other capital markets, and how to stabilize capital markets as a whole.

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