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Press Release

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ADDITIONAL MEASURES TO IMPROVE THE SOUNDNESS OF ELW MARKET

<This Press Release has been co-drafted by KRX >

BACKGROUND

As Korea's ELW market has rapidly grown in a short period of time, problems such as overheated investment and soaring investment losses have surfaced; therefore, the FSC introduced some measures (e.g., introduction of mandatory investor orientation course, stricter assessment of LP performance and preventive measures against potential unfair trading practices) in November 2010 to create a sound market environment for ELW trading.

Since the implementation of the measures above mentioned, the trading values of ELWs declined somewhat as shown below:

* KRW 1.7 trillion (Aug 2010) → KRW 1.9 trillion (Sep 2010) → KRW 2.0 trillion (Oct. 2010) → KRW 1.6 trillion (Nov. 2010) → KRW 1.4 trillion (Dec 2010) → KRW 1.3 trillion (Mar 2011)

* Daily average number of suspicious trading: 0.84 cases (Oct 1, 2011 ~ Dec 10, 2010) → 0.13 cases (Dec 13, 2010 ~ Feb 28, 2011)

However, despite these measures, as a result of some securities companies giving a preferential treatment to scalpers (the prosecutor pointed out that some scalpers bribed the securities companies so that they could have access to dedicated lines to route their orders faster than others), concerns about the soundness of ELW market have resurfaced. Against this backdrop, and we plan to adopt the following measures.

PLANS TO IMPROVE CURRENT PRACTICES RELATED TO ELW MARKET AND ORDER ROUTING SPEED

- ◆ Basic deposit requirement will be introduced as an entry barrier to ELW market investment and existing market practices will be revised to help investors easily compare ELW prices.
- ◆ In regard with speed of order routing, brokerages will be allowed to provide only a reasonable range of service to make sure all investors can have a stable and equal access to trading system.



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I. SOUNDER MARKET ENVIRONMENT FOR ELWS

1. Stronger Protection for Investors

A. Basic Deposit Requirement

In most of derivatives trading, investors are required to make basic deposits in addition to margins.* However, for ELWs and buying options, there has been no requirement for basic deposits.

*KRW 5 million for Mini Gold futures and Lean Hog futures, and KRW 15 million for other derivative products

We plan to require ELW investors to make a basic deposit of KRW 15 million when they first enter the market. For buying options, investors will be also required to make a basic deposit of KRW 15 million, while special accounts for buying options will be abolished.

B. Restriction on issuing deep-out-of-the-money ELWs

Currently, deep-out-of-the-money ELWs* are incurring losses to retail investors. Therefore, KRX guidelines on listing will be revised to restrict new issuance of deep-out-of-the-money ELWs (e.g. New issuance of ELW with price parity of less than 85% will be banned).

*Out-of-the-money ELWs (OTM ELWs): a price level which has no intrinsic value even if an investor exercises his/her warrant

- Put ELW (underlying asset price > exercise price)
- Call ELW (underlying asset price < exercise price)

2. Plans to help form a fair market price

A. Public notice of premium ratio of index ELW by LP

Compared with index options, index ELWs are now being traded at a price with excessive premium. In order to narrow the price disparity between index options and index ELWs, we will encourage LPs to make a public notice of index ELW premium ratio on a regular basis.

< Comparison of ELW premium ratio per key LP >

LP name	A	B	C	D	E	F	G	H	I	J
Premium ratio*	79%	44%	39%	26%	20%	17%	13%	10%	4%	2%

* Average of premium ratio of ELWs for which the concerned LP has provided the liquidity

[(Closing price of ELW/ Closing price of option - 1) X 100]



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B. Stricter requirement for issuing index ELWs

It is difficult to compare prices between index ELWs and index options because they have different conversion ratios and last trading day depending on issuers. In order to make easier to compare prices between index ELWs and index options, we will lead issuers to adjust differing trading days and conversion ratios.

C. Stricter assessment of LP performance against implied volatility

In assessing LP performance, the weight given to the category of ‘implied volatility’ is rather low (10%). Therefore, there is a possibility for LPs to arbitrarily change prices. In order to help prices of ELWs form in a consistent manner, we plan to increase the weight for ‘implied volatility’ when assessing performance of LPs.

* The weight given to category of ‘fulfillment of LP obligation’ where a majority of LPs receive a high score will be reduced from 40 points to 30 points.

II. ORDER ROUTING SPEED

1. Prior to order receipt

Brokerage companies are permitted to provide investors with a reasonable range of services (e.g., provision of dedicated lines or installation of order system).

* It should be noted that many other countries allow the installation of algorithm trading system of investor in the order routing systems of member securities companies.

However, in order to make sure that systems are operated in a stable and equitable manner, we plan to bring about regulatory reforms on the following matters:

- Brokerage firms will be prohibited to install an order processing system for scalpers in the front-end-processing-system without passing through the firewall of securities companies.
- Retail investors will be allowed to use a dedicated line or choose places to make their orders through an individual contract with a brokerage firm.

2. After order receipt

In principle, regulations will be revised to make sure that quotations are submitted to KRX in the order in which investors’ orders are received and processed by brokerage firms.



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- Given that nowadays methods of order receipt have been diversified due to advanced communication technology, there is need for a clearer definition of order receipt.

* Although there is difference depending on the method used to place the order, the order receipt time is defined as the time when the customer's order passes through the firewall of system of the securities company.

- When processing an order, securities companies are required to check the items to be verified, and the retail investors are given an option of selecting special ledger.
- While allowing the allocation of processor (dedicated line) per investor group, it is restricted to have speed difference between the processors.

* Taken into account the fact that if no dedicated line is provided to scalpers, in case where an influx of order at a specific time may considerably slow down the order processor.

** Example: The securities company allocates and manages the order processor in such way that the difference in number of orders between the order processors does not exceed 20%.

- In the event that the computer centers of securities company is dispersed by region per investor type (e.g., retail investors in Gwacheon, scalpers in Yeouido), the measures are taken to prevent such split-up by location.

In principle, all investors investing in the same product are required to go through the same computer center.

In case where there is a difficulty in transferring the customers, an exception is made but the securities company is required to implement special measure to minimize the speed difference between the computer centers.

3. Provision of information about options offered by securities companies

Securities companies are required to provide customers sufficient information to help them choose how to make orders (e.g. use of dedicated line, installation of order system, etc.) and whether to use a special ledger.

III. EXPECTED OUTCOME

By raising entry barriers such as the introduction of basic deposit, the indiscriminate investment by retail investors will be contained.

By standardizing ELW products and making information about ELW price widely available, the environment for fair competition will be created.

Clear standards will be set in regard with speed difference between securities order systems.



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Brokerage firms will be able to take into account these standards when they design their ordering systems and marketing strategies. Retail investors may have access to a high speed system by paying fees, if they want.

UPCOMING SCHEDULE

KRX regulations will be amended in June 2011 to put into effect after July 2011. The matter requiring the system upgrading will be put into effect after the third quarter of 2011.

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