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Press Release

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PLAN FOR INTRODUCTION OF SYNTHETIC ETFs

The FSC approved a revision to the KOSPI Market Listing Regulation submitted by the Korea Exchange (KRX) at its regular meeting on February 22, 2013 to lay a foundation for introducing synthetic Exchange Traded Funds (ETFs) to the KOSPI Market and strengthen criteria for listing and delisting ETFs.

With the revision, the FSC expects further diversification of ETF market and stronger investor protection.

KEY CONTENTS

1. Foundation for introduction of synthetic ETFs¹

The revision sets a regulatory framework to manage the counterparty risk, with structural features of swap agreements included in synthetic ETFs taken into consideration

Counterparties for synthetic ETFs are mandated to meet certain eligibility requirements to enter, operate, exit, and disclosure their investment.² The ETFs will be delisted if the counterparty risk significantly threatens continued trading of the products.

ETF management companies are required to establish systems to evaluate and manage the counterparty risk and collateral assets, and disclosure counterparty risk.

2. Strengthened criteria for listing and delisting ETFs

The minimum amount of trust principal for listing ETFs is increased from KRW 5 billion to KRW 7 billion.

Listing eligibility test is strengthened for qualitative elements such as whether an ETF product can be continuously traded, or whether the applicant for listing has proper internal control system.

¹ Unlike conventional ETFs which primarily invest in stocks and bonds, synthetic ETFs replicate and track the movement of the index or benchmark synthetically by using OTC swap agreements or other derivative contracts.

² e.g. approved for trading OTC derivatives with credit rating higher than AA-



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Small ETFs will be reviewed semiannually and delisted if they fail to meet certain criteria.³ In the first half of 2013, small ETFs likely to incur losses to investors⁴ will be encouraged to be delisted on a voluntary basis.

3. Upcoming schedule

Synthetic ETFs are expected to be listed to KRX in the first half of this year after amendments to detailed rules on KRX listing regulation and Listing Guideline.

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³ After a year since listing, ETFs which are less than KRW 5 billion or traded less than KRW 5 million per day will be designated as administrative issue before the decision of delisting.

⁴ e.g. ETFs with trust principal less than KRW 5 billion