

## **AUTHORITIES INTRODUCE ATS OPERATION PLAN TO PROMOTE IMPROVEMENT IN CAPITAL MARKET INFRASTRUCTURE**

- Introducing an alternative trading system (ATS) as a way to diversify the availability of stock market infrastructure has been a part of the government's policy intended to make domestic capital market more accessible and boost convenience for investors.
    - a) Stock trading hours to be extended to twelve hours a day, between 08:00 am to 08:00 pm.  
KTX: (Opening) 08:30-09:00, (Regular) 09:00-15:25, (Closing) 15:25-15:30  
NXT: (Pre-market) 08:00-08:50, (Regular) 09:00-15:25, (After-market) 15:30-20:00
    - b) There will be more types of orders (mid-point order and stop-limit order) made available for investors and more competition to help lower transaction fees.
  - Price limit ( $\pm 30\%$  of KRX closing price) and settlement period (T+2) will be identical to those currently operated by the KRX.
  - Trading of domestically listed exchange-traded funds (ETFs) and exchange-traded notes (ETNs) will be allowed through an ATS.
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The Financial Services Commission announced that Korea's first alternative trading system (ATS), Nextrade, will begin to operate in domestic market starting in the first half of next year. This will mark the operation of a multiple and competition-based stock trading system in Korea's capital market as in the case with those found in major overseas economies. Introducing an ATS has been a key part of the government's capital market reform initiative, and it is intended to make domestic capital market more accessible for investors with enhanced convenience for transactions. With the operation of an ATS, stock trading hours will be extended to twelve hours a day from 08:00 am to 08:00 pm. Also, as more order types will become available for investors with enhanced competition to help lower fees, transaction costs will be reduced and trading convenience improved for investors.

### **SEMINAR ON ATS OPERATION PLAN**

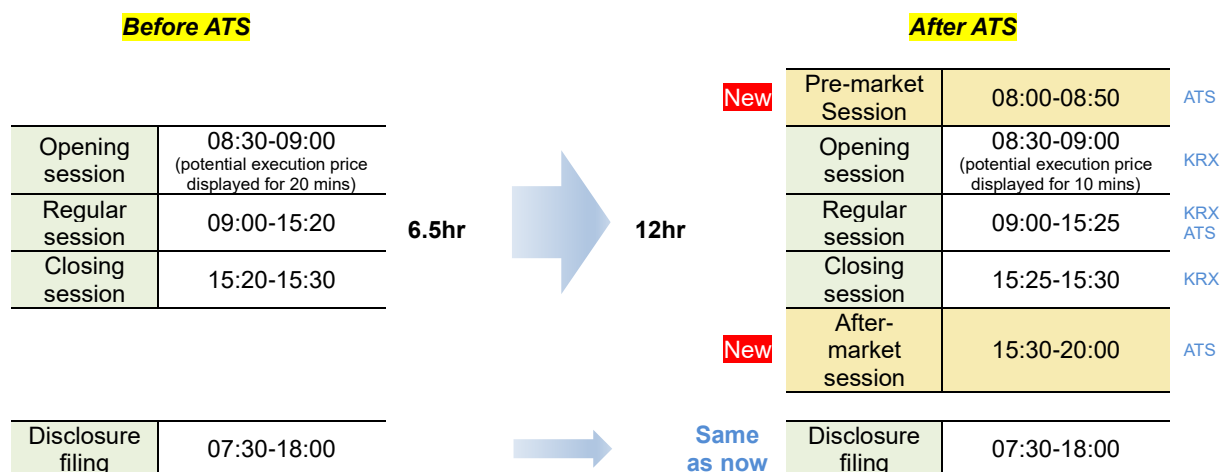
The FSC held a seminar on the measures for operating ATS with the Korea Financial Investment Association, Korea Exchange (KRX), and Nextrade on May 9. As the preliminary approval for operating an ATS was granted to Nextrade in July 2023, the FSC and related organizations have since worked on the measures for ATS operation and plans for ensuring effective market oversight in a comprehensive and integrated manner. At today's seminar, the authorities unveiled the measures and held discussions with market participants. FSC Vice Chairman Kim Soyoung delivered congratulatory remarks at the beginning of the seminar and emphasized the importance of ensuring stability and fairness in market management. Vice Chairman Kim also asked participants to thoroughly prepare for the official launch of an ATS and to ensure that investors are kept posted with relevant information. In addition, Vice Chairman Kim said that the financial authorities will work to prepare guidelines and revise relevant rules and regulations necessary for the operation of an ATS.

## A NEW STOCK TRADING EXPERIENCE

With the introduction of an ATS, stock market investors will be able to enjoy much enhanced stock trading experience. Aside from regular trading hours, which will be identically operated by both KRX and Nextrade, the ATS will operate pre-market (from 08:00 to 08:50) and after-market (from 15:30 to 20:00) sessions. As a result, compared with the current system, daily trading hours will be extended by five hours and thirty minutes to a total of twelve hours a day.

Meanwhile, there will be changes regarding the duration in which the KRX displays potential execution prices at opening and the time for closing auctions. The changes are intended to prevent price manipulation, while continuing to maintain the significance of what opening and closing prices represent. The KRX's opening auction hours will remain the same as now between 08:30 and 09:00, but the duration in which it displays potential execution prices at opening will be reduced to ten minutes (between 08:50 and 09:00). During this time, Nextrade will temporarily suspend transactions. Moreover, the KRX's closing auction hours will be reduced to five minutes (between 15:25 and 15:30). During this time, transactions at Nextrade will be suspended temporarily.

### <Stock Trading Hours to be Extended with ATS>



In addition, there will be more types of orders (mid-point order and stop-limit orders) made available for investors apart from market orders and four types of limit orders currently available in domestic stock market. Mid-point orders, which automatically adjust the price to the mid-range of the best bid-ask orders, and stop-limit orders, which instruct brokers to place limit orders when the investor-specified stop trigger price is attained, will be newly made available to investors. Their addition will offer investors with wider options in terms of their investment strategies, since it will allow them to choose newly available order types pegged to market prices. The newly introduced order types will also be made available by the KRX in time for Nextrade's launch.

With regard to the level of transaction fees, Nextrade will offer 20 percent to 40 percent lower fee levels for orders executed in comparison to KRX's fee levels, which will boost competition and help to lower transaction costs for investor convenience.

## **INTEGRATED MARKET OVERSIGHT**

Nextrade's launch will require more comprehensive and integrated ways to manage and supervise market to ensure protection for investors and cope with dispersion of market liquidity between the two securities exchange operators, KRX and Nextrade.

First, securities companies will be required to observe the best execution rule obligating them to prepare standards for exercising reasonable diligence in executing transactions at the most favorable terms available for investors. Since there has been a single exchange operator in Korea, even though the best execution rule has been in place under the legal framework of the Financial Investment Services and Capital Markets Act (FSCMA), this rule has not been applicable in practice thus far. As such, the Financial Supervisory Service (FSS) will introduce guidelines on best execution in the first half of this year, and securities firms will prepare their own best execution standards and smart order routing (SOR) systems based on the guidelines for automatically executing orders for investors.

In accordance with the best execution standards set up by securities firms, orders from investors will be executed in the following way. First, investors can directly choose a market in which their orders are executed. If an investor has not selected a preferred market, taker orders will be placed in a market most favorable to the investor considering total costs for both buy and sell orders, taking into account all relevant factors including price, volume, and transaction costs. On the other hand, maker orders, which are not executed immediately but remain in the list of orders to be executed in the future, will be placed in a market where such orders have a higher chance of being executed after having a comprehensive evaluation of bid-ask balance and spread by each securities firm.

Second, management and supervision over short selling will be maintained at a consistent and rigorous manner for Nextrade. Short selling will be restricted in pre-market and after-market sessions, so placing short sale orders at Nextrade will only be allowed during regular trading sessions (between 09:00 and 15:25). Relevant rules on displaying short sale orders and the designation of overheated short sale items will be identically applied to Nextrade, while the uptick rule, which is designed to prevent price declines inflicted directly by short selling, will be operated based on the last executed price in each market.

Lastly, Nextrade will be subject to the same price limit, market stabilization mechanisms, market surveillance, and clearing and settlement process currently applied to the KRX. Nextrade's price limit will be  $\pm 30$  percent of KRX closing price, and the price limit for after-market sessions will also be  $\pm 30$  percent of KRX closing price. Nextrade will also be subject to KRX's trading suspension, circuit breaker, and sidecar mechanisms, and its market surveillance and clearing functions will be carried out by the KRX. Transactions at Nextrade, including in pre-market and after-market sessions, will be cleared and settled two business days after the trade (T+2).

## **ADDITIONAL STEPS FOR UPGRADING CAPITAL MARKET REGULATIONS**

In line with the aim of introducing an ATS, the authorities plan to take additional steps to upgrade relevant rules and regulations. First, the FSC will revise regulations to allow the transaction of domestically listed exchange-traded funds (ETFs) and exchange-traded notes (ETNs) through an ATS. Nextrade plans to seek an approval from the

authorities to enable this in the future.

Moreover, in order to facilitate institutional investors' transactions through Nextrade, mandatory bid rule will not be applied to institutional investors for their stock holding of five percent or more via acquisition through an ATS, which will be the same with institutional investors' transactions via KRX. However, since this requires a revision of the FSCMA, the FSC will work to provide active support for parliamentary review to facilitate prompt passage of a revision bill. In the case of a delay in the revision process, authorities will make sure to prevent rule breaking by making available relevant information to investors through securities firms.

#### **FURTHER PLAN**

The FSC plans to revise relevant rules and regulations within the second half of this year to ensure seamless operation of an ATS. In the meantime, Nextrade will apply to get final approval from the FSC at the end of this year with a goal to begin operating ATS in the first half of 2025.

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# ATS OPERATION PLAN

FOR MAKING QUALITATIVE IMPROVEMENT  
IN CAPITAL MARKET INFRASTRUCTURES

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**MAY 2024**

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## I. BACKGROUND

With the introduction of an alternative trading system (ATS) in 2025, the Korean stock market will make a transition from a single-exchange market to a multiple-exchange and competition-based market system.

The revised Financial Investment Services and Capital Markets Act (FSCMA) in May 2013 established legal provisions for the exchange permit system and the alternative trading system. However, in the past 10 years, there was no entity applying for the license to operate as a new exchange operator, and as a result, the single-market system was maintained dominated by the Korea Exchange (KRX).

Then, in July last year, Nextrade was given a preliminary approval to operate an ATS for the first time, and it is expected that Nextrade will gain final approval in the second half of this year and start operating an ATS in the first half of 2025.

Major overseas countries have already been operating alternative trading systems in their respective markets, with the effects of bringing about improvements to their stock market infrastructures. The U.S. and Japan each have an ATS providing overnight trading services, which helped to extend securities trading hours in these markets. An ATS can also provide more varieties in order types, which can offer more convenience for investors.

As the launch of an ATS will mark the introduction and operation of a multiple-market system, preparing specific measures that will help to promote innovation in securities trading and ensure protection for investors will be required.

In this regard, the financial authorities and related organizations will work on the following measures—(a) providing a new stock trading experience unmatched to that of a single-exchange trading system, (b) ensuring an integrated oversight for market management, supervision, and investor protection to be prepared for potential dispersion of liquidity resulting from making a transition to a multiple-exchange system, and (c) revamping relevant rules and regulations under the legal framework of the FSCMA to ensure seamless introduction and operation of an ATS.

## II. REGULATORY PROVISIONS FOR ATS UNDER THE FSCMA

**[OVERVIEW]** The FSCMA introduced the term “alternative trading system” under the article 8-2(5), referring to “an investment trader or investment broker engaging in the trade of stock certificates listed on a securities market or any other securities...or in the brokerage, mediation or agent service thereof simultaneously with multiple number of persons as parties to the trade or as respective parties.” The legal provision for ATS was introduced in August 2013 to facilitate a transition toward a multiple-exchange market system and promote competition.

**[INSTRUMENTS FOR TRADE]** The types of instruments eligible to be traded through ATS will be KRX-listed securities and depositary receipts related to stock certificates, which are listed on a securities market (Article 7-3(1) of the FSCMA). About 800 KOSPI and KOSDAQ-listed items that are highly liquid will be tradable through ATS.

**[MARKET SHARE]** Article 7-3(2) of the FSCMA restricts the average trade volume of instruments for trade contracts through the competitive trading via relevant ATS to be within 15 percent of total trade volume in the entire securities market and within 30 percent of total trade volume for each securities item.

**[BUSINESS GUIDELINES]** Article 78 of the Enforcement Decree of the FSCMA requires the ATS to establish business guidelines to perform securities transactions, on a par with the operating standards and rules of the KRX, detailing the matters pertaining to the types of instruments for trade, ATS trading entities (securities firms), suspension and resumption of trade, execution, clearing, and settlement and payment for trade, fiduciary work of trading entities, disclosure of information about issuers, observing restrictions on market share, and so on. However, rules on trade suspension and resumption and on the price limit shall be the same as KRX regulations. When introducing a new provision or making a change to the guidelines, the ATS needs to report to the FSC and disclose relevant information to the public, on which the FSC can make a demand for revision (revising KRX rules requires an approval from the FSC).

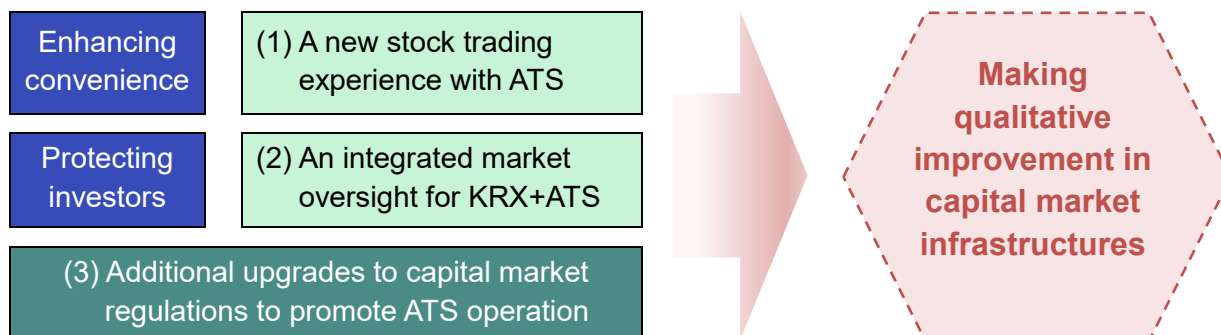
**[BEST EXECUTION OBLIGATION]** Article 68 of the FSCMA requires securities companies to prepare and publish the guidelines for executing investors’ offers or orders for trading financial investment instruments under the best trade terms (either via KRX or ATS) after considering a variety of factors, such as price, volume, fee, and probability for execution.

**[CLEARING, SETTLEMENT AND PAYMENT]** Article 78 of the FSCMA prescribes that the clearing, settlement and payment, and market supervision functions of the ATS shall be performed by the KRX, Korea Securities Depository (KSD), and KRX’s market oversight committee, respectively.



### III. ATS OPERATION PLAN

#### [ Key Policy Direction ]



|                          |   |
|--------------------------|---|
| ATS<br>Operation<br>Plan | <b>1. A new stock trading experience</b>  |
|                          | a) Extending trading hours: 12 hours a day from 08:00 to 20:00  |
|                          | b) Making new order types available: Mid-point orders and stop-limit orders   |
|                          | c) Other service improvements: Allowing block deals and basket trades through ATS, lowering fees, and boosting the speed with which orders are submitted and executed |
|                          | <b>2. An integrated market oversight for KRX+ATS</b>  |
|                          | a) Best execution obligation: Preparation of FSS guidelines and development of SOR systems by securities firms  |
|                          | b) Short selling oversight: Prohibition of short selling via ATS in pre-market and after-market sessions  |
|                          | c) Market stabilization, surveillance, clearance and settlement: Application of the same measures and mechanisms currently available for the KRX                      |
|                          | <b>3. Upgrading capital market regulations</b>  |
|                          | a) Instrument types tradable via ATS: Trading of domestically listed ETFs and ETNs to be permitted (through granting of additional authorization)                     |
|                          | b) Updating regulations: Relevant rule changes to be made on the mandatory bid rule, professional qualifications for ATS staff, etc.                                  |

# 1. A NEW STOCK TRADING EXPERIENCE

*Extended trading hours for 12 hours a day (from 08:00 to 20:00), the availability of new order types, and lower transaction fees will promote innovation in stock trading infrastructures and services.*

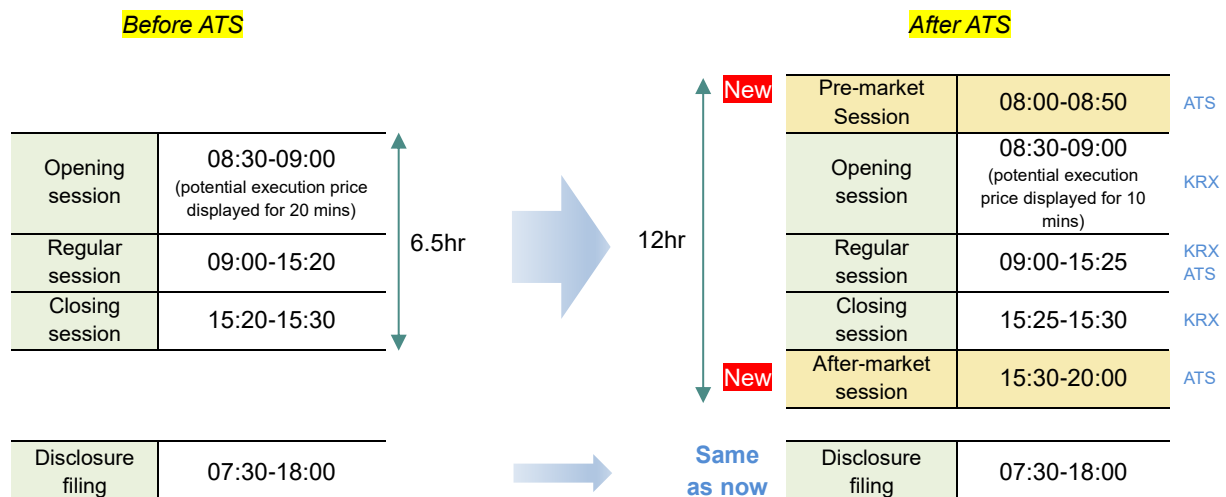
## A. Extended Trading Hours

**[TRADING HOURS]** The ATS will provide stock trading service for 12 hours a day from 08:00 to 20:00. It will provide pre-market session from 08:00 to 09:00, regular trading session from 09:00 to 15:30, and after-market session from 15:30 to 20:00. Even during KRX's opening auction hours, orders can be immediately executed at the ATS. However, in order to prevent price manipulation, pre-market trading through ATS will be temporarily suspended for 10 minutes (from 08:50 to 09:00) until opening prices are decided during which the KRX displays potential execution prices at opening.

Similarly, KRX's closing auction hours will be reduced from 10 minutes (from 15:20 to 15:30) currently to 5 minutes (from 15:25 to 15:30) in the future. During this time, transactions through ATS will be temporarily suspended. KRX's closing prices are used to calculate the base price for funds, so that this change is intended to promote concentration of market liquidity during closing auctions.

**[ORDER RESTRICTION]** In the pre-market and after-market sessions where there is low level of liquidity, only limit orders will be allowed to be placed so as to prevent excessive price swings, and this will be specified in the ATS business guidelines.

**[DISCLOSURE AND MARKET REGULATORY MEASURES]** The current disclosure filing time (from 07:30 to 18:00) will be maintained, while the market regulatory measures that are scheduled to take effect from the following day will be announced at 20:00 after trading closes at the ATS. However, if a reason for trade suspension has been made public after the normal disclosure filing time, the ATS can choose to issue an arbitrary suspension of trading for after-market session and announce an official trade suspension during the disclosure filing time in the next day.



## **B. Availability of New Order Types**

**[MID-POINT ORDER]** Mid-point orders, which automatically adjust the price to the mid-range of the best bid-ask orders, will be newly introduced. This will be specified in the KRX regulations and the ATS business guidelines. With mid-point orders, investors are able to submit orders that have higher chances of being executed at more favorable prices, and this will have the effect of fragmenting order units. The volume of mid-point orders and the expected mid-range prices will be displayed to provide more information to investors.

**[STOP-LIMIT ORDER]** Stop-limit orders, through which investors are able to submit orders when a specific stop trigger price is attained, will be newly introduced. This will be specified in the KRX regulations and the ATS business guidelines. By closely tracking changes in market prices, stop-limit orders can be used to sell with a loss or when purchasing stocks in scale orders.

The availability of new order types will provide investors with opportunities to apply more wide-ranging investment strategies depending on the prevailing conditions of stock prices.

## **C. Other Service Improvements**

**[BLOCK DEALS AND BASKET TRADES]** All KOSPI- and KOSDAQ-listed items will be open for block deals and basket trades through the ATS. This will be specified in the ATS business guidelines. Block deals and basket trades via ATS will take place at the same hours as executed through the KRX (from 08:00 to 18:00) and in the form of negotiated transactions within price limits. The minimum trade volume for block deals will be set at KRW50 million or higher, and that for basket trades at KRW200 million or higher on 5 or more stock items.

**[FEES AND NETWORK IMPROVEMENTS]** In comparison to KRX fee levels, the ATS will offer 20 percent to 40 percent lower fee levels for orders being executed, which will help to reduce investors' transaction costs. In addition, by establishing a new computer network system and providing infrastructure support for securities firms, the ATS plans to work on boosting the speed with which orders are submitted and executed.

## **2. AN INTEGRATED MARKET OVERSIGHT FOR KRX AND ATS**

*Best execution obligation will be implemented, while market supervision and oversight on short selling will be carried out in an integrated manner.*

### **A. Best Execution Obligation**

**[GUIDELINES]** The Financial Supervisory Service (FSS) will establish guidelines detailing the specifics of best execution obligation to ensure investor protection and

increase market efficiency. First, when there is a specific instruction from the investor, this should be prioritized in executing order. Second, taker orders will be placed in a market most favorable to the investor, considering total costs for both buy and sell orders, taking into account all relevant factors, including price, volume, and transaction costs. On the contrary, maker orders, which are not executed immediately but remain in the list of orders to be executed in the future, will be placed in a market where such orders have a higher chance of being executed, after having a comprehensive evaluation of bid-ask balance and spread by each securities firm.

**[SMART ORDER ROUTING]** Securities firms will prepare smart order routing (SOR) systems to implement automatic execution of investors' orders according to their own best execution guidelines in a real-time basis.

## ***B. Short Selling Oversight***

**[PROHIBITION DURING NON-REGULAR HOURS]** Short selling will not be allowed through the ATS in pre-market and after-market sessions where there is low market liquidity and high potential for price volatility. Short selling is thus allowed only during regular trading hours from 09:00 to 15:25. This will be specified in the ATS business guidelines.

**[INDICATION OF SHORT SALE ORDERS]** Securities firms can submit short sale orders to the ATS after indicating and displaying that such orders are short sale orders, and the ATS will then notify the KRX of such short sale transaction report. Under the Article 208 of the Enforcement Decree of the FSCMA, securities firms are able to carry out short sale orders only when they have notified the KRX of such short sale orders.

**[UPTICK RULE]** The uptick rule, which is designed to prevent price declines that are caused directly by short selling, will be implemented based on the last executed price in each market (KRX and ATS). This will be specified in the ATS business guidelines.

**[DESIGNATION OF OVERHEATED SHORT SELLING ITEMS]** Overheated short selling items will be determined based on the volume of short sale orders placed in both KRX and ATS and KRX price. Those designated as overheated short selling items will not be allowed to be traded for short selling through the ATS. This will be specified in the KRX regulations.

## ***C. Market Management, Surveillance, Clearing and Settlement***

**[PRICE LIMIT]** The price limit applied on the ATS will be  $\pm 30$  percent of KRX closing price in the previous trading day, and the price limit for pre-market and after-market sessions will also be  $\pm 30$  percent of KRX closing price. This will be specified in the ATS business guidelines.

**[MARKET STABILIZATION]** The ATS will be subject to the same market stabilization measures currently available for the KRX, such as trade suspension, circuit breaker,

and sidecar mechanisms, and they will be applied in a real-time basis. This will be specified in the ATS business guidelines. However, the ATS will operate its own volatility interruption on a par with that operated by the KRX to facilitate an easing of temporary price swings on individual items.

**[MARKET SURVEILLANCE AND CLEARING]** The KRX will perform market surveillance and clearing functions for the ATS.

**[SETTLEMENT AND PAYMENT]** Transactions through the ATS will also observe the T+2 settlement and payment period, which will be the same for both pre-market and after-market trading.

### **3. UPGRADING CAPITAL MARKET REGULATIONS**

*Trading of domestically listed ETFs and ETNs will be allowed through ATS and other regulatory improvements will be made to upgrade the FSCMA.*

#### **A. Instruments for Trade**

**[ETFs AND ETNs]** As there exist considerable numbers of highly liquid exchange-traded funds (ETFs) and exchange traded notes (ETNs) that are domestically listed, with high demand for trading them, relevant rule changes will be made to allow their transactions through the ATS.

**[NEW LICENSING PROCESS TO BE ESTABLISHED]** A new licensing and authorization process will be established to screen the qualification of ATS to ensure effective management over liquidity providers in the ETF and ETN market and to guarantee soundness in its business plan. The minimum capital requirement for an ATS operator intending to trade ETFs and ETNs will be set at about KRW10 billion. In this regard, an ATS operator that has already been granted an approval for its ATS business will need to get additional authorization to be able to trade ETFs and ETNs.

#### **B. Regulatory Improvements on Mandatory Bid Rule and Others**

**[MANDATORY BID RULE]** In line with the current regulation observed for institutional investors' transactions through the KRX, a necessary rule change will be made to ensure that the mandatory bid rule will not be applied to institutional investors for their stock holding of 5 percent or more via acquisition through the ATS. A revision of the FSCMA will be pursued toward this end.

**[OTHER REGULATORY IMPROVEMENTS]** Relevant rule changes will be made to more clearly indicate ATS employees' professional qualifications and to update rules and regulations to remove redundancy and clearly indicate that the joint compensation fund set aside by securities firms (about KRW500 billion) for the purpose of compensating losses incurred from payment defaults will be used for the clearing of securities at the ATS.

## IV. IMPLEMENTATION SCHEDULE

**[UPGRADING REGULATIONS]** Revisions to the Enforcement Decree, subordinate rules, and KRX regulations will be sought in the second half of 2024, and revisions to the FSCMA will be pursued within this year.

**[SYSTEM DEVELOPMENT AND FINAL APPROVAL]** The KRX, ATS, and individual securities firms will begin to work on establishing trading platform systems starting from May this year, and the ATS will apply for the final approval in the fourth quarter of 2024 to be able to start operating in the first half of 2025.

| 1. A New Stock Trading Experience                                       |                          |  |         |
|---|--------------------------|--|---------|
| (1-1) Extending trading hours   | ATS,<br>securities firms | ATS business guidelines,<br>system development                                 | H1 2025 |
| (1-2) Upgrading operation of opening and closing auction prices         | ATS<br>KRX               | ATS business guidelines,<br>revision of KRX rules,<br>system upgrade           | H1 2025 |
| (2) Making new order types available                                    | ATS<br>KRX               | ATS business guidelines,<br>system development,<br>revision of KRX regulations | H1 2025 |
| (3) Other service improvements  | ATS                      | ATS business guidelines,<br>system development                                 | H1 2025 |
| 2. An Integrated Market Oversight for KRX+ATS                           |                          |  |         |
| (1-1) Preparing guidelines on best execution obligation                 | FSS                      | Establishing guidelines  | Q2 2024 |
| (1-2) Establishing SOR systems  | Securities firms         | System development   | Q4 2024 |
| (2-1) Prohibiting short selling in pre-market and after-market sessions | ATS                      | ATS business guidelines  | H1 2025 |
| (2-2) Requiring display of short sale orders                            | FSC                      | Revision of the Enforcement Decree   | Q4 2024 |
| (2-3) Applying uptick rule on ATS                                       | ATS                      | ATS business guidelines  | H1 2025 |
| (2-4) Designation of overheated short selling items                     | KRX                      | Revision of KRX rules  | Q4 2024 |
| (3) Introducing market stabilization mechanisms for ATS                 | ATS<br>KSD               | ATS business guidelines,<br>development of payment system                      | H1 2025 |
| 3. Upgrading Capital Market Regulations                                 |                          |  |         |
| (1) Expanding instrument types tradable through ATS                     | FSC                      | Revision of the Enforcement Decree and subordinate rules                       | Q4 2024 |
| (2-1) Regulatory update on mandatory bid rule                           | FSC                      | Revision of the FSCMA  | Q4 2024 |
| (2-2) Regulatory update on ATS employee qualifications                  | FSC                      | Revision of financial investment business regulations                          | Q4 2024 |
| (2-3) Regulatory update on best execution obligation                    | FSC                      | Revision of the FSCMA  | Q4 2024 |
| (2-4) Regulatory update on NCR regulation                               | FSC                      | Revision of financial investment business regulations                          | Q4 2024 |
| (2-5) Regulatory update on the use of joint compensation fund           | FSC                      | Revision of the FSCMA and KRX regulations                                      | Q4 2024 |