

Embargo:

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THE FX AUTHORITIES PROCEED WITH THE PILOT PROGRAM FOR FX MARKET REFORMS WITHOUT A HITCH IN PREPARATION FOR THE EXTENSION OF TRADING HOURS IN JULY

The Ministry of Economy and Finance (MOEF) and the Bank of Korea (BOK) have been conducting the pilot program since earlier this year in preparation for the official implementation of the ‘Improvement Measures for Foreign Exchange (FX) Market Structure’ in July 2024. As the initiative announced in February last year primarily pertains to the opening of the onshore FX market and the extension of trading hours (currently from 09:00 - 15:30 → 09:00 - 02:00 a.m. of the following day), the FX authorities have been proceeding with necessary procedures in stages such as revision of the Foreign Exchange Transactions Regulations and registration of the registered foreign institutions (RFI)¹.

Among a total of 23 foreign financial institutions listed as RFIs thus far, more than 10 RFIs are already engaging in the KRW/USD spot trading and FX swaps in the onshore FX market (during regular trading hours and through pilot trading). In addition, the FX authorities have been conducting trial transactions during the extended hours (15:30 to 02:00 a.m. of the following day) to check whether associated procedures such as trade execution, trade confirmation, and settlement are functioning properly. Since February 2024, a total of 8 trial transactions have been carried out, with participation from 27 institutions (15 onshore FX banks, 6 securities firms, and 6 RFIs). These trials involved KRW/USD spot and FX swap transactions through scenarios or autonomous transaction methods² and all procedures ranging from trading and settlement to accounting were successfully completed. Starting with trial transactions for FX spot in February, all 9 brokers approved for FX derivatives brokerage (including two brokers for spot trade) have been participating in the pilot program since April and checking on the overall process for FX swap transactions made during the evening and early morning hours.

During the 1st to 4th trial transactions carried out from February to March, the focus was on creating and inspecting an environment where actual FX transactions could occur after the onshore FX market closed (15:30); From April, transactions have been made in a broader range of cases to verify all stages of transaction from trading to settlement, with an aim to preemptively detect and resolve potential issues or obstacles that may arise after the official implementation of the FX reforms.

¹ Registered foreign institutions (RFIs) are foreign financial institutions that have met certain requirements and registered with the FX authorities in order to directly trade in the onshore FX market.

² Scenario transaction: transactions are made based on predetermined exchange rates, counterparties, brokers, etc.

Autonomous transaction: bids are freely accepted and executed at real-time exchange rates, similar to actual transactions during the current FX trading hours.

The 5th trial transactions executed in April 19 (Friday) tested whether FX transactions could be processed normally in the early hours of Saturday, a holiday. The 6th trial in April 29 checked for normal transactions and potential issues with the computer systems at the moment when the date changes at midnight. Participating institutions assessed that they were able to submit bids and offers, and execute trades successfully through the brokers system during the time period, just as during regular trading hours (09:00 – 15:30).

< Details of the 5th-6th Trial Transactions >

Date	Participating Institutions	Time frame ¹⁾	Transaction type	Product	Transaction Volume (million, \$)
5 th (Apr. 19)	12 banks 3 securities firms 2 RFIs	① 18:00 - 24:00	scenario	KRW/USD FX swap	390
		② 00:00 - 02:00			
		② 00:00 - 02:00	autonomous	KRW/USD spot exchange	50
		① 18:00 - 24:00 ② 00:00 - 02:00	scenario (newly registered institutions)	KRW/USD spot exchange	28
6 th (Apr. 29)	14 banks 4 securities firms 3 RFIs	① 18:00 - 24:00	scenario	KRW/USD FX swap	540
		② 00:00 - 02:00			
		③ 23:30 - 01:00	autonomous	KRW/USD spot exchange	96
		① 18:00 - 24:00 ② 00:00 - 02:00	scenario (newly registered institutions)	KRW/USD spot exchange	14

Note 1) Transactions in time frame② were conducted after midnight on the following day, with each time frame lasting approximately 1-2 hours. Transactions in time frame③ were conducted from 23:30 to 01:00 of the following day to check on the trading and settlements around midnight.

In the 7th and 8th trial transactions in May, both spot exchange and FX swaps were carried out, placing much focus on autonomous transactions around midnight. In particular, considering that May 27 (Monday) was a public holiday in the United States (the Memorial Day), the test dates were selected with the knowledge that the foreign currency settlements³ for trades made on May 23 (Thursday) and 24 (Friday) would all be settled on May 28 (Tuesday). Participating institutions confirmed that all FX transactions contracted over the two days were settled successfully on May 28, completing the trades.

Furthermore, liquidity conditions during the extended trading hours were also assessed by conducting the autonomous KRW/USD spot transactions and FX swaps (one-month maturity) simultaneously. Participants in autonomous transactions noted that the bid-ask spreads for KRW/USD spot exchange

³ Settlements for spot exchange occurs 2 business days after the trade contract, in accordance with international trading practices. (Since August 2002, FX transactions through brokers in Korea have all been settled on the second business day after the trade.) Therefore, transactions executed on May 23 (Thursday) should settle on May 27 (Monday). However, since May 27 is a holiday in the United States, settlement would be postponed to the next day.

were similar to or narrower than the spreads in the offshore non-deliverable forward (NDF)⁴ market during the same time period. They expressed positive opinions on the outcomes of the pilot program, suggesting that if the trading conditions in the onshore FX market remain favorable following the official implementation, it may be possible to attract offshore NDF transactions into the onshore market.

< Details of the 7th-8th Trial Transactions >

Date	Participating Institutions	Time frame ¹⁾	Transaction type	Product	Transaction Volume (million, \$)
7th (May. 23)	10 banks 4 securities firms	③ 23:30 - 01:00	autonomous	KRW/USD spot exchange	74
		③ 23:30 - 01:00	autonomous	KRW/USD FX swap	160
		① 18:00 - 24:00	scenario (newly registered institutions)	KRW/USD spot exchange	4
		② 00:00 - 02:00		KRW/USD FX swap	80
8th (May. 24)	11 banks 4 securities firms	③ 23:30 - 01:00	autonomous	KRW/USD spot exchange	61
		③ 23:30 - 01:00	autonomous	KRW/USD FX swap	310
		① 18:00 - 24:00	scenario (newly registered institutions)	KRW/USD spot exchange	6
		② 00:00 - 02:00		KRW/USD FX swap	20

As the official implementation of the ‘Improvement Measures for FX Market Structures’ approaches in about a month, with the extension of FX market trading hours until 2 a.m. starting from July, the MOEF and the BOK plan to push forward 4 more pilot transactions in extended trade hours during the remaining period of the program to allow more market participants to be ready in advance for changing trading environment. Also, FX authorities will make concerted efforts with proactive moves for the successful execution of the improvement measures by closely working with market participants and diligently monitoring the readiness of RFIs and FX market players.

⁴ Non-deliverable forward (NDF) is a type of forward contract in which only the difference between the contracted exchange rate and the spot rate at the maturity date (designated rate) is settled in USD instead of KRW. It is commonly used by foreign investors as a hedging and speculative investment tool.