



Eurex/KRX Link Frequently Asked Questions (FAQ)

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Q1. Why was the product set up as Eurex Daily Futures on KOSPI 200 Options?

A: KOSPI 200 Options are the most heavily traded options contract worldwide. The Eurex/KRX Link was set up to make this contract tradable after Korean trading hours. Since 30 August 2010, the Eurex KOSPI Product has been available granting near-24 hour access to the Korean market. Investors in Korea and all over the world can now use their access to the Eurex trading platform to trade the contract.

In the Eurex[®] system, the Eurex KOSPI Product is set up as an option with strike price, expiries, put/call and premium just like the respective KOSPI 200 Options contract. Legally, it is a daily futures contract which expires every night. If there are any net open positions at the end of trading, this results in delivery of the corresponding position into KOSPI 200 Options at the start of the next trading session on KRX.

This set-up is ideally suited to achieve the goal of fungibility of the Eurex contract with the KRX contract. At the end of each trading day at Eurex, the contract expires and the delivery is fulfilled with a corresponding position in the underlying KOSPI 200 Options contract at KRX. Thus, you can use the Eurex session directly to open or close positions in the active options series at the beginning of the subsequent KRX trading day.

Q2. Can you hedge the Eurex KOSPI Product with corresponding KOSPI 200 Futures?

A: Yes. Through the daily transfer of open interest to KRX, any expired positions in the Eurex KOSPI Products will become positions in KOSPI 200 Options held by a KRX member in Korea. The KOSPI 200 Futures are traded around the clock at KRX, using the KRX system during the day and Globex technical infrastructure in the after-hours. So the KOSPI 200 Futures positions are likewise held by KRX members in Korea. Within this set up, hedging strategies between KOSPI 200 Futures and Options can be effectively implemented 24 hours a day.

Q3. How is price data for the KOSPI 200 Futures visible to users of the Eurex KOSPI Product?

A: KRX KOSPI 200 Futures night session price data are available via the same ways in which they are available during the KRX trading day.

Eurex displays the front month contract of the KOSPI 200 Futures as the underlying of the Eurex KOSPI Product in the Eurex[®] system. The Eurex[®] system shows bid price, ask price, last traded price and last traded volume in real time.

Q4. Is there a closing auction at the end of the Eurex trading phase?

A: No closing auction is used for the Eurex KOSPI Product.

Q5. What are the requirements for participating NCMs?

A:

1. The NCM must register their relationship to at least one KRX member in order to be assigned to the product. An agreement between the Eurex member and its KRX member has to include the obligation for the KRX member to establish the option position resulting from the Eurex KOSPI Product in the KRX system.
2. For the NCMs, the Eurex CM has to confirm participation in the Eurex/KRX Link in order to be allowed to assign the product.
3. Enter a 3-digit reference number of the KRX member (KRX member ID) and a 1-to-9-character identification number (for the KRX member to identify the relevant account) at the time of order/quote entry into the Eurex[®] system.
4. Authorize Eurex Clearing to transfer the settlement information per identification number of the final beneficiary to KRX members via KRX.
5. Confirmation that the pre-margining regulatory requirements in Korea will be adhered to.

Q6. What are the requirements for participating GCMs?

A:

1. South Korean Won (KRW) account at Shinhan Bank to pay/receive KRW for variation margin, and to pay transaction fees.
2. Contribution to the Eurex clearing fund, if they or their NCMs are trading the Eurex KOSPI Product.
3. Confirmation of KRX member IDs for themselves and any NCMs trading the Eurex KOSPI Product.

Q7. Why must all participating Eurex members have an account with a KRX member?

A: The underlying for the Eurex KOSPI Product is a position in the corresponding series of the KRX KOSPI 200 Options contract. Only a valid account relationship with a KRX member can enable the Eurex member to hold this position at KRX.

Eurex members must provide Eurex with the KRX member ID and name of the KRX members who will establish the respective KOSPI 200 Option positions on KRX on the following trading day.

Q8. Can a Eurex member or their clients use several Korean brokers at the same time?

A: Yes. Using the indicator in the free-text field *TEXT* at Eurex, Eurex members can assign their own or their client's trades to several KRX members to carry the resulting positions at KRX. Prior to obtaining access to trade the product, Eurex members must report at least one KRX member to Eurex Clearing with whom they have an account relationship. Members can only indicate those KRX members in their orders that they have reported to Eurex Clearing in advance.

Q9. Can the KRX member ID be indicated after order entry?

A: When entering an order, quote or trade adjustment, Eurex members must always enter a 3-digit KRX member ID and a maximum 9 character identification number (for the KRX member to identify the relevant account) into the free-format text field *TEXT*. It is further recommended that Eurex members contact the respective KRX member to obtain confirmation of the positions of the respective KOSPI 200 Option entered at KRX.

The Eurex member can edit the information in the *TEXT* field for its positions before the end of the trading day, but it will be rechecked for a valid KRX member ID by the Eurex system.

Q10. Can Eurex OTC and give-up functionalities be used?

A:

Available:

Give-up/Take-Up Functionality
OTC Block Trade Facility
Multilateral Trade Registration
Strategy WizardSM

Not available:

Historical Give-ups
Flex Options or Futures
Position Transfers
Exercise and Assignment

Q11. What possibilities are available for give-up/take-up actions in the Eurex/KRX Link?

A:

1. The Eurex give-up/take-up functionality was enhanced in November 2010 with Eurex Release 13.0 to be available for the Eurex KOSPI Product. Please note that the take-up party is obliged to fulfill the requirements for trading and clearing the Eurex KOSPI Product, i.e. valid account relationship with KRX member and KRW account (see also questions 5 and 6). Furthermore, the give-up party must take into account that, if for any

reason the trade is not taken up by the take-up party, the position will remain with the give-up party for settlement at the end of the trading day.

2. The Multilateral Trade Registration (MTR) functionality enables Eurex members to broker trades between two counterparties and enter both sides for the respective counterparties into the Eurex[®] system. When using the MTR functionality for the Eurex KOSPI Product, the Eurex member that acts as the broker does not have to indicate a KRX Member ID and identification number of the final beneficiary for the trade, as long as it is not a counterparty of the trade. As long as a Eurex Member accesses the Eurex KOSPI Product exclusively via the MTR functionality as a broker and never becomes a counterparty of the trade, it does not need to fulfill Eurex's requirements for trading and clearing the Eurex KOSPI Product. In this case, the counterparties are responsible to confirm the trade and at this point in time they need to enter the KRX member ID and identification number of the final beneficiary. The Eurex members who confirm the trades are the counterparties to the trades and are responsible for the fees through their Eurex clearing member.

Q12. Are there Market Makers for the product?

A: Yes. The Eurex KOSPI Product is tradable as an option in the Eurex[®] system according to Eurex's market model. Thus, also the mass quote functionality is available.

Eurex offers a Market Maker incentive scheme. For further information please see the related current Eurex Circulars, or contact Weiwei Wang, phone +49 69 211 17262, email weiwei.wang@eurexchange.com

Q13. What is the trading fee per contract?

A: Eurex applies premium-based pricing in order to mirror the KRX pricing structure. [The current](#) pricing for the Eurex KOSPI Product (exchange trading and clearing fee) is 4 bps of the premium paid both for order book and block trades. The fee currency is South Korean Won (KRW). The minimum fee is 1 KRW per trade.

No settlement fees are charged as the contract expires daily. A fee holiday will be granted for all members in the first six months after the launch (until 28 February 2011).

Q14. How is the settlement price of the Eurex KOSPI Product determined?

A: The daily (and also final) settlement price of the Eurex KOSPI Product is equal to the daily settlement price of the respective series of the KOSPI 200 Option on KRX in its previous trading session.

In case of extraordinary circumstances, especially if the trading is interrupted due to technical problems or if a price determination for the Eurex KOSPI Product is not possible for other reasons, Eurex Clearing may determine the final settlement price by means of another procedure.

The settlement price of Eurex Clearing has to be within the range of the quotation price limits of KOSPI 200 Options on KRX so that the option positions resulting from settlement of the Eurex KOSPI Product always stay within the limits when they are entered into the KRX trading session.

Q15. What are the margin requirements for the Eurex KOSPI Product?

A: The Eurex KOSPI Product does not require initial margin, as all positions expire at the end of the day. At the end of the Eurex trading session, a futures-style variation margin will be paid or received in South Korean Won as the profit or loss of the trading day. Eurex Clearing reserves the right to apply intra-day margin in the clearing currency of the GCM based on the overall risk position of the GCM in all Eurex products.

Only after the Eurex trading day, when expired positions are transferred to KRX, the corresponding KOSPI 200 Options will become subject to KRX margining regulations. The KRX member determines the potential pre-margin requirement on a beneficial owner basis.

Q16. KRX members require pre-margin for orders at KRX. Does this also apply for Eurex?

A: For the Eurex KOSPI Product itself, no pre-margin is required. After the Eurex trading day, any expired contracts are transferred to KRX. The KRX member calculates the potential margin requirement on a beneficial owner basis. Eurex and KRX Members should communicate about additional pre-margin requirements during the Eurex trading day. Should the KRX member determine pre-margin requirements for the position, the corresponding funds need to be deposited with the KRX member by the customer (final beneficiary or Eurex member) in advance according to the terms of the KRX member.

Q17. When do the positions become subject to KRX pre-margining?

A: Positions become subject to KRX margining regulations before they are accepted by the KRX member and entered into the KRX system. Thus, KRX members need to check whether any additional pre-margin payments are required for positions coming from the Eurex KOSPI Product prior to their acceptance in the morning.

Q18. What is the potential initial margin of positions that will enter KRX after the Eurex trading session?

A: The margins have to be calculated on a beneficial owner basis and will be determined by the KRX member who will take over the positions. KRX currently does not offer theoretical price files or other margin information to market participants who are not KRX members.

Q19. Will the Eurex KOSPI 200 Options be traded on Korean exchange holidays?

A: No, the Eurex KOSPI Product will only be traded when it is a trading day at both KRX and Eurex.

Q20. Can the Korean broker impose limits on his client's trading in the Eurex KOSPI Product?

A: Members need to control their positions in the Eurex KOSPI Product on a beneficiary owner level, so that in the event of resulting positions at KRX, pre-margining regulatory requirements in Korea will be adhered to.

To ensure fulfillment of pre-margining prerequisites in Korea for multiple clients or beneficial owners, own or third-party systems may need to be applied.

Eurex Clearing offers real time risk data calculation, pre-trade risk controls and event driven risk data to support members in this task for trading on the Eurex® system.

Q21. How can members handle the payments in KRW?

A: For the payment processing, Eurex Clearing has an account at Shinhan Bank, which serves as a payment bank for Eurex Clearing in this context. Clearing members also need to have an account with Shinhan Bank so that Eurex Clearing can initiate payments through the clearing member's account at Shinhan Bank. Each clearing member is considered separately and no netting of payment instructions based on payment banks takes place.

Q22. What do Eurex Clearing Members have to take into account when setting up their payment processes with Eurex Clearing for the Eurex/KRX Link?

A: Korean Won (KRW) payments must be made in Korea and payments cannot be transferred or converted outside of Korean banking hours. Variation margin debits are due at 15.00 Korean Standard Time (KST) which corresponds to 7.00 Central European Time (CET) (8.00 CEST during European Daylight Saving Time). Eurex Clearing makes variation margin credit instructions by 16.00 KST (8.00 CET/9.00 CEST)

Q23. How is the settlement information transferred to KRX and to the KRX members?

A: Using a proprietary leased line connection between both exchanges, Eurex Clearing transmits a daily file to KRX which contains the net positions, KRX members, unique identifiers for beneficial owners, and any other relevant information. KRX members receive their position data from KRX and can use the unique identifiers to attribute the positions to the appropriate accounts for the beneficial owners, in many cases through a mapping process.

Q24. How are the positions opened in the KRX system?

A: KRX enters the positions based on the file transferred by Eurex Clearing into the block trade functionality of KRX, which is activated only for this process in this product. The KRX member firms indicated on each trade then have to accept these positions by 8:20 am Korean time. The positions will then be in the accounts of each beneficiary as T+1 trades. The KRX members need to prepare their processes for accessing the KRX block trade functionality and test it in coordination with KRX before their first participation in the Eurex/KRX Link. For further information, please contact the Global Alliance Team at KRX.

Q25. How are members informed about their end-of-day positions that were transferred to KRX?

A: The new report RPTCB430 "KRX Position Report" displays acceptance/rejection of settlement information into the KRX system to establish the respective position in the KOSPI 200 Options at KRX. This report is created on a daily basis and can be subscribed to by all Eurex members.

Q26. Where is information regarding variation margin payments available?

A: The report RPTCD009 'Daily Cash Transactions' provides daily cash transactions for Eurex clearing and trading members. The report details cash transactions per transaction type and currency.

As variation margin payments for the Eurex KOSPI Product appear in the Eurex® system as premium, the report RPTCB090 'Premium Overall Summary' provides premium debits and credits for Eurex clearing and trading members. The report details accumulated premiums by exchange and clearing member per currency.

Contacts

Eurex

Mr. Ernst Bünemann – Sales Asia & Middle East

E-mail: ernst.buenemann@eurexchange.com

T +49 69 211 18633

Mr. Henk Huitema – Sales Asia & Middle East

E-mail: henk.huitema@eurexchange.com

T +65 6304-5257

Dr. Weiwei Wang (Ms.) – Product Strategy

E-mail: weiwei.wang@eurexchange.com

T +49 69 211 17262

Korea Exchange

Mr. Andy Ryou – Global Alliance Team

E-mail: jkryou@krx.co.kr

T +82 51 662 2642

Mr. Seirang Kim - KRX Global Alliance Team

seirang@krx.co.kr

Phone +82 51 662 2645
