

The Eurex/ KRX Link

Introduction to KOSPI Options &
Mini-KOSPI Futures on Eurex

June 2019



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Eurex/ KRX Link



The Eurex/ KRX Link (1/6)

Introduction to the Eurex/ KRX Link

- KRX and Eurex have offered after-hours trading of KOSPI 200 Options at Eurex ("**Eurex/ KRX Link**") since 30 August 2010 by listing a **daily expiring futures contract** on Eurex resulting in a position in the corresponding series of the KOSPI 200 Options on KRX. Currently **49 Eurex and KRX members** are participating in the Eurex/ KRX Link, while **four Market Makers** continuously quote the Eurex KOSPI Options to ensure the liquid order book
- The Eurex/ KRX Link offers an attractive and liquid market for trading KOSPI 200 Options during European and North American trading hours. As of end May 2019, **over 219 million Eurex KOSPI Options** were traded since inception
- In April 2016, Eurex and KRX jointly announced the extension of the cooperation by **listing Mini-KOSPI 200 Futures on the existing Eurex / KRX Link ("Eurex Mini-KOSPI Futures")**
- Eurex Mini-KOSPI Futures will be listed as fully fungible Daily Futures to allow a transfer of open interest from Eurex to KRX. The operational setup as well as the clearing and payment infrastructure mirror exactly the existing Eurex/ KRX Link model for Eurex KOSPI Options
- The introduction of **Eurex Mini-KOSPI Futures (FMK2)** was on **28 November 2016**, making both KOSPI 200 Options and Mini-KOSPI 200 Futures available on the Eurex platform ("**Eurex KOSPI Products**")
- Further information can be found in [Eurex Circular 092/16](#) and [Eurex Clearing Circular 122/16](#)

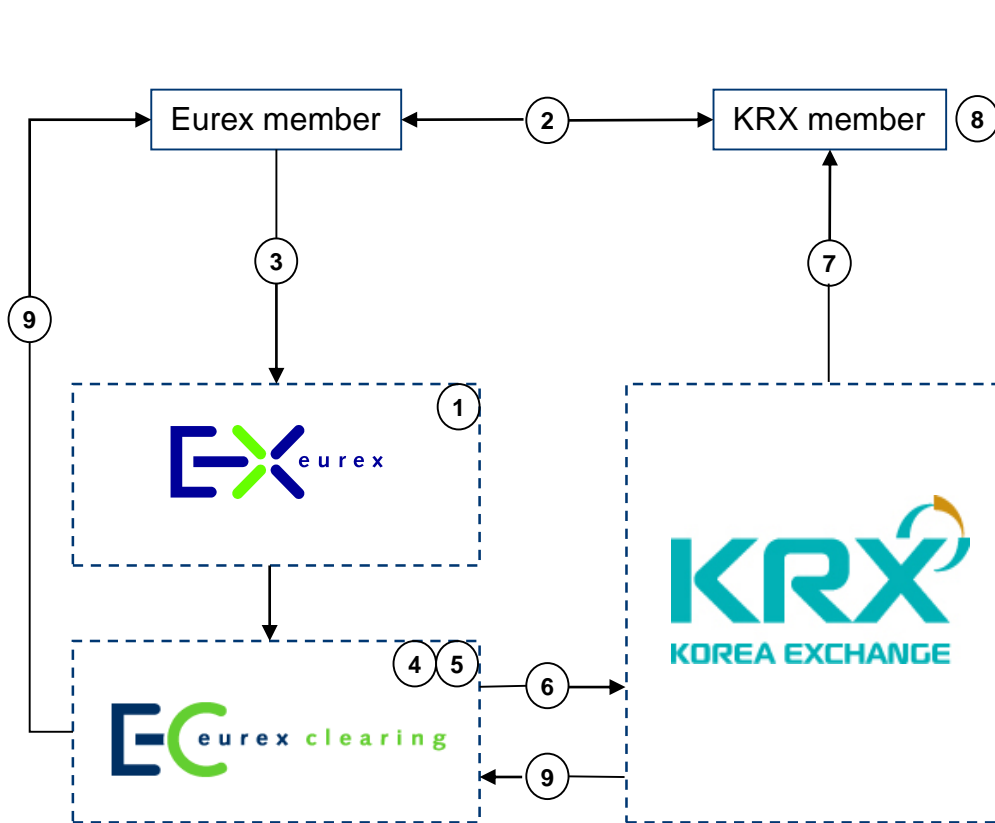
The Eurex/ KRX Link (2/6)

Advantages of 24 hour trading on Eurex/ KRX Link

- The Eurex/ KRX Link extends the trading hours for Korean investors. At the same time, it makes it easier for international investors to access this market
- The Eurex KOSPI Products connect the Eurex members and their customers world-wide directly to the Korean equity derivatives market
- 24 hour trading and clearing enables market participants to react to overnight events and market movements
- To hold a position at KRX, all participating Eurex members need to have a business relationship with at least one KRX member
- The position at Eurex is netted daily on a financial beneficiary basis and transferred from Eurex Clearing to KRX
- The Eurex KOSPI Products trade on Eurex with Eurex rules and trading functionalities
 - Quote functionality and market making
 - ▶ liquidity providers
 - OTC Block Trade Facility, Multilateral Trade Registration and Strategy Wizard (option strategies)
 - ▶ liquidity providers, institutional investors, OTC brokers

The Eurex/ KRX Link (3/6)

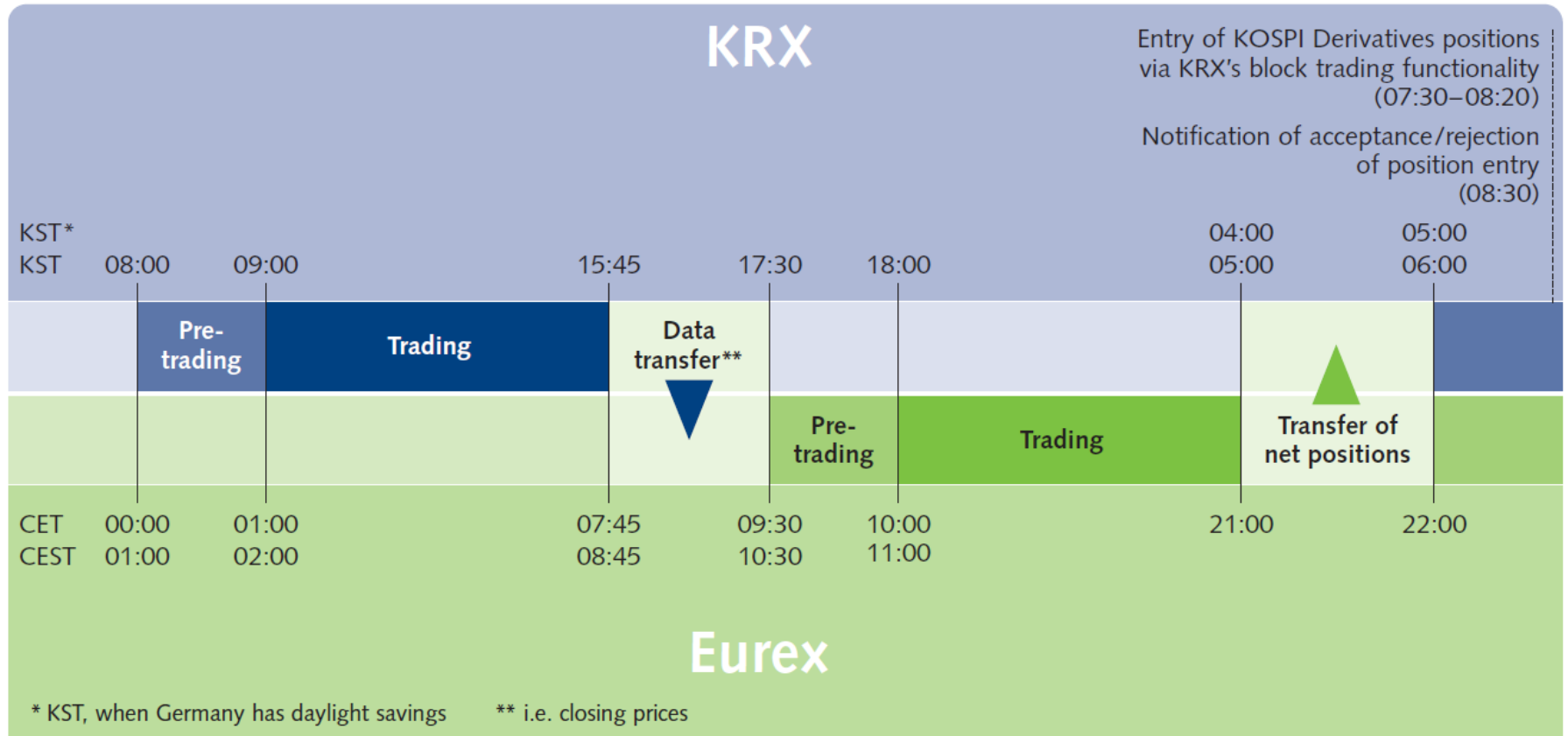
24 hour trading of Eurex KOSPI Products – Process



- ① Listing of the Eurex KOSPI Products
- ② Eurex members: must have a business relationship with at least one KRX member to facilitate the delivery of the Eurex KOSPI Products
KRX members: open an account with at least one Eurex member to facilitate outbound orders from Korea to trade the Eurex KOSPI Products
- ③ Eurex members trade the product at Eurex by indicating the KRX member and the ID account number of the final beneficiary into the respective dedicated field along with the order. KRX members trade the Eurex KOSPI Products through Eurex members
- ④ Margining: Intra-day margin in one of the Eurex clearing currencies (EUR/CHF/USD/GBP)
- ⑤ Clearing: Payment/Receipt of variation margin in KRW at a Korean settlement bank by KST 15:00 (CET 07:00 or 08:00*)
- ⑥ Settlement information transfer on a final beneficiary basis from Eurex Clearing to KRX
- ⑦ Settlement information transfer from KRX to the respective KRX members
- ⑧ Margin check & entry of the settlement information into the KRX system through KRX's OTC Block Trading Functionality
- ⑨ Confirmation of settlement information entry which results in KOSPI 200 Options / Mini-KOSPI 200 Futures positions in the KRX market

The Eurex/ KRX Link (4/6)

24 hour trading of Eurex KOSPI Products – Timetable



The Eurex/ KRX Link (5/6)

Settlement price of the Eurex KOSPI Products

- The daily (and also final) settlement prices of the Eurex KOSPI Products are equal to the daily settlement prices (base price) of the respective series of KOSPI 200 Options / Mini-KOSPI 200 Futures at KRX in its previous trading session
- By this method, Eurex and KRX can ensure that the settlement prices of Eurex Clearing lie within the range of the quotation price limits of KOSPI 200 Options / Mini-KOSPI 200 Futures on KRX so that the options/futures positions resulting from the Eurex delivery obligation can be accepted by the KRX system
- In case of extraordinary circumstances, especially if the trading is interrupted due to technical problems or if a price determination for the Eurex KOSPI Products is not possible for other reasons, Eurex Clearing may determine the final settlement price by means of another procedure

The Eurex/ KRX Link (6/6)

Margining

- Margining of the Eurex KOSPI Products
 - At the end of the Eurex trading session, a futures-style variation margin is paid or received in Korean Won as the profit or loss of the trading day
 - Eurex Clearing AG 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 KOSPI Products
 - While intraday margining proceeds as normal for KRX products, the overnight risk will be covered by a SUPA (supplementary Asia) margin process in Prisma. The margin calculation is performed immediately after trading has closed and positions are final (21:30 CET). This margin is booked as supplementary margin and held until EOD of the following day. The SUPA margin requirement follows the Prisma initial margin logic and will be reported in the CC050 report
 - Eurex KOSPI Products positions are offset in the Prisma liquidation group PAC01
- Margining for resulting positions at KRX
 - After the Eurex trading day, any expired positions are transferred to KRX, and the corresponding KOSPI 200 Options / Mini-KOSPI 200 Futures positions at KRX result
 - The positions become subject to KRX margining regulations
 - The KRX member determines the potential pre-margin requirement on a beneficial owner basis
 - After the positions are accepted by the KRX member, they are entered into the KRX system
 - Funds need to be deposited with a KRX member by the customer (final beneficiary or Eurex member) in advance according to the terms of the KRX member
 - The KRX members are encouraged to monitor the Eurex member's and its client's pre-margin requirements even during the Eurex trading day and provide information on potential additional margin requirements

Recent Developments: Multiplier Adjustment

With effect of 27 March 2017, KRX reduces the multiplier of all KOSPI contracts

- The KRX KOSPI Options and Futures contracts as well as Mini KOSPI Options and Futures contracts have changed their contract specifications **with effect of 27 March 2017** by adjusting the contract multipliers to 50% of their respective previous values. For the contracts underlying the Eurex KOSPI Products OKS2 and FMK2 this means:
 - Mini-KOSPI 200 Futures: ~~KRW 100,000~~-> KRW 50,000 per index point
 - KOSPI 200 Options: ~~KRW 500,000~~-> KRW 250,000 per index point
- Each KRX member position held in the affected contracts at KRX after the KRX trading session of 24 March 2017 was adjusted to the double number of contracts in a manual process in the KRX system in order to compensate for the halving of the contract value on 27 March
- **Impact on Eurex KOSPI Products (OKS2, FMK2):**
 - Contract multipliers: were adjusted to 50% accordingly
 - Trading fees: unchanged as fees at both exchanges are expressed in basis points
 - **Transition at Eurex: The Eurex KOSPI Products (OKS2, FMK2) were closed for trading on 24 March** and re-opened with changed multipliers with effect of 27 March

Eurex KOSPI Options

Value proposition of Eurex KOSPI Options

Advantages of 24 hour trading of Eurex KOSPI Options

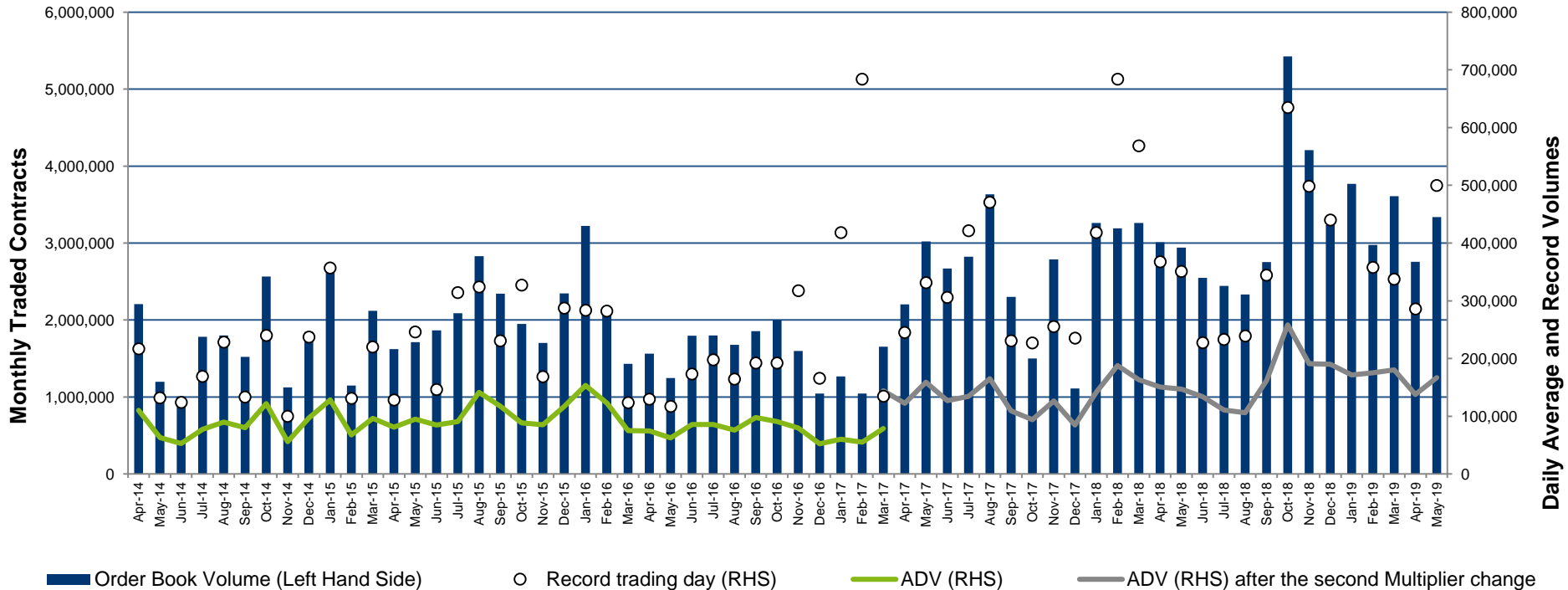
- The KOSPI 200 Options listed on KRX have been one of the most liquid exchange-listed derivatives contracts in the world since 2005
- KRX and Eurex have offered after-hours trading of KOSPI 200 Options at Eurex since 30 August 2010
- The link for 24 hour trading and clearing of KOSPI 200 Options were realized by listing a derivatives contract on Eurex for which the underlying is a position in the corresponding series of the KOSPI 200 Options on KRX
- The Eurex KOSPI Options are set up as options contracts in the Eurex system and are listed in Korean Won (KRW)
- The strong domestic demand for after-hours trading in KOSPI 200 Options makes them attractive for additional Korean brokers to offer the Eurex KOSPI Options to their clients
- The Eurex KOSPI Options offer an attractive and liquid market for trading KOSPI 200 Options during European and North American trading hours
- A position in the Eurex KOSPI Options establishes an obligation to open the corresponding KOSPI 200 Options positions at KRX and is therefore legally described as a daily expiring futures contract on KOSPI 200 Options

Volume Development of Eurex KOSPI 200 Options

Average daily traded volume and traded contracts

- The average daily traded volume (ADV) in 2019 is **165,741 contracts** (as of end May 2019)
- The average traded contract volume of the Eurex KOSPI Options in 2019 has represented **5.83%** of the day time volume (as of end May 2019)

Eurex KOSPI 200 Options - Traded Volume



Contract Specifications

Contract Specifications for Eurex KOSPI 200 Options

The contract specifications of the Eurex KOSPI Options generally mirror those of the KOSPI 200 Options at KRX which are the contract's underlying

Underlying	The relevant series of KOSPI 200 Options listed at KRX, which are determined by the option class (call or put), maturity and strike
Contract size	One KOSPI 200 Option contract of the relevant series (multiplier adjusted to KRW 250,000 per index point as of 27 March 2017)
Price quotation	In points with 2 decimal places
Minimum price movement	0.05 points (KRW 12,500) when price is quoted at or above 10 points 0.01 points (KRW 2,500) when price is quoted below 10 points
Contract term	One trading day
Settlement	Variation margin on Eurex calculated at the end of the trading day for payment at Eurex on the following day by KST 15:00 (CET 07:00 or 08:00*). Physical delivery via position establishment in KOSPI 200 Options on the following trading day on KRX prior to its market opening
Daily/final settlement price	Equal to the daily settlement price of KRX for KOSPI 200 Options in the previous trading session of the same trading day on KRX. The cash flow resulting from the variation margin is paid/received in KRW at a correspondent bank account in Korea
Last trading day	Every day if it is a trading day both at Eurex and KRX
Trading hours	CET 10:00 - 21:00 or 11:00* – 21:00 (KST 18:00 – 05:00 or 18:00 – 04:00*)

* during the daylight savings time in Europe

Eurex KOSPI Options (1/2)

Exchange fees and block trade size

Fees

- The fee structure has been aligned with the KRX fees to the highest degree possible:

Trading & Clearing Fee (Order book trades)	4 bps of the premium paid
Trading & Clearing Fee (Block Trades)	4 bps of the premium paid
Fee Currency	Korean Won (KRW)

- No settlement fees are charged as the contract expires daily
- Liquidity Provider Scheme is available for the Eurex KOSPI Options. Requirements and rebates are described in the Eurex Liquidity Provider Agreement (General Supplement and Product Specific Supplements)
- Transactions in the Eurex KOSPI Product are not taken into account in the calculation of the volume rebates for equity index futures

Eurex T7 Entry Services

- Block Trade, Strategy Wizard (Options Strategies) and the Multilateral Trade Registration are available for the Eurex KOSPI Product in the Eurex System
- Minimum Block Trade Size: 25 lots
- Price reasonability check methodology. The prices of the OTC block trades have to be within the following range:
 - Range Low = Last Closing Price - (Margin Parameter * 2)
 - Range High = Last Closing Price + (Margin Parameter * 2)

Eurex KOSPI Options (2/2)

Liquidity Provider (LP) – Requirements for Order Book Quotation

The permanent quote (order-book) obligations include:

- 1) **Quoting period:** Continuous quotation for an average of 70% of the trading period between 09:00 and 17:30 CET or 10:00 and 17:30 CEST (calculated on a monthly average) on each Exchange trading day per calendar month for the **first two expiration months**
- 2) **Strikes to quote:** Calls and puts in nine strikes out of a strike price window of 17 strikes around the current underlying price in each of the first two expiration months; i.e. 18 series to be quoted in total for each of the first two expiration months
- 3) **Reference Price for determination of the strike price window:** the last price of the first contract month of the KOSPI 200 Futures of KRX traded in the previous trading session on Globex of CME
- 4) In **Fast Market**, Maximum spreads will be increased by 100% and the minimum quote size will be reduced by 50%

Bid up to	Maximum Spread		Note
	Expiration 1	Expiration 2	
≤ 1.50	0.15	0.2	Performant Market Makers receive 50% off the transaction fees, i.e. they pay 0.02bp instead of 0.04bp.
≤ 20.00	10%	15%	
> 20.00	2	3	

Eurex Mini-KOSPI Futures



Value proposition of Eurex Mini-KOSPI Futures

Advantages of 24 hour trading of Eurex Mini-KOSPI Futures

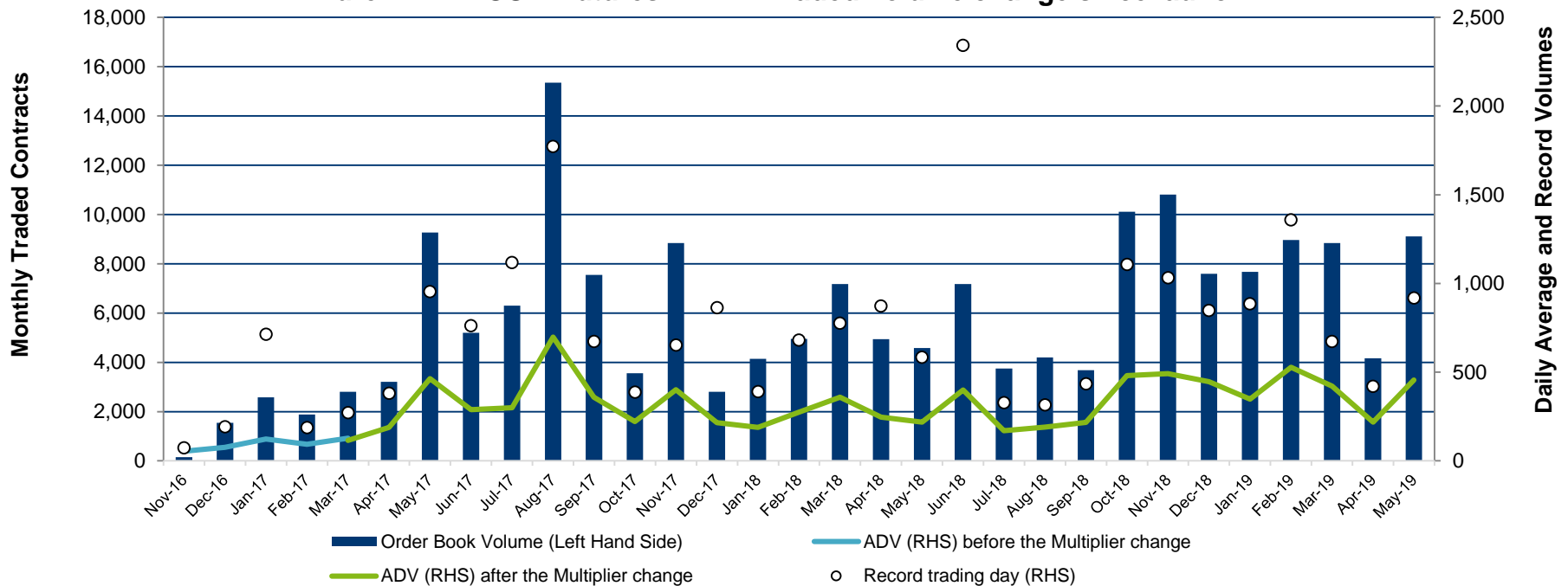
- The Eurex Mini-KOSPI Futures are set up as futures contracts in the Eurex system and are listed in Korean Won (KRW)
- The strong domestic demand for after-hours trading in Mini-KOSPI 200 Futures makes them attractive for additional Korean brokers to offer the Eurex Mini-KOSPI Futures to their clients
- The Eurex Mini-KOSPI Futures offer an attractive and liquid market for trading Mini-KOSPI 200 Futures during European and North American trading hours
- The Eurex Mini-KOSPI Futures are fully fungible with the KRX Mini-KOSPI Futures
- KRX members accept and enter the Mini-KOSPI 200 Futures positions into the KRX system after checking any applicable margin requirements
- The transfer of all expired positions consolidates all open interest in Mini-KOSPI 200 Futures at KRX
- With one-fifth of the contract size of KOSPI 200 Futures, Mini-KOSPI Futures allows more precise and dynamic hedging for small institutions and private investors with lower margin
- The small contract size facilitates delta hedging for Options block trades in Eurex KOSPI Options
- Listing of Mini-KOSPI Futures on Eurex may also result in capital efficiencies for the investors already trading Eurex KOSPI Options on the same trading platform since it requires only one clearing house

Volume Development of Eurex Mini-KOSPI 200 Futures

Introduction of Mini-KOSPI 200 Futures

- Eurex has successfully launched Eurex Mini-KOSPI Futures on 28 November 2016
- The average daily traded volume (ADV) in 2019 is **391 contracts** (as of end May 2019)
- The average traded contract volume of the Eurex Mini-KOSPI Futures in 2019 has represented **0.37%** of the day time volume (as of end May 2019)

Eurex Mini KOSPI Futures FMK2 - Traded Volume change since launch



Mini-KOSPI 200 Futures

Contract Specifications

The contract specifications of the Eurex Mini KOSPI Futures generally mirror those of the Mini-KOSPI 200 Futures at KRX which are the contract's underlying

Underlying	Mini-KOSPI 200 Index Futures listed at KRX
Contract size	One Mini-KOSPI 200 Futures contract
Contract size of the underlying	KOSPI 200 Index-level * KRW 50,000
Contract Months	Consecutive six contract months
Tick Size (minimum fluctuation)	0.02 points (KRW 1,000)
Trading Hours	10:00 – 21:00 CET /11:00 – 21:00 CEST (KST 18:00 – 05:00 or 18:00 – 04:00*)
Last Trading Day	Daily expiration
Final Settlement Day	Daily expiration
Final Settlement Price	The daily settlement price of the Eurex Mini-KOSPI 200 Futures is also the final settlement price and is equivalent to the daily settlement price calculated by KRX for the Mini-KOSPI 200 Futures contracts admitted for trading on KRX on the respective exchange day as of the close of trading on KRX
Daily Price Limit	N/A
Position Limit	N/A
Min Block Size	100 contracts

* during the daylight savings time in Europe

Eurex Mini-KOSPI Futures (1/2)

Exchange Fees and Liquidity Provider Scheme

Fees

- The fee structure has been aligned with the KRX fees to the highest degree possible:

Trading & Clearing Fee (Order book trades)	0.03 bps of contract size
Trading & Clearing Fee (Block Trades)	0.03 bps of contract size
Fee Currency	Korean Won (KRW)

- A general fee holiday of 3 months** after launch was granted to all Eurex Members up to and including 28 February 2017
- No settlement fees are charged as the contract expires daily

Liquidity Provider Scheme

- Liquidity Provider scheme (LP) is available for the Eurex Mini-KOSPI Futures
- From 1 January 2018 to 31 December 2018, market maker will receive **50% rebate** on trading and clearing fees in Eurex Mini-KOSPI Futures, depending on fulfilment

Eurex Mini-KOSPI Futures (2/2)

Liquidity Provider scheme (LP) – Requirements for Order Book Quotation

The permanent quote (order-book) obligations include:

- 1) minimum quote size
- 2) pre-defined number of expirations
- 3) maximum spread
- 4) minimum quoting period
- 5) minimum quote size will be reduced by 50% and the max. quote spreads will be doubled during fast market conditions

Front Month	Requirements	Note
Min Quote Size [Bid / Ask contracts]	10 contracts	1. Quote the Front month (via M-Account) (5 trading days before expiry quote either the Front or the next expiration month) 2. In Fast Market (definition and announcement by the Exchange), maximum spreads will be increased by 100% and the minimum quote size will be reduced by 50%
Maximum Quote Spreads [ticks / absolute]	10 ticks/0.20 index points	
Quoting Period	Continuous quotation for an average of 70% of the trading period between 10:00 and 17:30CET or 11:00 and 17:30 CEST (calculated on a monthly average) on each Exchange trading day per calendar month	

Eurex/KRX Link Contacts

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Appendix

Recent developments: Liquidity

- Build-up of liquidity in the Eurex KOSPI Options (OKS2)
 - **Four market makers** fulfill Eurex' quoting requirements
 - Currently, **49 Eurex and KRX members** are set up, while **10 Eurex Clearing Members** are preparing their readiness
 - The traded contract value of the Eurex KOSPI Options has represented **5.59%** of the day time value in May 2019

Volume Development of the Eurex KOSPI Options

Total Volume YTD May – end May 2019	16,574,115 contracts	
*Trading Record (volume)	683,729 contracts	on 7 Feb 2018
Trading Record (value)	240,306 KRW, mln	on 24 Aug 2015
ADV May 2019 (volume)	164,736 contracts	
ADV May 2019 (value)	35,753 KRW, mln	

* since the tick value of the Eurex KOSPI Option was changed from KRW 100,000 to KRW 500,000 on 14 June 2012

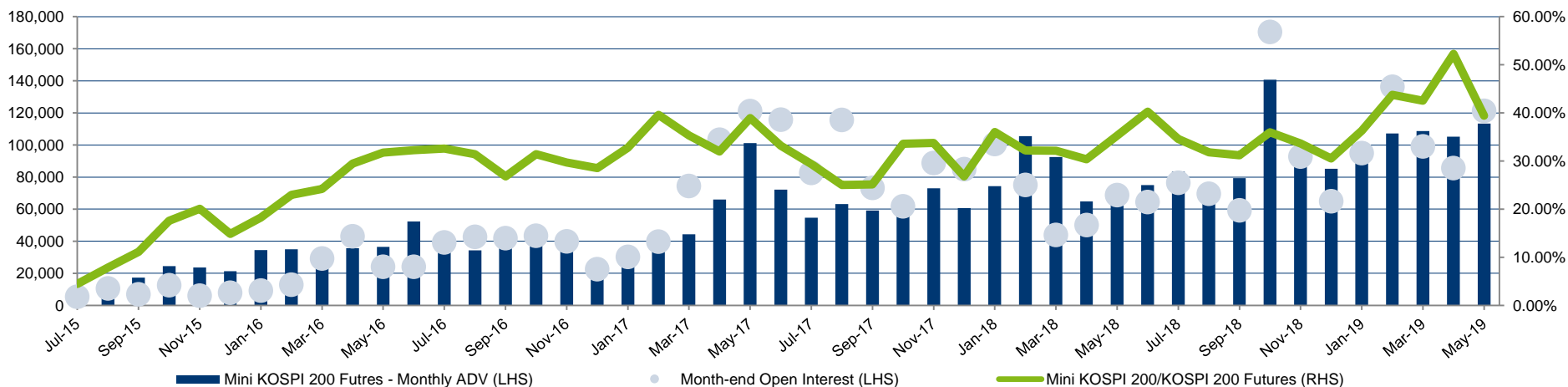
** the tick value of the Eurex KOSPI Options was changed from KRW 500,000 to KRW 250,000 on 27 March 2017

Volume Development of Mini-KOSPI 200 Futures on KRX

Introduction of Mini-KOSPI 200 Futures

- Mini-KOSPI 200 Futures were introduced at KRX on 20 July 2015, with a **contract size of one-fifth of KOSPI 200 Futures (Mini-KOSPI 200 Futures price times KRW 50,000*)**
- As of May 2019, over **57.6 million contracts** were traded on KRX since launch
 - ADV 2015 (20 Jul 2015 – 31 Dec 2015): **20,088 contracts**
 - ADV 2016 (Jan – Dec 2016): **36,485 contracts**
 - ADV 2017 (Jan – Dec 2017): **60,653 contracts**
 - ADV 2018 (Jan – Dec 2018): **85,652 contracts**
 - Open interest: **121,325 contracts** as of end May 2019
- The Eurex/ KRX Link already enables market participants of KOSPI Options to react to overnight events and market movements. Listing of Eurex Mini-KOSPI 200 Futures provides an **additional instrument** and **direct hedging vehicle for Eurex KOSPI Options** on the same platform. It also allows **more precise and dynamic hedging** for small institutions and private investors
- **Cross margining benefits** can be expected by trading both Eurex KOSPI Options and Eurex Mini KOSPI Futures

KRX Mini-KOSPI 200 Futures



Settlement information and order formats

Eurex KOSPI Products in Eurex Exchange's T7 and Eurex Clearing C7 Rel. 6.1 (1/2)

- Both in Eurex' Exchange's T7 and in Eurex clearing C7 Release 6.1, the settlement-related information is contained in two separate fields:
 - "External Member ID" (3-digit numeric ID of the KRX member)
 - "Final Beneficiary" (1 to 9 digit alphanumeric identifier for specifying the account at the KRX member)
- T7 transfers trades from on-exchange trading and Trade Entry Services with the information from both fields to the clearing system. Exchange members are able to edit the information and perform position management, Give-ups, etc.
- It is possible to enter the External Member ID and Final Beneficiary information using the regular order formats "Regular Lean Orders" or "Standard Orders", but the two fields are not available in the formats "Quotes" and "Lean Orders using the Short Layout"
 - For "Quotes" and "Lean Orders using the Short Layout", the system offers two possible solutions for populating the mandatory fields for correct settlements of the Eurex/ KRX Link Products:
 - a) A member can provide default values for KRX-Broker-number and account number which T7 adds to the trade information accordingly when transferring the positions to the clearing system
 - b) The member firm can activate so-called "Trade Enrichment Rules" in Eurex Exchange's T7 system in order to further manage these details for trades in the Eurex KOSPI Products for these order formats

Settlement information and order formats

Eurex KOSPI Products in Eurex Exchange's T7 and Eurex Clearing C7 Rel. 6.1 (2/2)

- Trade Enrichment Rules:
 - T7 uses the Trade Enrichment Rules concept for Quotes and Orders using the Short Layout
 - Trade Enrichment Rules cover the Eurex/ KRX Link settlement details along with other trade related details
 - Members can maintain the Eurex/ KRX Link clearing details within the Eurex Admin GUI in an index table with Trade Enrichment Rules

Payment banks for South Korean Won (KRW)

Choice of two institutes

- Eurex Clearing Members can choose between two institutes as payment banks for South Korean Won (KRW):
- Contact persons for Eurex Members:

- **The Hong Kong and Shanghai Banking Corporation Limited Seoul Branch**

Mr Jaden W Lee

Senior Sales Manager – GBFI | Global Liquidity and Cash Management

HSBC Building #37, Chilpae-Ro, Jung-Ku, Seoul, Korea

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- **Shinhan Bank**

Mr Won Jun Choi

Manager

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Trading and Clearing Requirements – what needs to be done to get ready

For Eurex trading members:

- **A business relation with at least one KRX member.** An agreement between the Eurex member and its KRX member has to include the obligation for the KRX member to establish the futures / option position resulting from the Eurex KRX Products in the KRX system
- **Authorize Eurex Clearing to transfer the settlement information** per identification number of the final beneficiary to KRX members via KRX
- **Sign registration form of Eurex** to confirm that the pre-margining and position limit regulatory requirements in Korean will be adhered to

Further requirements for Eurex clearing members:

- **New Korean Won (KRW) account** with either **The Hong Kong and Shanghai Banking Corporation** or **Shinhan Bank** in Korea
- **Sign power of attorney** for Eurex Clearing for all cash transactions resulting from the Eurex KRX Products denominated in KRW
- The **payment deadline** for KRW will be 14:00 CST (8:00* or 7:00 CET) for debit payments

* During daylight saving in Europe

Application Form

Submit the Application Form for participation in the Eurex/KRX Link

- Eurex members can participate in the Eurex/ KRX Link by submitting the form “**Application for Participation for the Trading of Eurex KOSPI Daily Futures contracts**”
- The form contains two fields to appoint a default External Member ID and to indicate a default Final Beneficiary at this KRX member
- These default values will only be used by the trading system for Quotes and “Short Order Message Layouts” (also Lean Orders)
- Quotes and “Short Order Message Layouts” (also Lean Orders) in the Eurex KOSPI Products will remain deactivated for members who have not provided these default values

2. Der Handelsteilnehmer NCM wird seine Transaktionen ausschließlich an den/die folgenden KRX Teilnehmer leiten:
The Trading Member CM *will send his transactions to the following KRX Member(s) O N L Y:*

	Name des KRX Teilnehmers / Name of the KRX Member	Kürzel / ID			Default KRX Teilnehmer / Default KRX Member*	Default Beneficiary Owner
1					<input type="checkbox"/>	
2						
3						
4						
5						

- Without a Default KRX Member, usage of Quotes and “Short Order Message Layouts” (also Lean Orders) is not possible. In case a Default KRX Member is provided, a final beneficiary owner has to be provided in addition

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