

KRX introduces new auction-based Block Trading Service

On 21st July 2010, Korea Exchange’s proposal on new ‘Auction-based Block Trading Service (hereinafter “A-Blox”)’ for its Securities markets (KOSPI Market & Kosdaq Market) has been approved by Financial Services Commission. Key functions of this new service will be anonymous liquidity pool and VWAP transaction mechanism which are designed to accommodate large lot trading demands in the market. After having system implementation and market notification period, the new rules on ‘A-Blox’ will become effective as of 29th November 2010.

Backgrounds

In today’s highly institutionalized market environment, demands for trading large-lot sizes have been growing consistently. And most of these trades tend to favor OTC transaction or exchange block trading facilities to avoid greater market impact and higher transaction cost. Also, by taking into account of continuous growth of dark-pools in most advanced markets and by listening to the voices of our customers, KRX sought necessity of more efficient block-trading service to meet the large-lot trading demand. Under this background, ‘A-Blox’ was designed to supplement current ‘K-Blox’ which is conventional concept of block-trading facility.

‘A-Blox’ Trading Mechanism

Although trades will be conducted on a same platform, ‘A-Blox’ orders will be kept in separate pool from existing Auction and Block-Trading (K-Blox) pool. Thus ‘A-Blox’ orders will only be matched amongst each other without quotes being displayed to the public. Orders will be matched on continuous auction basis under the time priority principle and trades will be settled at the day’s Volume Weighted Average Price (VWAP). Please find below the details of A-Blox functions.

Comments

Chang-ho Lee, president of KOSPI Market Division, comments that “we’ve had

numerous consultations with market participants and experts to meet the customers' needs in designing the new auction based Block Trading." He also added that "this service will not only enhance the trading convenience of our customers but it will also help to alleviate unintended market impacts and costs by large volume trades in the regular auction pool."

Specific Rules and Functions

- **Applicable Securities:** Equities, DRs, ETFs (excluding Administrative Issues and Liquidation Issues)
- **Trading Hours:** 07:30~08:30 for off-hour session and 09:00~14:30 for regular session
- **Order Inputs:** Unlike 'K-Blox' method, where traders need to input negotiated transaction deals, 'A-Blox' will be in a form of order types – meaning traders need to place an A-Blox order with indication on the security, buy/sell, and quantity (and not the price).
- **Trade Execution:** Buy and sell orders will be matched on continuous auction basis under time priority principle. This means trades will be executed immediately when there are both buy order and sell order on certain security.
- **Transaction Price:** All transaction occurred through 'A-Blox' will be settled at Volume Weighted Average Price (VWAP). All-day VWAP will be applied for transactions occurred at off-hour session and match-point VWAP will be applied for transaction occurred at regular session.
 - All-day VWAP = (total transaction value of the regular session) / (total trading volume of the regular session)
 - Match-point VWAP = (total transaction value from execution time till the market close) / (total trading volume from execution time till the market close)
- **Market Information:** Information on A-Blox orders (such as quotes and transactions) will not be displayed during trading hours. However, trade execution information will only be provided to the relevant buyer and the seller and presence of A-Blox orders on each buy side and sell side will be displayed. A-Blox trading

volume on each security issues will be disclosed after the day's market close.

▪ **Trading Parameters**

- **Minimum order size:** value of 500 million KRW (in case of Kosdaq Market, value of 200 million KRW).
- **Trading Unit:** 100 shares, meaning quantity of orders have to be in hundreds (in case of Kosdaq Market, 1 share)
- **Validity of the Orders:** orders placed at off-hours session will not be valid in regular session and vice versa.
- **Short Selling:** same procedures and regulations (flagging, confirmation on availability of covered shares, and etc.) will be applied. However, up-tick rule will not be applied to A-Blox orders.

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For further information, please contact hanjs@krx.co.kr

And please refer to '2010 Introduction to Trading in KRX Stock Markets ([click](#))' for detailed explanations on the terms used in this notice.

About KRX

Korea Exchange (KRX) is the main operator of Korea's Securities Markets and Derivatives Market under the 'Financial Investment Services and Capital Market Act (FSCMA). KRX operates 3 Markets; KOSPI Market as a main board, KOSDAQ Market as a venue to small and medium sized enterprises, and Derivatives Markets which boast of the most liquid products in the World. Within its consolidated trading platform, KRX offers vast product line-up including equity shares, Bonds, ETFs, ELWs, Futures and Options. For more information please visit our website at <http://eng.krx.co.kr>.