

FSC PLANS TO MAKE FRACTIONAL TRADING OF DOMESTIC AND FOREIGN STOCKS MORE WIDELY AVAILABLE

The FSC announced its plans to make fractional trading of both domestic and foreign stocks more widely available to help improve access and convenience for investors.

BACKGROUND

In 2019, the FSC allowed fractional trading of foreign stocks offered by Shinhan Investment and Korea Investment & Securities by designating them as ‘innovative financial services’ to be granted regulatory exemptions under its financial regulatory sandbox program. As a result, by the end of June 2021, the number of fractional stock traders at Shinhan Investment and Korea Investment & Securities reached about 140,000 and 510,000, respectively, with their investment amounts standing at KRW270 million and KRW750 million each.

However, fractional trading of domestic stocks remained unavailable due to the principle of indivisibility of shares as well as the non-fractional share-based design with which the domestic securities trading and depository infrastructures was set up.

To help improve investor access and convenience, the FSC plans to make improvements to the current fractional trading system and make fractional trading of both domestic and foreign stocks available.

KEY DETAILS

Unlike the current system where individual securities firms have to apply for regulatory exemptions to provide fractional trading services, the new system will be based on a special infrastructure set up at Korea Securities Depository (KSD) that is dedicated to fractional trading and can be accessed and used by any securities firms that wish to offer fractional trading services to their customers. This will strengthen the safety and convenience of fractional trading in both domestic and foreign stocks.

(FOREIGN STOCKS) Stock trading in fractional shares of foreign stocks will be directly recorded in the securities firms’ account books. KSD will maintain separate account books on fraction trades and regularly check their consistency with those of securities firms. Investors will be able to trade in fractional shares of foreign stocks and collect dividends via domestic securities firms.

(DOMESTIC STOCKS) Using a trust system, fractional trading of domestic stocks will

take the form of multiple beneficiary certificates being issued from a single stock share. Securities firms gather fractional trade orders from investors to form a whole single share which then can be submitted to the Korea Exchange with an asking price. KSD then issues beneficiary certificates and investors obtain them according to the amount of their order.

FURTHER PLANS

Introducing fractional stock trading services requires changing rules to the Financial Investment Services and Capital Markets Act. However, to help minimize trial and error and to promptly respond to market demand, fractional stock trading will be first introduced through the financial regulatory sandbox program.

Between October and November this year, KSD along with the securities firms that are planning to offer fractional trading services will apply for the designation of 'innovative financial services' so that they can launch fractional trading services under the regulatory sandbox program before necessary revisions take place with the Act.

Considering the amount of time it takes to lay out specifics and build and test out electronic systems, it is expected that fractional trading service of foreign stocks will become available within this year while that for domestic stocks will be launched in the third quarter of next year.

EXPECTATION

The authorities expect that stock trading in fractional shares will expand investors' access to upper price range stocks, help investors with diversification of portfolios and risk management and enable securities firms to offer more demand-driven and needs-based investment services for investors.

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