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MEASURES TO FACILITATE TRADING IN EXTENDED FX MARKET HOURS

The Ministry of Economy and Finance (MOEF), the Financial Services Commission (FSC), the Bank of Korea (BOK), and Financial Supervisory Service (FSS) announced, "**Measures to Facilitate Trading in Extended Foreign Exchange (FX) Market Hours**" to ensure stable liquidity during the extended foreign exchange market hours (15:30~⁺¹02:00) on Thursday, January 2.

Since July 2024, FX and Financial authorities have formally implemented **the Improvement Measures for FX Market Structure**, which includes:

- (i) Allowing foreign financial institutions to participate in the onshore FX market
- (ii) Extending market hours to 2 a.m. the following day, in alignment with the London financial market's closing time.

Since the implementation, **40 foreign financial institutions** have registered as Registered Foreign Institutions (RFIs^{*}) for direct participation in the market, and **the average daily FX market trading volume increased by approximately 11% compared to the same period last year and by 38% compared to the past five-year average**, showing favorable results.

^{*} **Registered Foreign Institution:** A foreign financial institution located overseas that meets certain requirements under the Foreign Exchange Transactions Act to participate directly in the Korean FX market.

However, onshore and offshore investors have raised opinions through investor relations (IR) sessions that, **in order to facilitate KRW transactions at a level comparable to G10 currencies**, it is crucial to secure a certain level of liquidity during extended hours continuously—beyond just ensuring smooth transaction, settlement, and reporting processes. In response, FX and Financial authorities have determined to implement the following measures to stimulate trading during extended hours for RFIs and domestic financial institutions and to improve FX brokerage methods.

^{*} The trading during extended hours is on an upward trend; however, supplementary measures are needed to sustain this growth.

↳ The proportion (%) of trading volume during extended hours: (Jul) 16.6 (Aug) 11.3 (Sep) 13.6 (Oct) 21.2 (Nov) 20.8

(1) Facilitating RFI Transactions

The business scope of RFIs, which is currently limited to currency exchange for securities-trading, will be expanded to **all transactions including FX for current transactions, such as import/export payments**. This is expected to allow RFIs to facilitate currency exchanges for multinational companies with headquarters or branches in Korea or abroad and enable salary remittance for the employees of these companies.

In addition, as part of an effort to promote RFI trading, the authorities plan to introduce the "**Leading RFI Program**" by the first half of 2025, after consultations with relevant organizations and surveys. **Minimum trading volume requirements for RFIs in the interbank market** over a specific period will also be established.

Aiming to ensure RFIs become sufficiently familiar with reporting obligations on the Bank of Korea's FEIS (Foreign Exchange Information System), **the grace period for non-intentional violations of reporting obligations will be extended by six months until the first half of 2025**. This measure reflects the increased demand for FX transactions due to the expanded demand following the inclusion of KRW assets in the World Government Bond Index (WGBI) in October 2024.

Plans are in place to **promote third-party FX transactions**, enabling foreign investors to exchange currency at **more favorable rates through mechanisms such as RFIs**. To this end, the following measures will be implemented:

- (i) **Extending the settlement deadline** (cut-off time) for investors to send KRW funds **to local custodian banks** (standing proxy) from 10:00 AM to **11:00 AM**,
- (ii) **Broadening the range of institutions eligible for KRW Overdraft** to mitigate the risk of settlement failure in KRW funding during third-party FX transactions. Currently, this service is limited to investors and global custodian banks but will be extended to **include all institutions involved in securities transactions**.
- (iii) **Expanding the scope of interbank direct transactions**, which are effectively not subject to settlement deadlines (currently limited to RFI-Substitutional Institution transactions)

(2) Encouraging Domestic Institutions to Trade During Extended Hours

Domestic financial institutions including Seoul branches of foreign banks will be allowed to conduct electronic FX trading (eFX*) without human dealers seamlessly through automated algorithms. Institutions will be guided to **implement appropriate internal control measures**** for eFX-based transactions to achieve system stability and minimize market volatility.

* eFX: A system that automatically places optimal orders in the market once transaction volumes reach a certain level

(e.g., currency exchange for overseas travel funds).

** e.g.) Executing auto hedge trades when the position reaches a certain amount in one direction, establishing a system to prevent errors over a 24-hour period, and ensuring that onshore institutions' transactions are conducted exclusively through domestic books.

The ranking of USD/KRW trading volumes among financial institutions participating in the domestic FX market **will be disclosed regularly (The League Table)**. Details, such as specific disclosure items, methods (e.g., press releases from the Seoul FX Market Operations Council), and frequency (e.g., annually), will be finalized after gathering opinions by the first quarter of 2025.

As decided in the June meeting of the Foreign Exchange Stability Council (chaired by First Vice Minister of MOEF), **the selection criteria and incentives** (e.g., FX bank levy deductions) **for leading banks will be restructured to encourage active market-making roles during extended hours.**

(3) Improving FX Brokerage Infrastructure

Aggregators will be introduced to allow corporate end-users to select the most favorable prices through brokerage platforms. The related amendment to the Foreign Exchange Transactions Act is under discussion in the National Assembly (Passed the subcommittee of the National Assembly on Nov.27 2024), and the government plans to revise the presidential decree to coincide with the law's implementation date.

(4) Future Plans

As part of the 2025 Economic Policy Directions, FX and Financial authorities will announce key tasks and **finalize revisions to the Foreign Exchange Transactions Act and related subordinate regulations after gathering market opinions by the first half of 2025.** Immediate priorities, such as **RFI currency exchange for current transactions, extended grace periods for reporting obligations, and restructuring the leading bank system, will be addressed by January 2025.**