

March 4, 2025

ALTERNATIVE TRADING SYSTEM (ATS) TO LAUNCH IN KOREA NEXT WEEK

Today, March 4, 2025, Korea's first Alternative Trading System (ATS), NextTrade (NXT), has been officially launched. This marks a significant shift from the existing single-exchange structure in Korea that has been dominated by the Korea Exchange (KRX). ATS, classified as a Multilateral Trading Facility under the Financial Investment Services and Capital Markets Act, is an electronic trading system that facilitates transactions by matching buyers and sellers outside of traditional exchanges. The introduction of ATS is expected to enhance competition in the domestic capital market and provide investors with diverse trading options.

I. BACKGROUND OF ATS IMPLEMENTATION

Since 1956, the Korean stock exchange markets have been exclusively operated by the KRX. The financial authorities have been promoting the introduction of ATS to reduce transaction costs, enhance investor convenience, align with global market trends, and ultimately strengthen the competitiveness of the Korean capital markets. Although the legal basis for ATS was established through the 2013 amendment to the Financial Investment Services and Capital Markets Act, its actual implementation has taken considerable time.

Globally, ATS is already well-established. In the U.S., nearly 30% of stock trading occurs on more than 30 ATS platforms, with additional competition from dark pools operated by major securities firms. Japan also maintains a dual-market structure where ATS and traditional exchanges coexist. Initially, NextTrade will focus on large-cap stocks and ETFs, with plans to gradually expand the range of the type of securities tradable on its platform.

II. KEY CHANGES WITH ATS INTRODUCTION

(1) Extended Trading Hours

With the introduction of pre-market and after-hours trading sessions, trading hours will be extended by 5 hours and 30 minutes.

- **Before:** 9:00 AM - 3:30 PM
- **After:** 8:00 AM - 8:00 PM (12-hour operation)

Public disclosure hours remain unchanged from 7:30 AM to 6:00 PM.

(2) Lower Transaction Costs

ATS will offer execution fees that are 20% to 40% lower than those of the KRX, reducing costs for investors.

(3) New Order Types

- **Mid-Point Order:** Orders are executed at the mid-point price between the best bid and ask prices, improving execution efficiency.
- **Stop-Limit Order:** A limit order is placed once the market price reaches a pre-set stop price, allowing for automated risk management strategies such as stop-loss or staggered purchases.

(4) Best Execution Obligation for Brokerage Firms

If an investor does not specify a trading venue, brokerage firms must ensure best execution by implementing a Smart Order Routing (SOR) system. This system will automatically route investor orders to the market offering the most favorable conditions.

III. KEY ISSUES SURROUNDING ATS INTRODUCTION

(1) Market Structure Changes and Intensified Competition

The introduction of ATS is expected to weaken the KRX's dominant position, potentially inducing investors to migrate to ATS attracted by lower fees.

(2) Disclosure Issues

With the advent of real-time stock trading beyond the designated disclosure hours, listed companies that have listed securities traded on the ATS must exercise greater caution in their disclosures.

Traditionally, publicly listed companies have made significant corporate decisions after the stock market closes at 3 PM to avoid directly impacting the market and to prevent potential insider trading using material non-public information. These decisions were then disclosed before 6 PM. However, with the introduction of the ATS, disclosures related to matters that occur on the same day must still be completed by 6 PM. As a result, stricter internal controls are now necessary to manage decisions that could affect the stock market.

The KRX has also distributed guidelines to listed companies regarding these considerations.

(3) Liquidity Dispersion and Market Fragmentation

Liquidity, traditionally concentrated in KRX, may become dispersed, leading to increased bid-ask spreads, execution delays, and lower overall market liquidity. Investors may face challenges in securing the best execution prices across multiple venues. Currently, NextTrade does not support derivative trading, such as futures and options. As a result, while the emergence of ATS has led to a dispersion of stock trading volume between ATS and the KRX, futures and options trading remains exclusively within the purview of the KRX.

This means that even when futures and options markets are closed, stock trading continues on ATS. Consequently, participants in the futures and options markets may face limitations in

conducting arbitrage trading between spot and derivatives markets. This restriction could widen the price gap between stocks and derivatives, increasing the risk of market distortions.

The launch of ATS marks a major transformation in Korea's capital markets, fostering competition and innovation. However, careful regulatory oversight and market infrastructure enhancements will be crucial to addressing potential risks and ensuring a smooth transition.

Related Professionals

Jeong-Hoon Lee

Partner

T 82.2.3404.6518

E jeonghoon.lee@bkl.co.kr

Heesug Chung

Senior Foreign Attorney (New York)

T 82.2.3404.0247

E heesug.chung@bkl.co.kr

Hyunjung Kim

Partner

T 82.2.3404.7657

E hyunjung.kim@bkl.co.kr

This publication is provided for general informational purposes only and should not be construed as legal or professional advice on any particular matter. Your receipt and reading of this publication does not create an attorney-client relationship with us. If you have any queries regarding the above before you take any action that may have legal implications, please inquire with your contact(s) at Bae, Kim & Lee LLC, or the authors of this publication.