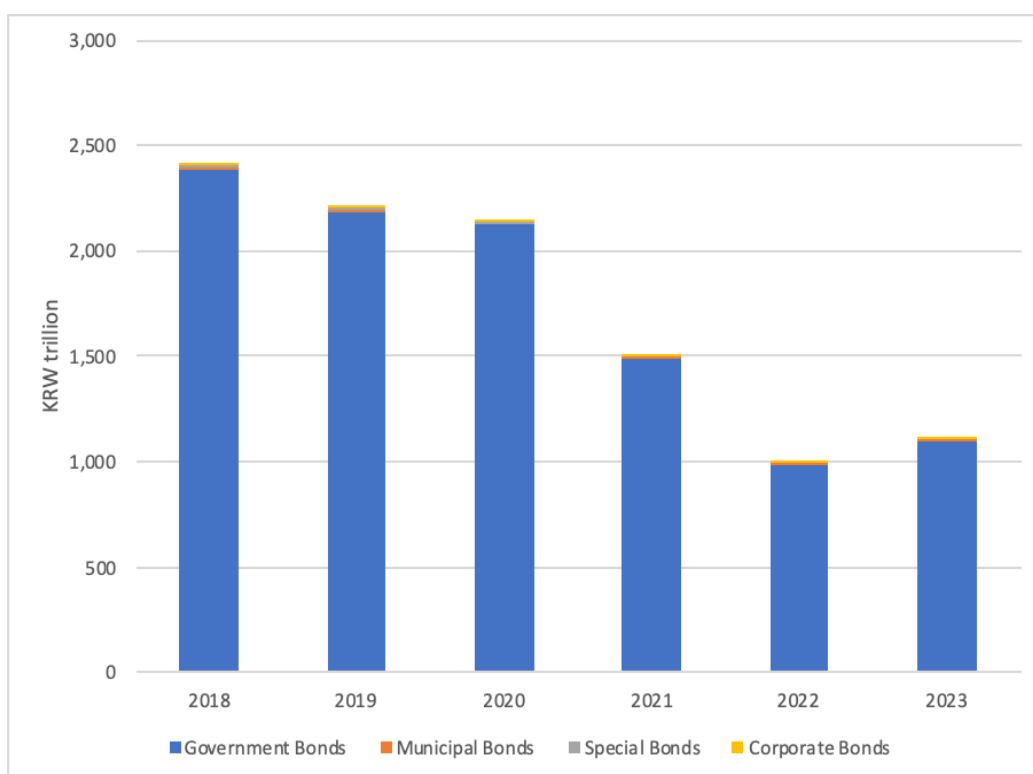


Bond and Note Transactions and Trading Market Infrastructure

Information in this chapter relates to developments in bond market trading, transactions, and related subjects that have occurred since publication of the *ASEAN+3 Bond Market Guide Republic of Korea* and is presented in the context of the structure used in that bond market guide.

A. Trading of Bonds and Notes

Figure 4.1a: Trading Volume by Bond Type in the Exchange Market, 2018–2023



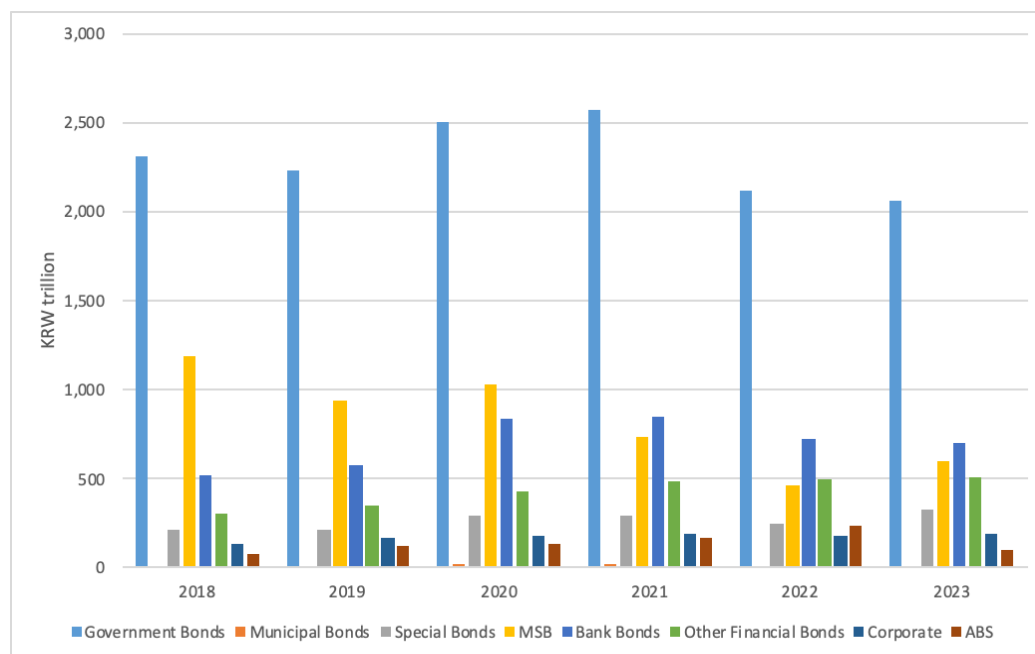
KRW = Korean won.

Note: Data as of December 2023 and include socially responsible investment bonds.

Source: Korea Exchange.

Trading of bonds and notes in the secondary market is conducted on KRX and in the OTC bond market administered by KOFIA. **Figures 4.1a** and **4.1b** provide an update on the trading volume in the exchange and OTC market segments, respectively, since the publication of the original *ASEAN+3 Bond Market Guide Republic of Korea* in 2018.

Figure 4.1b: Trading Volume by Bond Type in the Over-the-Counter Market, 2018–2023



ABS = asset-backed securities, KRW = Korean won, MSB = Monetary Stabilization Bond.

Note: Data as of December 2023 and include environmental, social, and governance bond types.

Source: Korea Financial Investment Association.

Trading in KTBs dominates both the exchange and OTC market segments, while trading volumes for other bond types are marginal (in relative terms) on KRX but represent a more sizeable share of the OTC market.

In addition to the data provided by KRX and KOFIA on their websites and in annual publications, comprehensive data on bond market volume and value, bonds outstanding, and breakdowns by instrument type are available from *AsianBondsOnline*.²⁹

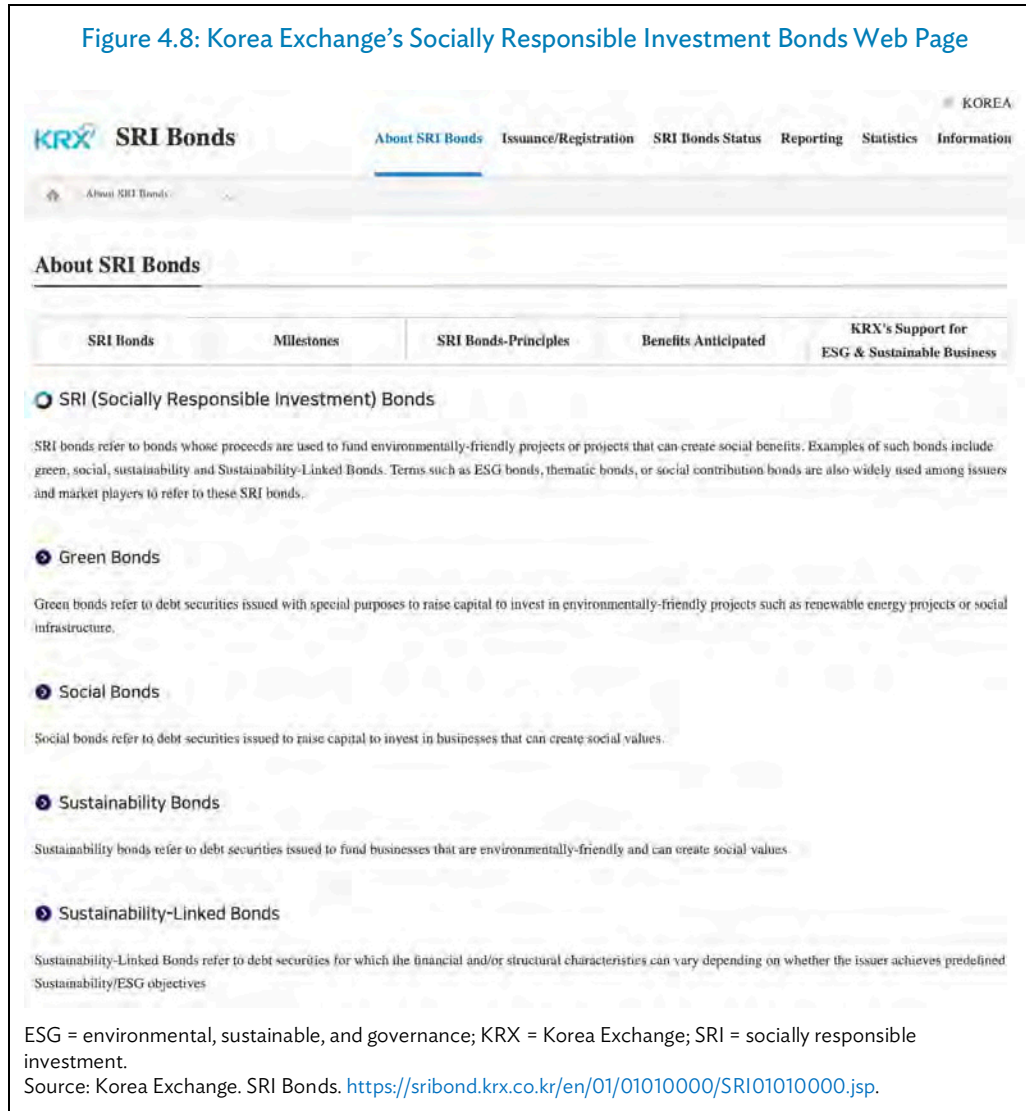
F. Bond Information Services

At the time of publication of the original *ASEAN+3 Bond Market Guide Republic of Korea*, the issuance of sustainable finance instruments had not been evident in the Korean market, as was the case for many markets in the region. This has changed quite significantly in the intervening years. The first issuance of green and social bonds occurred in the Korean market in 2018, and Korean institutions and corporates are now known as prolific issuers of sustainable bonds, including both ESG (or SRI) bonds (see Chapter III.B), both in the domestic and overseas markets.

²⁹ For details, see <https://asianbondsonline.adb.org/economy/?economy=KR>.

5. Information on Socially Responsible Investment [New]

Socially responsible investment is the terminology used to describe sustainable finance instruments listed on KRX. In relation to the bond market, SRI bonds comprise green bonds, social bonds, sustainability bonds and sustainability-linked bonds, and like instruments.



At the time of publication of this update note, KRX provided comprehensive information on SRI bonds on dedicated web pages, including descriptions of each instrument type, background information on milestones in the domestic and international markets, the relevant principles, and other related information (**Figure 4.8**). The web pages also describe the issuance of “K-Green Bonds,” which are green bonds issued in the Republic of Korea, and compares the issuance process between an SRI bond and a conventional bond.³⁰

KRX also offers statistics on the instrument types on these web pages, including listing status and trading data, which may also be downloaded. At the time of publication of this update note, the web page had identified 2,062 issued SRI bonds from 229 separate issuers; all are listed on KRX, with a total issuance size in excess of KRW240 trillion. In fact, all SRI bonds issued in

³⁰ For details, please see <https://sribond.krx.co.kr/en/04/04010000/SRI04010000.jsp>.

the Republic of Korea are listed on KRX, typically for profiling purposes. Significantly, KRX also offers the relevant issue documentation for download, including underlying bond management framework and external review, if so applicable.

Underlying the KRX activities are the Guidelines for Operation of Segment Dedicated to SRI Bonds, in addition to the general KRX listing rules.³¹ For more information on these guidelines, and how they link to the K-Taxonomy and related guidelines from the relevant authorities, please refer to Chapter II.J.2.

J. Interest Rate and Fixed-Income Futures

As of the end of 2023, KTB futures with tenors of 3, 5, and 10 years were listed and traded on KRX, having been first listed in 1999, 2003, and 2008, respectively. At the same time, the issuance of longer-tenored KTBs, such as the 30-year KTB, has increased in recent years, reaching 28.5% of total KTB issuance in 2023, which is of particular interest to, for example, insurance companies. Correspondingly, investors (including nonresidents) have increasingly been holding longer-term instruments without being able to cover their portfolios with adequately termed hedging products.

Market watchers have for years argued the need for longer-tenored derivatives, preferably exchange-traded for increased transparency, to address the hedging gap in the Korean market in view of evolving portfolio compositions and government issuance patterns.³²

In a speech during the annual KTB conference in Seoul on 26 October 2022, Deputy Prime Minister and Finance Minister Kyungho Choo announced the introduction of a 30-year KTB futures by the first quarter of 2024, with the MOEF working with KRX and market participants toward such introduction.³³

KRX began to list the new 30-year KTB futures contracts on 19 February 2024. Trading practices and contract details do not materially differ from those of short-tenored KTB futures contracts.

K. Critical Benchmark Rates [New]

The Government of the Republic of Korea recognized the need for one or more critical benchmark interest rates in the domestic market, following the declaration that the LIBOR would no longer be serviced as an international benchmark rate effective 1 July 2023. Correspondingly, parliament passed the Act on the Management of Financial Benchmarks of the Republic of Korea in November 2019, which followed the recommendation of the Financial Stability Board to establish relevant domestic reference rates, known as critical benchmark rates, and became effective on 24 November 2020.

To identify and determine relevant benchmark rates, the government established the Benchmark Rate Reform Task Force in June 2019. Its Working Group on Developing an Alternative Benchmark Rate, made up of industry representatives from market institutions and market participants, recommended two critical benchmark candidates that led to the

³¹ The KRX rules may be found via a separate tab on the SRI Bonds web page at <https://sribond.krx.co.kr/en/05/05040000/SRI05040000.jsp>.

³² Lee, H. 2020. The Necessity to Activate Long-Term ETD in Korea. *Journal of Derivatives and Quantitative Studies: Futures Research*. 28 (3). 149–71. <https://doi.org/10.1108/JDQS-08-2020-0020>.

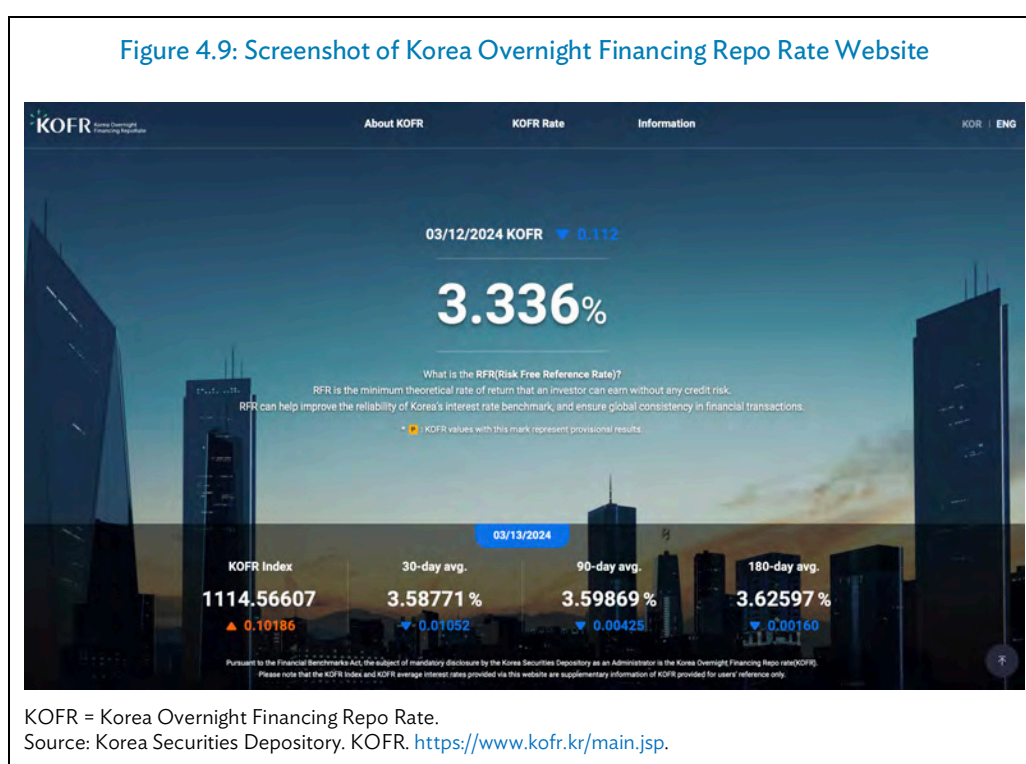
³³ From the 9th International Conference on Korea Treasury Bonds. 2022. Era of KTBs Worth KRW1,000 trillion, Challenges and New Leap Forward. 26 October. Seoul. <https://english.moef.go.kr/pc/selectTbPressCenterDtl.do?boardCd=N0001&seq=5439>.

appointment of market infrastructure providers to collect relevant data and calculate those benchmarks for the market activities they help facilitate. Details on the critical benchmark rates are provided below (in the order in which they were established).

1. Korea Overnight Financing Repo Rate (Calculated by the Korea Securities Depository)

KOFR represents the critical benchmark rate at which market participants have priced overnight repo transactions in KTBs and MSBs, the most common short-term money market transaction in the Korean domestic market. KOFR is calculated by KSD, with effect from 18 April 2022, since KSD facilitates the domestic repo market in the Republic of Korea. The rate and related information are available—in both Korean and in English—from a dedicated KOFR website operated by KSD (**Figure 4.9**).

Figure 4.9: Screenshot of Korea Overnight Financing Repo Rate Website

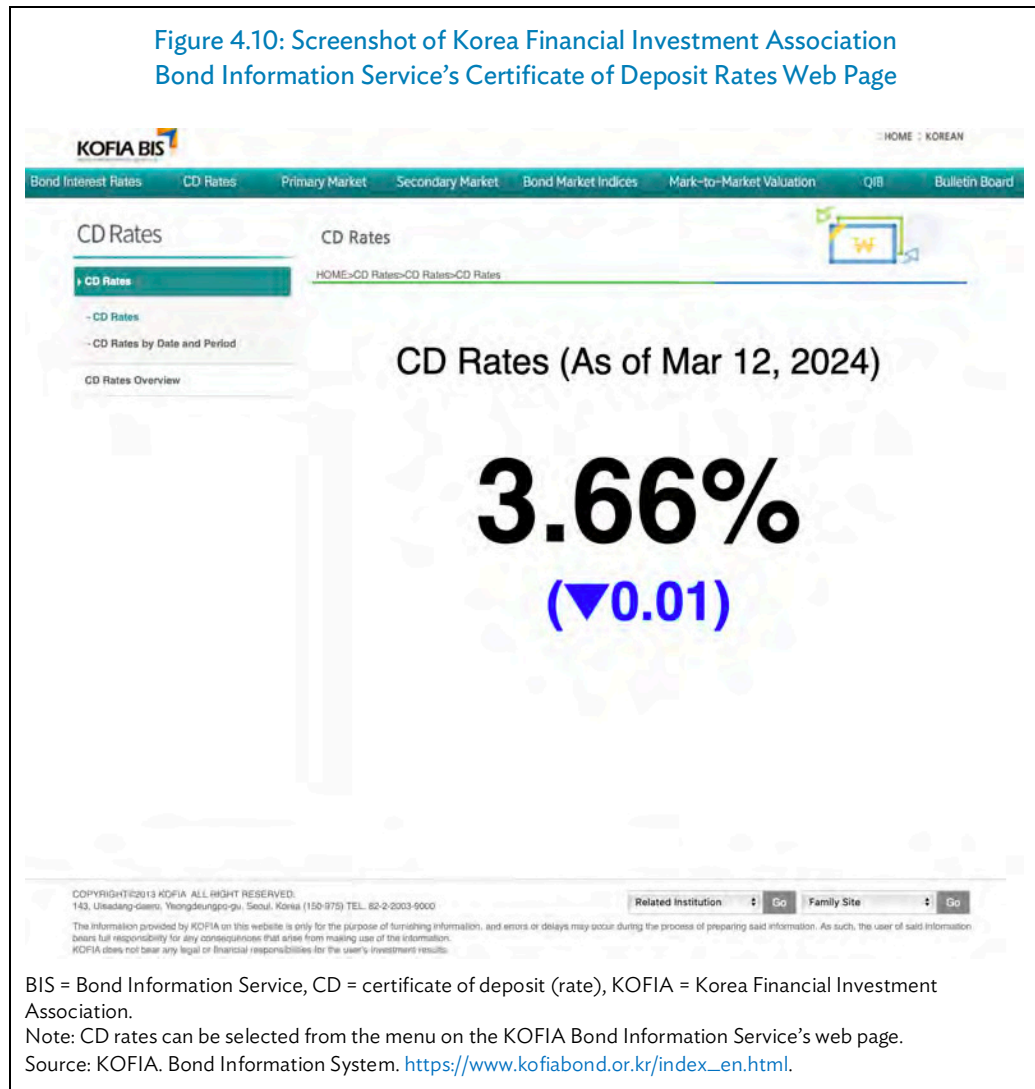


2. Certificate of Deposit Rate (Calculated by the Korea Financial Investment Association)

The CD benchmark rate calculated and disclosed by KOFIA, explanatory remarks on the rate and its underlying components, as well as the calculation methodology are all available on the KOFIA Business Information Service website in both the Korean and English languages. KOFIA, which facilitates the OTC market where CDs are traded, has been publishing the CD rate by 4:30 p.m. every business day since 2 October 2023 (**Figure 4.10**).³⁴

³⁴ The KOFIA website is available in the English language at https://www.kofiabond.or.kr/index_en.html.

Figure 4.10: Screenshot of Korea Financial Investment Association Bond Information Service's Certificate of Deposit Rates Web Page



The rate takes its name from the underlying CDs issued by AAA-rated domestic banks in the Republic of Korea, in effect offering a representative interest rate at which domestic banks borrow money in the money market. The CD rate is also referenced as “CD91” because the CDs typically have a 91-day tenor, although the rate is calculated on transactions with a tenor of 80–100 days.