

OPINION

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The Emergence of Korea's Multi-Market Trading System: Early Impact and Regulatory Challenges

Since its inception, Nextrade has experienced rapid growth, with average daily trading value reaching approximately KRW 10 trillion and trading volume nearing 300 million shares as of early June 2025. The introduction of extended trading hours, including pre-market and after-market sessions, has enhanced market accessibility and broadened investor choice, representing a meaningful institutional advancement. Nextrade's growth has not merely redistributed liquidity across trading venues but has also contributed to a measurable expansion in overall market size and liquidity. However, under the current market share cap regulations, a substantial number of stocks are likely to face trading restrictions on Nextrade starting in September 2025. This constraint risks undermining the original policy intent of introducing a multi-market system, which is to foster competition and drive structural improvement in the trading ecosystem. This situation calls for a policy reassessment of the adequacy and flexibility of existing market share limits. In particular, it is crucial to re-evaluate the validity of measuring alternative trading system (ATS) market share relative to the Korea Exchange (KRX)'s trading volume, along with the 15% cap on aggregate market share and 30% limit on individual stocks. Such a review must go beyond quantitative metrics to include a substantive assessment of the qualitative benefits of the multi-market system, such as liquidity expansion, price improvement, trading cost reduction, and technological innovation. Ultimately, policy decisions and regulatory reform should be guided by whether the multi-market structure materially advances the development of Korea's capital markets.

The introduction of Nextrade (NXT) in March 2025 marked a significant milestone in the establishment of a multi-market trading structure within Korea's capital markets. Since its

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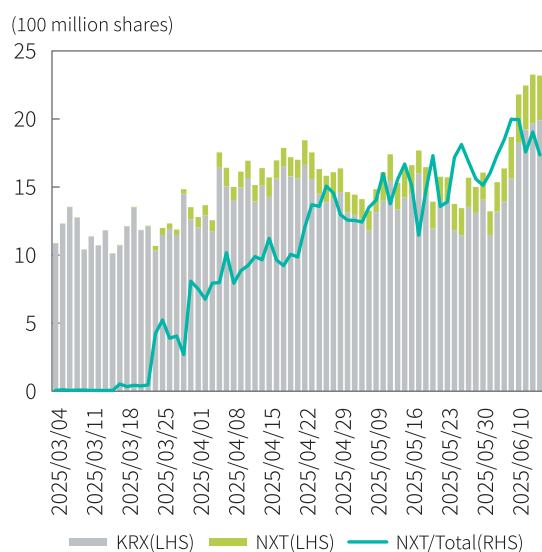
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inception, NXT has expanded its tradable stocks through a four-stage implementation plan and has stabilized its trading infrastructure. As a result, NXT has successfully contributed to the development of a stable multi-market trading environment through coordinated efforts with the Korea Exchange (KRX) and financial regulators. The number of tradable stocks quickly grew from 10 upon launch to 796 by the end of March, while average daily trading value surged from several hundred billion won to well above several trillion won, indicating that the multi-market system has entered an early stage of consolidation.

Despite these early achievements, regulatory constraints on an alternative trading system (ATS) under Korea's Financial Investment Services and Capital Markets Act (FSCMA) pose challenges to sustaining this growth momentum. In particular, the FSCMA's market share caps on both individual stocks and aggregate trading volume may impose trading restrictions on a significant number of stocks within just six months of NXT's operation. Against this backdrop, this article evaluates the initial performance of the multi-market trading system, focusing on NXT, and identifies key policy challenges that must be addressed to enhance the broader trading market environment.

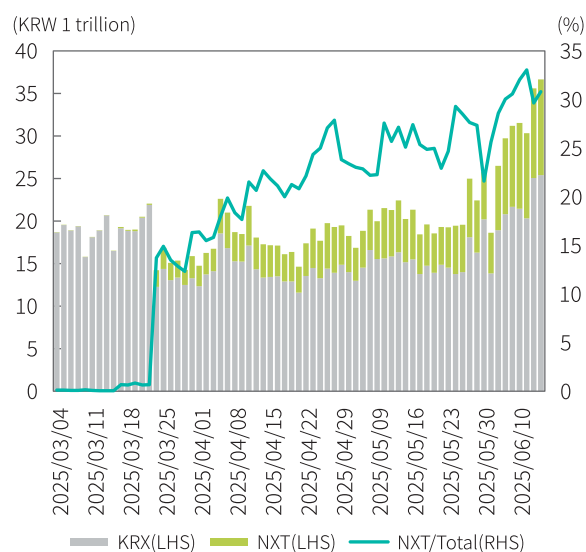
Market response and trading volume growth following the launch of NXT

Since its launch, NXT has rapidly expanded its market presence, with both trading volume and transaction value rising sharply over a short period. In early March 2025, its market share remained minimal due to the limited number of tradable stocks. However, the expansion of stocks available for trading in late March led to a significant surge in trading activity. By early June, NXT's average daily trading volume reached approximately 300 million shares, accounting for roughly 15% of the total market volume. Notably, most stocks traded on NXT are highly liquid and exhibit high turnover, driving its share of trading value even higher. During the same period, the average daily trading value on NXT approached KRW 10 trillion, equivalent to about 30% of the total market value.

Figure 1. Trading volume by market

Note: KRX includes both the KOSPI and KOSDAQ markets

Source: FnGuide, KRX

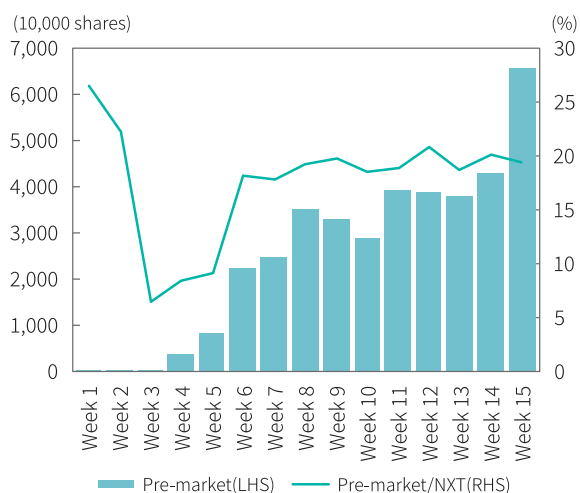
Figure 2. Trading value by market

Note: KRX includes both the KOSPI and KOSDAQ markets

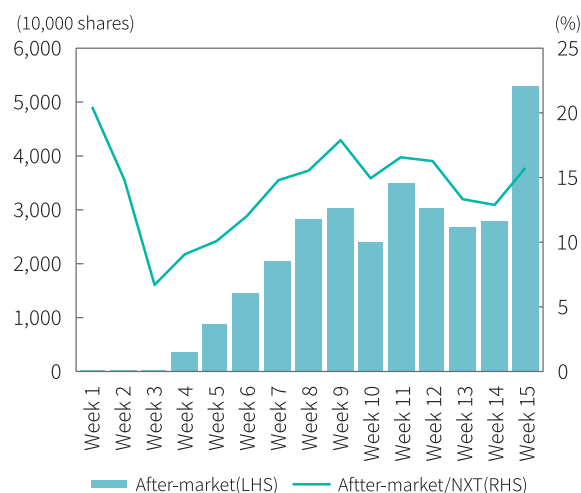
Source: FnGuide, KRX

Such rapid growth within just three months of introducing a multi-market structure is exceptional. In Japan, where a similar multi-market model has been in place with a primary exchange operating alongside several ATs, market share expansion of ATs remained subdued for over a decade after their introduction in the early 2000s. Japannext, Cboe Japan, and Osaka Digital Exchange have only recently managed to secure a combined market share of 9.8%, as of April 2025. In Australia, the launch of Cboe Australia marked a shift toward a competitive trading environment, with Cboe Australia's market share gradually rising to 9.5% as of March 2025.¹⁾ In contrast, NXT's achievement of a double-digit market share within three months represents an unusually strong early performance by international standards.

1) This figure is based on trades recorded on the order book. If over-the-counter (OTC) transactions conducted through prior negotiation, reported by Cboe Australia, are included, the ATS market share increases to 18.8%.

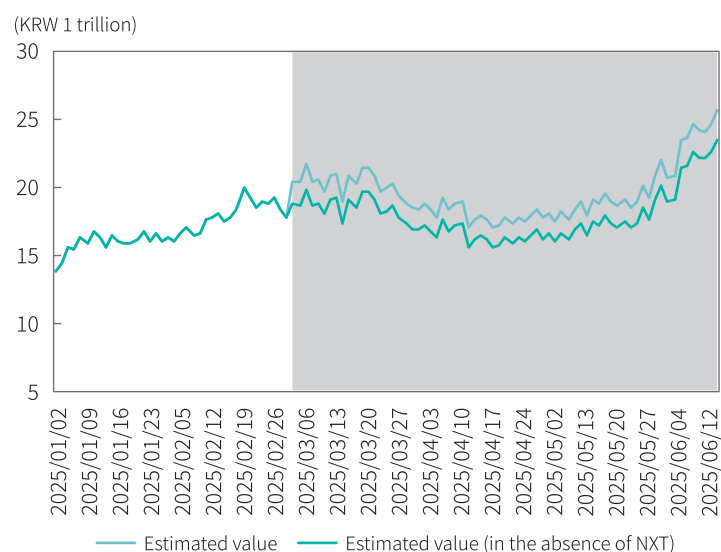
Figure 3. Weekly pre-market trading volume

Source: NXT

Figure 4. Weekly after-market trading volume

Source: NXT

NXT offers pre-market (08:00–08:50 a.m.) and after-market (3:40–8:00 p.m.) trading sessions, which were previously unavailable on the KRX. By extending trading hours, NXT has significantly enhanced market accessibility for investors. During the second week of June, when market-wide trading volume surged, average daily trading volumes in the pre-market and after-market sessions reached 66 million and 53 million shares, respectively, accounting for 19% and 16% of NXT's total volume. These figures suggest that extended-hours trading has functioned as a stable source of liquidity within the market. The expansion of trading sessions has also allowed for more immediate market responses to overnight developments, such as movements in US equity markets and global economic indicators. In addition, it has improved retail investor convenience by facilitating trading during commuting hours.

Figure 5. Impact of NXT introduction on market expansion

Note: 1) Daily data analyzed covers the period from March 4, 2024 to June 13, 2025.

2) Trading value was estimated using variables, including the number of listed shares, market capitalization, KOSPI and KOSDAQ index returns, KOSPI volatility index (VKOSPI), and the 20-day rolling standard deviation of KOSPI and KOSDAQ index returns

Source: FnGuide, NXT, KRX, author's estimation

Beyond simply redistributing trading volume from the KRX, NXT appears to have materially contributed to the overall increase in trading value in Korea's stock market. Market estimates indicate that the introduction of NXT has resulted in a statistically significant rise in total trading value, relative to projections assuming the absence of NXT.²⁾ These findings imply that the launch of the ATS has bolstered both market liquidity and trading activity, while also promoting competition, improving market efficiency, and expanding the underlying trading infrastructure.

Regulatory constraints and structural uncertainty

The sharp rise in trading volume on NXT signals that the multi-market structure is functioning effectively. However, the continued expansion of its market share raises critical regulatory concerns. Under the FSCMA and its Enforcement Decree, strict limits are imposed

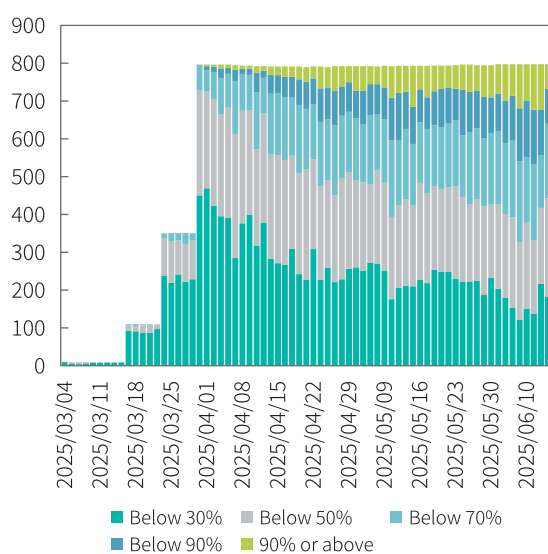
2) An analysis was conducted over the period from March 2024—one year prior to the launch of NXT—to June 13, 2025, controlling for key market variables, such as number of listed stocks, market capitalization, index returns, volatility (VKOSPI), and the rolling standard deviation of returns. The results indicate that the introduction of NXT translates into a nearly 9.1% increase in trading value. However, given that trading volumes remain volatile as the platform is still in its early phase, the extent of NXT's actual contribution to market-wide growth may vary.

on the allowable market share of ATSS.

To clarify these constraints, it is necessary to examine the legally permissible trading mechanisms for ATSS. The FSCMA allows ATSS to execute trades using three methods: (1) competitive bidding, (2) execution based on prices formed on the KRX, and (3) matching orders in which bid and ask prices coincide (FSCMA Article 8-2, Paragraph 5; FSCMA Enforcement Decree Article 7-3, Paragraph 3).

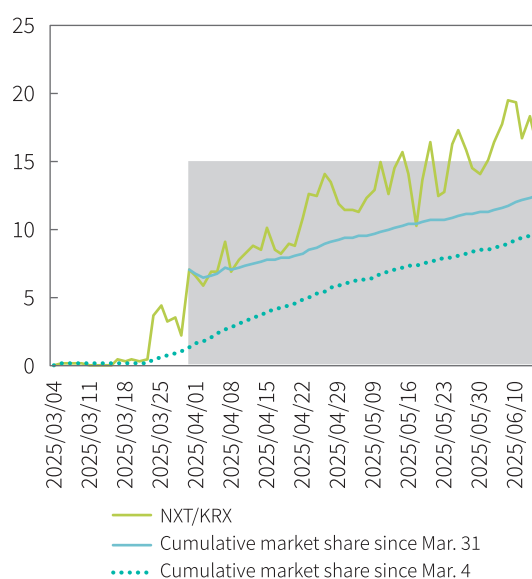
Among these, the use of competitive bidding by ATSS is subject to particularly strict limitations. Specifically, an ATS may engage in competitive bidding only if its six-month average daily trading volume remains below 15% of the total KRX volume and if trading in any individual stock represents less than 30% of the stock's trading volume on the KRX (FSCMA Article 8-2, Paragraph 5, Subparagraph 1; FSCMA Enforcement Decree Article 7-3, Paragraph 2).³⁾

Figure 6. Progress toward market share limits for individual stocks



Source: DataGuide

Figure 7. Aggregate market share limit trajectory



Source: DataGuide, KRX

In practice, the number of stocks complying with the 30% limit is decreasing rapidly. At the end of March 2025, when the trading of around 800 stocks began on NXT, more than 350 of

3) The FSCMA stipulates that the market share of an ATS should be calculated based on trading volume in the “securities market.” The term “securities market” is defined as a market established by an exchange for trading securities (FSCMA Article 8-2, Paragraph 4, Subparagraph 1). Accordingly, trades executed on ATSS are excluded from the securities market, and only transactions conducted through the exchange are considered when determining the ATS market share.

them already exceeded the 30% cap. As trading activity accelerated, this figure rose to about 570 by the end of May, and further increased to approximately 630 by early June amid a broad market recovery. If this trend persists, a substantial number of stocks may face trading restrictions by September, when the six-month regulatory exemption period expires.

In parallel, NXT's daily market share began to exceed the 15% limit specified in the FSCMA in June. Although the cumulative daily average remains below the 15% cap since the full-scale trading of nearly 800 stocks (see Figure 7, “Cumulative market share since Mar. 31”), the current pace of trading volume growth suggests that this limit will likely be reached in the near future.

Policy recommendations to strengthen Korea’s multi-market competitiveness

The rapid growth of NXT highlights the viability and potential of a multi-market system in Korea. However, under the current regulatory framework, achieving a certain level of market share may paradoxically constrain the venue’s development and operational continuity.

Notably, as the KRX begins to lose market share, competitive pressure from alternative venues such as ATSS becomes a critical driver of service enhancement and fee reduction. However, statutory market share caps limit the extent to which competitors like NXT can expand. Once these limits are exceeded, NXT is legally obligated to curtail trading activity. This constraint may weaken the KRX’s motivation to pursue structural reform, ultimately undermining the original policy intent of fostering innovation through market-driven competition.

To comply with market share caps in the short term, NXT may be forced to halt trading. Such regulatory-driven suspension can negatively affect the market by disrupting investor access, deterring securities firms from realizing returns on infrastructure investments, and amplifying institutional uncertainty. These adverse effects not only compromise the competitive gains achieved through the multi-market structure but may also erode confidence among domestic and foreign market participants over the long run.

The current regulatory framework calls for a policy reassessment regarding the adequacy and flexibility of existing market share restrictions. At present, ATS market share is measured relative to KRX trading volume, an approach that fails to fully reflect structural changes or the

growth of the broader market. As ATSs capture an increasing market share, the relative decline in the KRX's share underscores the need for revising regulatory thresholds to better reflect competitive dynamics and support a more diverse trading environment.

A thorough evaluation of market share limits must incorporate quantitative indicators, such as trading volume, and the qualitative effects of a multi-market structure. Some studies suggest that ATS adoption can enhance market liquidity by narrowing bid-ask spreads and increasing trading volumes.⁴⁾ At the same time, concerns persist over the potential of fragmented liquidity, which may heighten market impact for large orders. In terms of price discovery, multi-market systems may accelerate information absorption and improve inter-market price alignment,⁵⁾ though there are concerns that differing prices across venues could inhibit price convergence. The introduction of ATSs can also lower both implicit and explicit trading costs,⁶⁾ increase market accessibility and trading venue choice for investors, and create competitive pressure that incentivizes legacy exchanges to improve service quality. However, these benefits are accompanied by challenges, including increased complexity in market surveillance, regulatory blind spots, and rising operational costs for maintaining multiple trading systems. Furthermore, while inter-platform competition may reduce spreads and trading fees, it could also spur arbitrage-driven activity across exchanges, potentially exacerbating information asymmetry and amplifying adverse selection risks.⁷⁾ Given that Korea has yet to conduct a qualitative assessment of its multi-market structure, regulatory evaluation must extend beyond quantitative growth metrics to include dimensions, such as liquidity expansion, price improvement, trading cost reduction, and technological innovation. To ensure that NXT—the first ATS to emerge in the Korean market since the regulatory framework was established 12 years ago—contributes meaningfully to the sustainable development of Korea's capital markets, policymakers must undertake a rational reexamination of existing regulations and remain committed to ongoing regulatory reform.

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6) Degryse, H., de Jong, F., Kervel, V., 2015, The impact of dark trading and visible fragmentation on market quality, *Review of Finance* 19(4), 1587–1622.

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