



April | 2023
Market Structure

How to bring APAC’s equity options markets to life

In this series of articles, we’re exploring single-stock options markets in key regions of APAC. After describing the state of play for equity options in each of these markets, we offer our recommendations for how to grow them.

Observers of capital markets have long been puzzled by a curious feature particular to the Asia-Pacific region. While exchange-listed equity options, also known as single-stock options (SSOs), are a major hit with investors in regions like US and Europe, notably little of this enthusiasm exists in some of APAC’s most established capital markets.

It has nothing to do with the vibrancy of their respective stock markets. Korea, mainland China, Japan, and Taiwan all have active, widely followed equity markets, with billions of dollars’ worth of shares changing hands every day. And there’s little to suggest that local investors lack appetite for derivatives products. Liquid index options markets generally exist in each of these places, SSOs are traded in various OTC markets, and equity warrants and products such as CFDs are also popular alternatives in some parts of the region.

SSOs have plenty of room to grow in APAC

ADTV* USD billions	HONG KONG STOCKS	HONG KONG SSOs	JAPAN STOCKS	JAPAN SSOs	KOREA STOCKS	KOREA SSOs
2021	16.9	3.18	26.9	0.003	23.4	0.08
2022	11.7	2.45	24.1	0.002	12.3	0.09

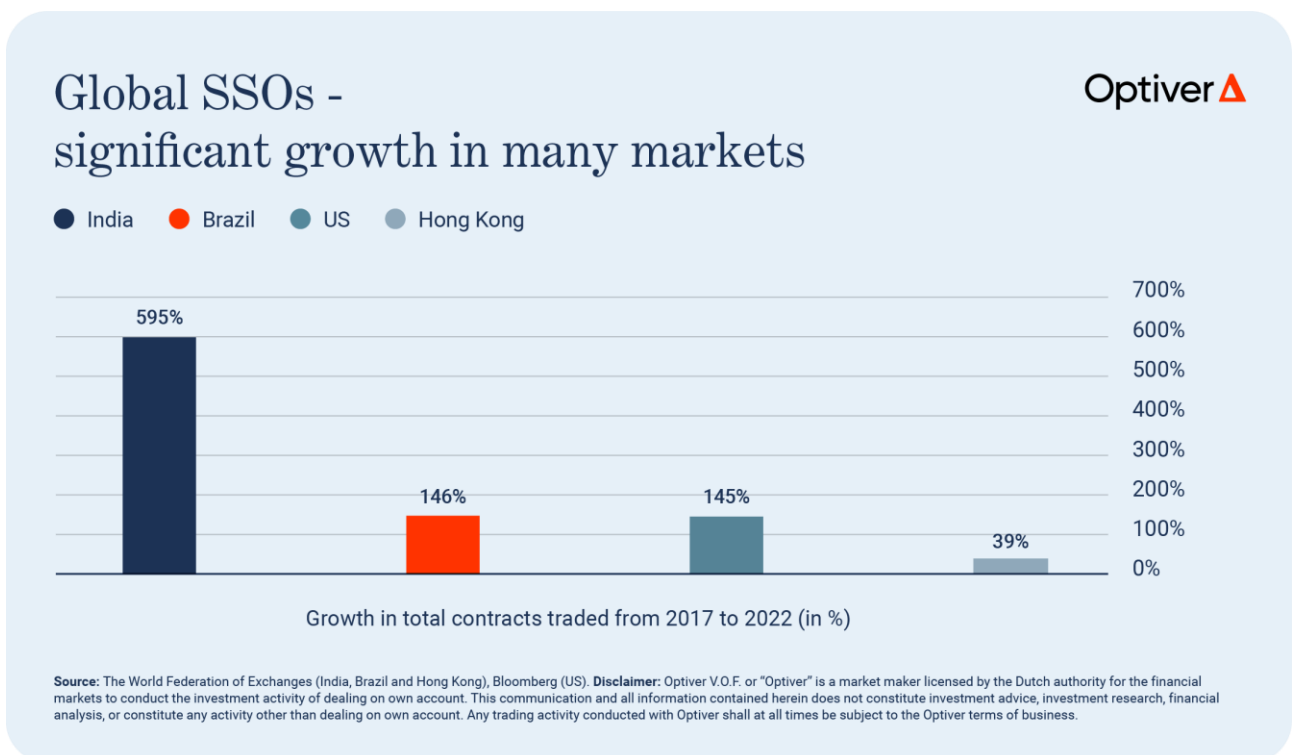
Source: Stocks-The World Federation of Exchanges, SSOs-Bloomberg.
 *Average daily trading value in notional USD billions (includes HKEX, JPX and KRX). **SSOs ADTV** calculated as (for each SSO) = stock price x contract size (multiplier) x no. of contracts traded (for the year) divided by the number of trading days. **Stock price** calculated as average stock price over the year. **FX rate** end of year FX rate (to convert from local currency to USD). **Disclaimer:** Optiver V.O.F. or "Optiver" is a market maker licensed by the Dutch authority for the financial markets to conduct the investment activity of dealing on own account. This communication and all information contained herein does not constitute investment advice, investment research, financial analysis, or constitute any activity other than dealing on own account. Any trading activity conducted with Optiver shall at all times be subject to the Optiver terms of business.

We’ve identified a handful of significant but surmountable obstacles to wider adoption of listed SSOs in APAC. While common themes emerge – such as market structure features in need of updating – there’s no silver bullet. In Korea for instance, the market would benefit from more robust

Corporate Action rules. In Japan, tax reforms for local investors would help stimulate adoption of SSOs.

Single-stock options play a vital role in healthy capital markets. They allow investors not only to hedge exposure to underlying stocks, but to generate income from strategies such as call overwriting.

Other market participants stand to benefit too. Exchanges can gain from the introduction of new products that also complement their existing suites. And an active single-stock options market builds overall resilience by adding liquidity in derivatives and related cash equities.



In light of the outsized benefits that boosting these markets would bring, we are devoting a series of articles to exploring the situation in Korea, mainland China, Japan and Taiwan. After describing the state of play for equity options in each of these markets, we'll lay out our recommendations for building them up.

With our experience developing new options products globally, we bring a real-world perspective to our analysis – and we challenge market participants to help us grow these markets. Our next article will focus on the diverse uses and benefits of SSOs.

Methodologies:

SSOs ADTV calculated as stock price x contract size (multiplier) x no. of contracts

Stock price = average stock price over the year

FX rate = end of year rate (to convert from local currency into USD)



About Optiver

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