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ABSTRACT

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This study examines the effect of reform to the KOSPI200 options market on volatility trading. We find that the information quality of net volatility demand significantly changes after the reform. The overall options demand for volatility does not predict spot market volatility before the market reform, but it does so after the reform. The significant information content of volatility trading can be attributed to the vegaweighted net demand of institutional investors.

KEYWORDS:

References

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IEL CLASSIFICATION:



Disclosure statement

No potential conflict of interest was reported by the authors.

Notes

- ¹ We classify options trades as those made by domestic individual investors, domestic institutional investors, and foreign institutional investors. The proportions and trading volumes of foreign individual investors and government-owned firms are negligible in the KOSPI200 options market.
- ² The lagged realized volatility (RV) is included in our model to take into account volatility persistency and clustering. If we do not control for the RV time series, the significantly estimated coefficients on the options demand measures do not guarantee volatility information content of options trading. When we incorporate more lagged RV terms into the regression equation, our conclusion remains the same.

Additional information

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