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Press Release

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New Measures for Junk Bond Funds

The Financial Supervisory Service issued new supervisory measures for high-yield funds commonly known as "junk bond funds" pursuant to recently amended tax law provisions that apply a reduced tax rate for funds that invest 10% or more of the assets on speculative-grade corporate bonds and commercial papers.[1] The new measures set forth the scope of corporate debt securities to be open to junk bond funds as well as stipulations and disclosures to be made in the investment contract and prospectus for junk bond funds.

Under the amended tax law provisions, an investor who invests in a junk bond fund for more than a year and up to three years is eligible for a 5% tax rate for any gains from investment up to KRW100 million. There is no additional tax benefit for investment held in a junk bond fund beyond the three-year or the KRW100 million cap. For foreign investors, there is no limit on investment amount eligible for the reduced tax rate. These rules apply to junk bond funds that are newly created after January 1, 2007, and invest only in domestic assets with 60% or more in bonds and 10% or more in the eligible debt securities.[2]

<u>Debt securities designated eligible for reduced tax rate</u>

Corporate bonds rated between *BB* and *C* and commercial papers rated either *B* or *C* by at least two credit-rating companies are eligible for the reduced tax rate. Investment-grade ratings vary from *AAA* to *BBB* for bonds and from *A1* to *A3* for commercial papers. Speculative-grade ratings range from *BB* to *D* for bonds and from *B* to *D* for commercial papers.

<u>Investor protection measures</u>

- Investment contracts for junk bond funds are to stipulate the portfolio requirements to be met to be eligible for the reduced tax rate.

- For investment in subordinated debt, which is expected to be open to junk bond funds, the investment contract should stipulate both the credit rating and the proportion of the subordinated debt to be included in the fund portfolio.

[1] Amendments to the Special Tax Treatment Control Law and its Enforcement Decree were made, respectively, in December 30, 2006, and February 28, 2007.
[2] Article 91-7 (Special Tax Treatment Control Law), Article 92-5 (Enforcement Degree)

- The prospectus should come with full disclosures on the heightened likelihood of losses and other risk characteristics of investing in junk bond funds as well as the investment holding period to be satisfied to be eligible for the reduced tax rate.

- Investors should be made aware of the liability of junk bond funds for damage from failure to manage assets so as to take advantage of the reduced tax rate in the prospectus.

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