

## Press Release

October 30, 2008



### **A DECISION TO REINFORCE THE ELIMINATION OF MALIGNANT RUMORS IN THE STOCK MARKET**

In early September, the Financial Services Commission partnered with other stock market related government agencies to form a Joint Countermeasure Task Force to tackle the recent widespread circulation of malignant rumors regarding the Korean stock market. An unspecified number of rumors have caused an increase in the Korea Exchange to request public inquiries of corporations to verify the nature of the rumors. Moreover, the rumors have been thought not only to disturb the fair trading environment but also to have been the sources for the plunge in certain stocks. There is also suspicion that reports containing negative outlooks from foreign analysts are connected to the initiation of short-selling and market correction. Many of these rumors have been found to be without grounds, thus causing greater concern and sparking the urgency for the development of countermeasures to seek and prevent the sources of the rumors.

#### **Implementation Plan**

##### **1. Joint Countermeasure Task Force**

- The Expansion of the Countermeasure Team

The Countermeasure Team which was previously run solely by the Financial Supervisory Service (FSS) has been expanded and renamed as the Joint Countermeasure Task Force to include the cooperation of the Korea Securities Dealers Association (KSDA), the Korea Listed Companies Association (KLCA), and the KOSDAQ Listed Companies Association (KOSDAQCA) as of September, 2008.

According to interviews with market analysts and personnel from the exchange, the task force is proving to be effective in the prevention of malignant rumors.

- The Operation of Call Centers

Several call centers have been put in place to receive reports on malignant rumors,

with rewards provided for genuine leads on rumors that are potentially harmful and without grounds.

The FSS is responsible for investigating the sources of rumors and monitoring press releases, analyst reports, various investment websites, and the actual exchange floor.

Corporations have been requested to actively make voluntary public releases of their figures and to respond swiftly to issues that concern them.

When an individual or an entity is found to be responsible for spreading malignant rumors, they are prosecuted for defamation and business interference.

## **2. Detection of Unfair Trading**

The authorities are especially concerned with rumors that are related to fraudulent unfair trading. The detection of repeated groundless rumors targeted to a specific corporation that results in short-selling and a consequential sharp decline in stock price will be dealt with the strictest enforcement.

Leads on these sorts of activities that are connected to unfair trading will be given even higher rewards than any other leads.

## **3. Encouragement of Early Voluntary Public Releases**

To prevent the exchange in making public inquiries of companies relating to rumors, which in normal cases would lead to a drop in their stock prices, companies are being encouraged to voluntarily make public releases of their figures and release their earning forecasts as frequently and promptly as possible.

There have been cases where groundless rumors have caused a 50% drop in the stock price in 4 days.

## **4. Higher Ethical Standards for Analysts**

A noticeable improvement in the ethical standards of analysts will be demanded. Stricter laws will be put in place to enforce and prosecute entities with proven substantial evidence of violating fair trading and reasonable basis for analysis. The Korea Exchange will ask for improvements in the in-house trading regulations of securities companies.

There will also be improvements in the training programs for analysts to upgrade their ethical standards.

The same regulations and standards will be applied to analysts in foreign investment companies and will be subject to investigation and prosecution.

Henceforth, the task force and the call centers will remain in operation until the end of the year, at which time an assessment will be made to decide whether to continue or discontinue operations.

Market Rumor Reporting Centers:

FSS, Market Watch Team:	3771-5577, 5563
KRX, Market Research Team:	3774-9124
KSDA, Regulation Team:	2003-9132
KLCA, Research Team:	783-6501
KOSDAQCA, Administration Team:	368-4510

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