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Press Release

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Systemic Improvements in ELS Issuances & Operations

Background

The FSC/FSS has put forth the following preemptive measures to make systemic improvements in the ELS issuances and operations to prevent the possibility of stock price manipulation at the maturity for the intention of evading profit payment.

Main Changes

To improve the final payout conditions at maturity, the valuation price at maturity will be changed from the closing price on the maturity date to either the average closing price of at least three days prior to maturity or the volume-weighted average price on the maturity date in the following ELS cases:

- When ELS has as its underlying equity stocks that are outside the top 20 in total stock market capitalization on the day of reporting, and
- When the amount of the issued ELS exceeding 10% of total daily average transactions during the preceding 1 month period prior to reporting.

In the case where a securities company enters into back-to-back hedging contracts at the time of issuing ELS, the securities company will make known the counterparty either on the prospectus or to the investor. Otherwise, the issuer is to acquire and hold more than 3% of the issued security till maturity.

Issuers of ELS which hedge on its own are required to set a 'Hedge-related Internal Code' while ELS issuers that use back-to-back hedging should ascertain whether or not it's counterparty has the code and is available.

The Korea Exchange is presently expected to release a guideline on ELS hedging for ELS managers.

Expected Positive Outcomes

ELS-related market transparency and a noticeable diminishment in the risk of stock price manipulation on the day of maturity are positive outcomes expected from the latest changes. On the other hand, the changed measures will keep intact the positive functions of ELS, such as providing investment opportunities for high returns and stimulating the stock market via a hedging of underlying assets.



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For further inquiries:

Lee, J. Ernst
Foreign Press Spokesperson
Foreign Press & Relations Office
Financial Services Commission

Tel: +82-2-2156-9582
Fax: +82-2-2156-9589
E-mail: happyhero@fsc.go.kr

Soomi Kim
Foreign Press Spokesperson
Public Affairs Office
Financial Supervisory Service

Tel: +82-2-3145-5800
Fax: +82-2-3145-5808
E-mail: soomi.kim@fss.or.kr