



Press Release

January 21, 2016

HSCEI-LINKED ELS MARKET CONDITIONS & POLICY RESPONSE

The FSC held a press briefing on HSCEI-linked ELS market conditions and its policy response as the benchmark index sharply fell to 8,015.44 on January 20, raising concerns over increasing volatility in the market.

The outstanding balance of HSCEI-linked derivative products decreased from KRW 37.1trillion in September 2015 to KRW 37trillion as of January 19, 2016.

- Outstanding balance of HSCEI-linked products:
KRW 35.8trillion (June 2015) → KRW 37.1trillion(Sept. 2015) → KRW 37.0trillion (Jan.19, 2016)

Recent sharp falls in the index triggered “knock-in” for some HSCEI-linked ELS products; however, that does not necessarily mean investors’ losses. Most ELS products are structured to pay investors previously-agreed profits if the index recovered to certain levels even after the index fell below knock-in levels. Out of the outstanding HSCEI-linked ELS, 96.7% will reach maturity after 2018; if the HSCEI recovered in the meantime, therefore, it would not incur losses to investors.

The FSC sees that further falls in the index will be unlikely to threaten soundness of brokerage firms which raised capital through HSCEI-linked ELS issuance. The average NCR of domestic brokerage companies stands at 486.7% at the end of September 2015, up 19.5 %P from 467.2% in June 2015 when Chinese stock market turmoil had not yet occurred. In addition, for capital raised through HSCEI-linked ELS, brokerage companies are hedging against volatility of the underlying index.

As volatility in the HSCEI increases, the FSC will strengthen monitoring and supervision on the ELS market. To make sure brokerage firms manage their capital raised through ELS issuance in a sound and transparent manner, the Regulation on Financial Investment Business will be amended to separately handle such capital from other proprietary assets in accounting. We will keep monitoring whether brokerage firms properly manage hedging assets. We will examine sales practice of ELS products, particularly checking whether brokerage firms are providing sufficient explanation to customers, so that financial consumers are fully aware of possible investment risks when they purchase ELS products.

#

For any inquiry, please contact Foreign Press & Relations Team at fsc_media@korea.kr