

MEASURES TO VITALIZE KOSDAQ MARKET

The FSC announced measures for vitalizing the Kosdaq market to support the growth of start-ups and venture businesses. The measures are aimed at overhauling KOSDAQ listing requirements, strengthening Kosdaq's competitiveness to compete with the KOSPI market, and improving market soundness and investor trust in Kosdaq.

Key Measures

1. Incentives to attract institutional investors

- A new fund of KRW 300 billion, named 'Kosdaq Scale-up Fund' will be created with investments by the Korea Exchange (KRX), Korea Securities Deposit and relevant securities industry organizations to invest in Kosdaq-listed companies. <1st half of 2018>
- A new market index, named 'KRX300,' that incorporates Kospi and Kosdaq-listed companies will be introduced. < Feb. 2018>

2. Overhaul of Kosdaq listing requirements

Kosdaq listing requirements will be revised in a way that puts more focus on a company's growth potential. <1st half of 2018>

- Some requirements that hinder listings of start-ups will be abolished. To get listed on Kosdaq under the current rules, a company must generate profits from continuing operations and shall not be in a condition of capital impairment. Such requirements actually act as obstacles to listings of start-ups. It usually takes a considerable period of time for start-ups to generate profits; and some may undergo even capital erosion in the early stage of their business.
- Listing requirements will be eased to allow Kosdaq listing of a company if the company meets certain threshold requirements in one of three criteria: pre-tax profit, market capitalization and equity capital.
- To facilitate more listings under the so-called 'Tesla standard,'¹ underwriters with a track record of such listings will be exempted from the rules that oblige them to buy back shares for 90% of their IPO price if retail investors exercise their put-back options within a certain period of time, from one to six months, following the IPO.

¹ The 'Tesla' standard is a special track for Kosdaq listing which allows an IPO of a company with future potential that has not yet posted profits, like Tesla, the U.S. automaker that got listed on Nasdaq in 2010 for its growth potential. However, the 'Tesla' listing, first introduced in 2017, has not been actively sought by companies. There is only one company so far that got listed through such a special track.

3. Kosdaq's autonomy and independence

The KRX will make organizational and operational reforms to spur competition between Kosdaq and KOSPI markets. <Revision to KRX rules, 1st half of 2018>

- Chairman of Kosdaq Market Committee will no longer be concurrently headed by CEO of Kosdaq and be replaced by an external expert to change the committee into a more private-oriented organization.
- Listing and delisting evaluation authority currently held by CEO of Kosdaq will be delegated to the Kosdaq Market Committee.

4. Market soundness and investor trust

- Post-IPO supervision will be strengthened to make sure that easing of listing requirements do not undermine market soundness and investor trust in Kosdaq. Stricter standards will be applied in reviewing and determining whether listed companies should be delisted or remain. <Revision to Kosdaq listing regulations, 1st half of 2018>
- To better protect investors and prevent a conflict of interests, largest shareholders and underwriters will be subject to stricter rules that forbid them from selling shares for a certain period of time following IPOs. <Revision to Kosdaq listing regulations, 1st half of 2018>

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