

KOREA NEXT EXCHANGE (KONEX) TO BE REVITALIZED

FSC Chairman Choi JongKu announced a plan for revitalizing KONEX at a meeting with young entrepreneurs and venture capital investors. The plan was intended to facilitate fundraising by SMEs & venture companies; boost liquidity in the KONEX market; strengthen its role of nurturing SMEs & venture companies to help them move to KOSDAQ; and enhance investors' trust in the KONEX market.

BACKGROUND

KONEX was launched in July 2013 as an exchange for SMEs too small to list on the KOSDAQ market. Since then, KONEX achieved a significant growth. Its market capitalization increased almost 13 folds, from KRW 0.5 trillion to KRW 6.3 trillion as of the end of 2018. Over the same period, the number of KONEX-listed companies also increased from 21 to 153. Its daily trading value increased 12 folds, from KRW 390million to KRW 48billion. Despite the growth in size, low liquidity and the lack of price discovery function prompted the need to reform the KONEX market. Against this backdrop, the FSC intends to revitalize the role of KONEX as a springboard for SMEs & venture companies to grow further and a platform for venture capital investors to exit and re-invest.

Key Changes

1. FACILITATING FUNDRAISING THROUGH KONEX

- ▶ KONEX-listed companies will be allowed to raise funds through crowdfunding, currently limited only to non-listed SMEs, and small public offerings, which will be newly introduced as part of capital market reforms.¹
- ▶ Regulations that cap discount rates on newly-issues shares will be eased for KONEX-listed companies:
 - (public offering) If an underwriter prices new shares based on demand forecast, new share offerings will be exempted from caps on discount rates.
 - (third-party allocation) new shares allocated to third-parties will be allowed to offer at a further discount exceeding the current cap of 10%.
- ▶ External audit standards will be eased or tailored for KONEX-listed companies to reduce their regulatory burdens.

¹ For further details about 'small public offerings', refer to the press release 「FSC Proposes Capital Market Reform」 (November 1, 2018)

2. BOOSTING LIQUIDITY IN KONEX

- ▶ To attract more investors, KONEX will lower the bar for investors: minimum deposit requirement will be exempted for professional investors and lowered for general investors by 70% from KRW 100 million to KRW 30 million.
- ▶ Distribution of shares will be introduced as a requirement to remain being listed on KONEX. The new requirement is intended to address the current problem that shares are concentrated to a small number of shareholders including largest shareholders, which as a result limits the number of shares traded in the KONEX market. Under the new rule KONEX-listed companies will be required within a year after listing to distribute more than 5% of shares to other shareholders excluding the largest shareholders and specially-related persons.
- ▶ KONEX introduced a 'Designated Advisor' scheme in which designated securities companies help listings of SMEs and provide liquidity in the KONEX market. To encourage Designated Advisors to identify more candidates to list on KONEX, they will be alleviated from the current obligation as Liquidity Providers (LPs) and allowed to invest in KONEX-listed companies which they offered advisory services.

3. BUILDING A BRIDGE TO GROWTH

- ▶ KONEX has a 'fast track' scheme, which allows KONEX-listed companies to move to KOSDAQ via a simple and fast track. To facilitate the use of the fast track scheme, review process for listing will be further streamlined with exemptions to certain requirements – e.g. business continuity review.
- ▶ KONEX-listed companies with unrealized profit will be eligible for the 'fast-track' listing on KOSDAQ if they meet other requirements - e.g. market valuation or share distribution, etc.
- ▶ KONEX will provide KONEX-listed companies preparing for KOSDAQ listing with consulting and education programs to nurture their capability in compliance of disclosure rules and investor protection.

4. PROVIDING BETTER INVESTOR PROTECTION

- ▶ KONEX-listed companies will be required to disclose more information to better protect investors. The number of information items subject to disclosure rules will be increased from 29 to 35.
- ▶ Like KOSPI and KOSDAQ, KONEX will also introduce a disclosure rule which allows KONEX-listed companies to voluntarily provide explanation or clarification in regard with misinformation or rumors that could affect investor decisions.

SCHEDULE

▪ fundraising via crowdfunding & small public offerings	FSC will submit a proposal to amend the Financial Investment Services and Capital Markets Act to the National Assembly in the 2 nd half of 2019.
▪ easing pricing regulations on newly-issued shares	Regulation on Securities Issuance and Disclosures will be amended in the first half of 2019.
▪ reducing regulatory burden of external audit	KONEX Listing Regulation and Regulation on External Audit and Accounting will be amended in the first half of 2019.
▪ lowering the bar for KONEX investors	KONEX Market Business Regulation and KONEX Listing Regulation will be amended in the first half of 2019.
▪ introducing a requirement of share distribution	
▪ alleviating burdens on Designated Advisors	Regulation on Financial Investment Business and KONEX Market Business Regulation will be amended in the first half of 2019
▪ facilitating the use of 'fast-track' to KOSDAQ	KOSDAQ Listing Regulation will be amended in the first half of 2019
▪ disclosing more information to investors	KONEX Disclosure Regulation will be amended in the first half of 2019

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