

FSC TO OVERHAUL AUTHORIZATION SCHEME FOR FINANCIAL INVESTMENT BUSINESS

The FSC plans to overhaul the current authorization scheme for financial investment business in order to bring fresh competition and boost vitality in capital markets. The regulatory reform includes lowering entry barriers to promote competition; and shifting from licensing to registration-based system for add-on business of securities companies.

Background

This year marks the 10th anniversary of the enactment of the Financial Investment Services and Capital Markets Act (FSCMA), which laid the foundation for the current authorization scheme. The current authorization framework introduced a function-based approach in licensing financial investment business, which applies same requirements to those with same functions. That contributes to eliminating regulatory arbitrage across sectors and strengthening investor protection. However, financial investment business officials have been asking for further improvements to address the complexity of the current scheme; and lengthy procedural burden to obtain a new licenses for add-on businesses.

Against this backdrop, the FSC proposed a plan to overhaul the current authorization scheme for financial business so that they can play an active role in financing and supporting Korea's innovation-led growth.

Key Reforms

1. Entry barriers to be lowered

SECURITIES COMPANIES

- ▶ The FSC will abolish a rule which allows one securities firm for one financial group, facilitating creation of new ones, spin-off or acquisition among securities firms.
- ▶ Currently, the entry of a new securities company is allowed only in a limited range of specialized business. The FSC will allow new entrants to engage in the whole range of investment brokerage and trading businesses.

ASSET MANAGEMENT COMPANIES

- ▶ The FSC will abolish a rule which allows one asset management company for one financial group.
- ▶ The FSC will also make it easier for asset management companies to change their private equity funds into public funds, by lowering the current requirement for trust money by half.

2. Registration-based system for add-on business

- ▶ Securities firms will be allowed to engage in add-on businesses in the same sector only through registration, without obtaining a new license. The introduction of registration-only system for add-on business will streamline the current authorization scheme with a smaller number of authorization units: from the current 23 authorization unit to one authorization and 13 registration units for investment brokerage business; and from the current 38 authorization units to 5 authorization and 19 registration units for investment trading business.

Schedule

- ▶ The FSC will submit a proposal to amend the Financial Investment Services and Capital Markets Act to the National Assembly in the second half of 2019.

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