

## FSC HOLDS KICK-OFF MEETING TO ROOT OUT UNLAWFUL TRADING ACTIVITIES IN STOCK MARKETS

Vice Chairman Sohn Byungdoo held a kick-off meeting of the task force on the prevention of unlawful and unfair trading activities in stock markets on October 19. The task force will operate until the end of March 2021 and regularly report its implementation status on a monthly basis.

The following is a summary of Vice Chairman Sohn's remarks.

### **BACKGROUND**

Due to the rapid spread of COVID-19 around the world, domestic stock markets plunged at the beginning of the year. However, stock prices quickly recovered to the pre-pandemic level backed by the strong fundamentals of the Korean economy, prompt implementation of the emergency financial support programs and the effective K-quarantine measures. Moreover, an upsurge in the trading volume by retail investors also contributed to the quick market recovery. The retail investors' growing interest in stock investment is a positive sign. However, without a fair market order, investors' trust in the market may crumble and the recent investment boom may end up as a short-lived one, preventing a further advancement of stock markets.

With abundant market liquidities flowing into stock markets, it has become all the more necessary to pay attention to the growing concerns about illegal and/or unfair trading activities in the stock markets.

### **POTENTIAL ISSUES**

The recent trends in stock market activities reveal the following three potential problems. First, due to the rising market volatility, there are growing risks of unfair trading activities surrounding particular groups of stock items, such as COVID-19 and "untact" sectors. In addition, as the period of short-selling ban was extended until March 15, 2021, it has become necessary to closely monitor illegal short sale activities during this period, including naked short-selling. Second, unfair trading activities including price manipulation are being carried out in a more organized and complex manner. However, the current system from the detection to punishment stage takes a long time and lacks an administrative means to swiftly issue penalties.<sup>1</sup> Lastly, there needs to be efforts to close the loopholes in the areas where potential

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<sup>1</sup> Current system takes two to three years on average from detection to investigation to issuing charges to prosecution to finally reach a court decision.

vulnerabilities exist. Recently, there have been cases of market abuses involving mergers and acquisitions through debt financing leading to embezzlement or breach of trust, accounting fraud and market manipulation, etc. Market abuse activities also include profiteering through inappropriate means, such as by issuing convertible bonds to largest shareholders, as well as causing damages to investors by providing unlawful investment advising services and/or charging exorbitant fees.

## **KEY MEASURES**

The task force on the prevention of unlawful and unfair trading activities in stock markets, which will be comprised of officials from the FSC, FSS and KRX, will focus on the following three areas—(a) strictly responding to unfair trading activities throughout the prevention, investigation and punishment stages, (b) closely monitoring and examining the loopholes in the system and (c) working to improve the rules and regulations. The three-pillar framework is intended to foster close cooperation among relevant authorities.

### **I. STRICTLY RESPONDING TO UNFAIR TRADING ACTIVITIES**

The authorities will strengthen preventive measures by issuing market alerts and investor cautions on stock items that are deemed as risky while regularly disclosing trends in market monitoring and important issues to help raise investor awareness. The relevant authorities will work to enhance cooperation by establishing an integrated monitoring system that shows the progress of market abuse investigation cases. In addition, the authorities plan to impose tougher penalties on repeat offenders and financial sector workers involved in unfair trading activities.

### **II. CLOSELY EXAMINING LOOPHOLES IN THE SYSTEM**

The authorities will closely monitor market abuse activities regarding M&A activities involving debt financing as well as convertible bonds in order to prevent the occurrence of more organized illicit activities. The authorities will also keep a close eye on exaggerated advertising practices and the compliance status of investment advice providers.

### **III. WORKING TO IMPROVE RULES AND REGULATIONS**

Through revisions to the Financial Investment Services and Capital Markets Act, the government will newly introduce a fine on unfair trading activities. To strengthen supervision on M&As involving debt financing, the authorities will set up a close monitoring system and introduce stricter disclosure requirements. With regard to the issue of convertible bonds, the authorities will work on improvements to ensure a disclosure of information prior to the issuance of convertible bonds and to limit call option rights for largest shareholders when issuing convertible bonds to help improve the soundness of the market.

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