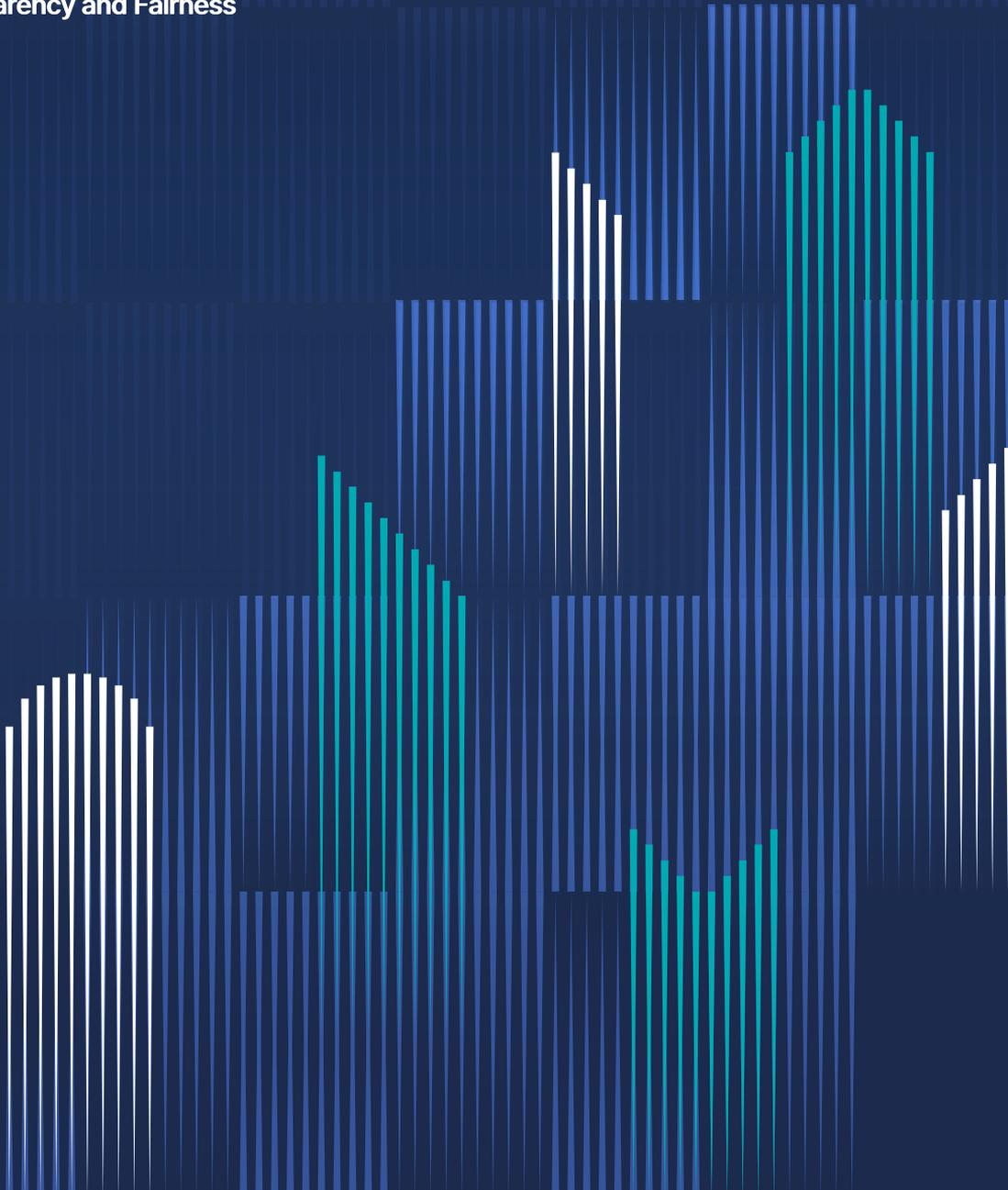


CAPITAL MARKET REFORMS IN KOREA

For Enhanced Market Accessibility,
Transparency and Fairness



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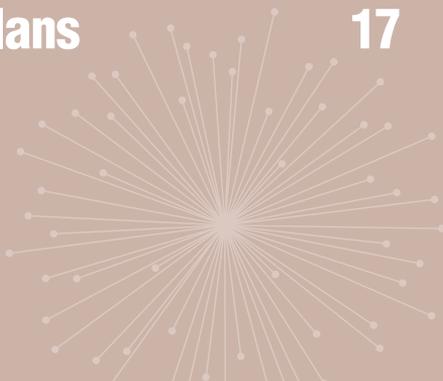
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Introducing FSC

The Financial Services Commission (FSC) is a government agency with statutory authority over financial policy and regulatory supervision. The FSC is responsible for making financial policies, supervising financial institutions and markets, protecting consumers, and promoting the growth of Korea's financial industry.

Since its inception in 2008, the FSC has been at the forefront of ensuring financial market stability and the soundness of financial institutions, often by employing preemptive measures in response to financial crises. It also has played a pivotal role in promoting innovation in the financial industry and supporting Korea's long-term economic growth.

As we navigate through new challenges and opportunities in a rapidly changing environment, the FSC will continue to make effort for further development of Korea's financial sector and sustainable economic growth.



Financial Services
Commission

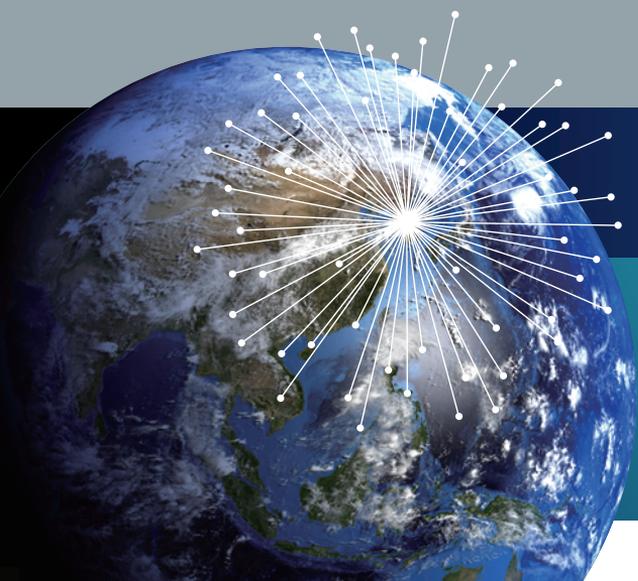
Overview

Making Improvements to Capital Markets in Korea

This booklet outlines recent capital market reform initiatives undertaken by the government of the Republic of Korea. Capital market is at the core of a virtuous cycle of economic growth. It provides funds needed for the growth of our economy and businesses and returns the benefit of the growth to investors so that they can reinvest their profits back in the market.

Since taking the office, the Yoon Suk Yeol administration has been very serious about making improvements to the capital market system in Korea, aiming to alleviate the so-called 'Korea discount'—the persistent undervaluation of Korean stocks—and to update capital market regulations to make them more consistent with global standards and supportive for economic growth. Over the past year, the FSC—in close coordination with relevant institutions and the industry—has pushed forward with capital market reforms and made notable progress in three important areas: (i) embracing global standards and innovation; (ii) enhancing investor protection and market fairness; and (iii) ensuring financial stability.

With the progress we have made so far and our continuous reform efforts going forward, the government expects that our capital market will be able to better serve and function as a key pillar of our economy.



Key Achievement

Part 1

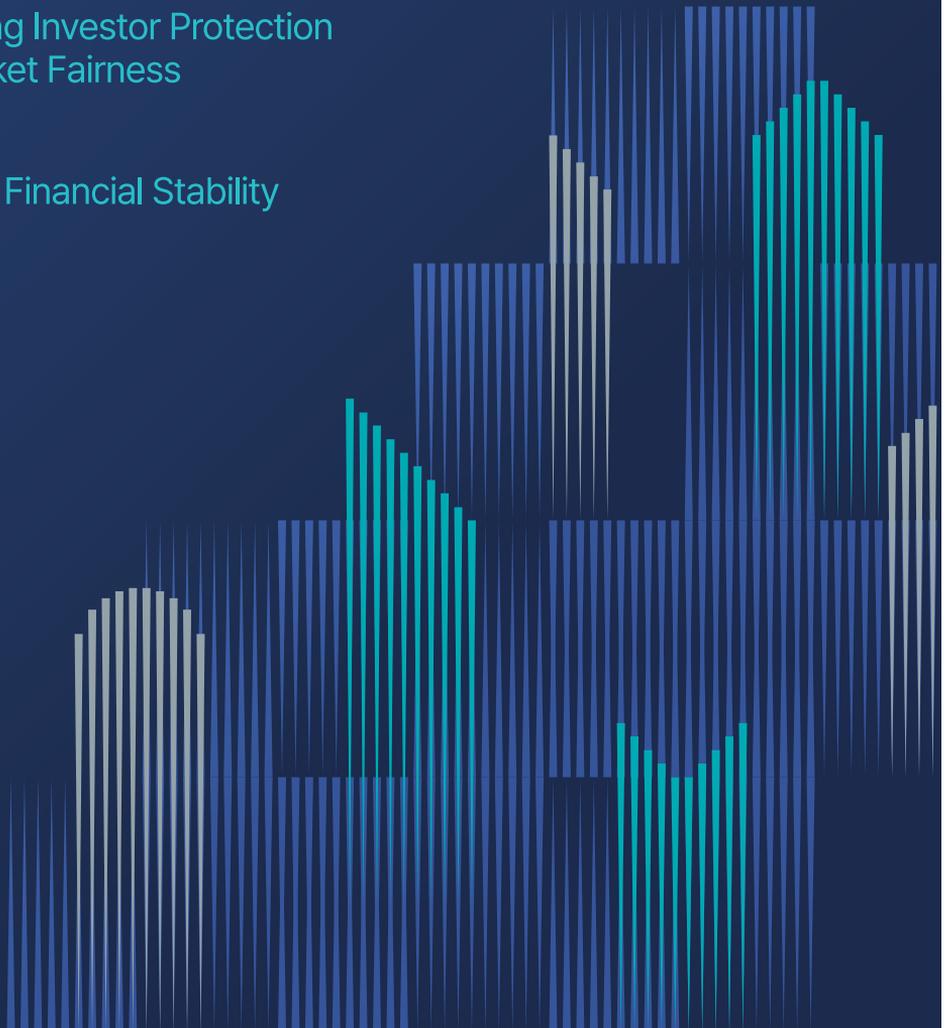
Embracing Global Standards and Innovation

Part 2

Enhancing Investor Protection
and Market Fairness

Part 3

Ensuring Financial Stability



Part 1

Embracing Global Standards and Innovation

In the first half of 2023, the government's reform initiatives focused on making our capital market system more accessible to foreign investors and more aligned with global standards.

Abolish Foreign Investor Registration

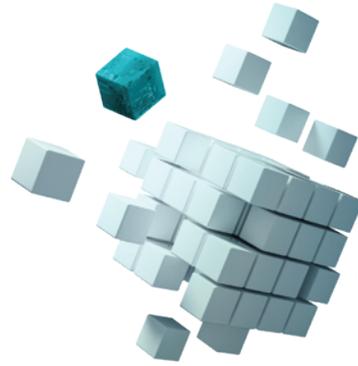


Foreign investors' registration requirement, which has been pointed out as an inconvenient obstacle for foreign investors over the years, will be abolished after being in existence for more than 30 years since its creation in 1992. From December 14, 2023, foreign investors will no longer have to go through a prior registration process with the Financial Supervisory Service (FSS). They will be able to open up their investment accounts directly at securities firms using their legal entity identifiers (LEIs) or passport numbers.

Phase in English Disclosures Requirement



From 2024, English disclosure on material information will become mandatory for KOSPI-listed companies with KRW10 trillion or more in assets. The disclosure requirement will be then expanded to KOSPI-listed firms that have KRW2 trillion or more in assets from 2026.



Improve Dividend Distribution Practice



In order to help companies change their dividend payout procedure in accordance with global standards, the government has provided an authoritative interpretation of the Commercial Act about annual dividend payout and proposed a revision bill of the FSCMA regarding quarterly dividend payout procedure. At their annual general meetings in March 2023, about 30% of listed companies have already changed their articles of incorporation to improve their practice in annual dividend payout by having their dividend amounts decided first prior to determining the shareholders who will receive dividends. They will apply the improved rule to their annual dividend payout from 2024. With this change, investors will be able to make investment decisions with the exact information on dividend amounts they will be paid, which accords with global standards. This change will also help increase the overall dividend payout ratio of the listed companies.



The government has also made policy efforts to promote innovation and competition in financial investment business to accommodate the emergence of new technologies and changing demand in the market.

Security Token Offerings (STOs)



The FSC has proposed a regulatory framework to permit the issuance and distribution of security tokens with investor protection available under capital market regulations. The framework includes (a) accepting security tokens as a type of electronic securities based on a distributed ledger; (b) creating an “issuer account manager”; and (c) introducing OTC transaction brokers for investment contract securities and beneficiary certificates. Whether a token is a security or not will be determined on a case-by-case basis, taking account of all relevant factors. If the token is determined as a security, it will be subject to the existing securities regulations under the FSCMA.

Alternative Trading System (ATS)



To bring fresh competition to the monopoly of the securities exchange system, the FSC has granted a preliminary license to Nextrade, which will be the first ATS in Korea’s capital market. The new ATS will officially take off as early as 2025.

Business Development Companies (BDCs)



As a new vehicle to promote venture investment, the government plans to introduce Business Development Companies (BDCs), which will offer general investors opportunities to invest in innovative businesses with sufficient investor protection.

To provide investors with more useful information and enhance transparency, the government has made improvements to the accounting rules and regulations.



Improve Auditor Designation System



The FSC has introduced reforms to the matching mechanism between companies and auditors under the auditor designation system to ensure that auditors are appointed in accordance with their audit quality and capabilities.

Guidance on Accounting Treatment for Crypto Assets



The FSC has unveiled its supervisory guidance on accounting treatment for crypto assets to enhance transparency and consistency in accounting rules applicable to crypto-related activities. We will also require companies issuing or holding crypto assets to disclose details in their financial statements as early as January 2024.

Part 2

Enhancing Investor Protection and Market Fairness

The government's capital market reform agenda put its emphasis on boosting investor confidence, which forms the foundation of our capital market. In particular, we have introduced measures to better protect the rights and interests of general shareholders.



Shareholder Protection in IPO of Split-off Subsidiary

To provide stronger protection for general shareholders in an IPO of a split-off subsidiary, the FSC has introduced three layers of safeguard measures by (a) strengthening disclosures, (b) granting shareholders the right to request purchase of their stocks by the company, and (c) tightening the listing review process to ensure that the parent company makes sufficient efforts to protect general shareholders.



Ex-ante Disclosure for Insider Trading

To protect general shareholders from unforeseen damages caused by insider trading involving large shareholders or executives, the FSC has proposed the introduction of ex-ante disclosure requirement in addition to the current ex-post disclosure requirement. Under the ex-ante disclosure rule, insiders of listed companies will be required to disclose their share trading plans at least 30 days prior to the expected trading date.





Mandatory Bid Rule

The government plans to introduce a mandatory bid rule in order to better protect general shareholders of the target company in corporate M&A deals by guaranteeing them sufficient opportunities to sell their shares to the acquiring company. The largest shareholder acquiring 25% shares or more of the target company will be required to make a public tender offer to buy 50% plus one or more shares from the remaining shareholders of the target company.



To foster a trustworthy and fair market environment for investors, the government has introduced stricter measures to stamp out fraudulent and unfair trading activities.



Penalty Surcharge against Unfair Trading Activities

The revision bill of the FSCMA, which was passed by the National Assembly, has strengthened penalties, including a penalty surcharge, against unfair trading activities. A penalty surcharge of up to twice the amount of unfair gains can be imposed. With the revision to the FSCMA enforcement decree, the FSC has introduced a clear standard for calculating unfairly gained profits to ensure the level of punishment is commensurate with the level of unfair economic gains.



Diversification of Sanction Methods

To better cope with diverse types of unfair trading activities which are becoming increasingly complicated and sophisticated, the FSC plans to introduce more diversified methods of administrative sanctions against them. For example, the FSC may impose a trading ban of up to 10 years against those engaged in market manipulation and other unfair practices.



Strict Punishment against Illegal Short Selling

The FSC imposed penalty surcharge on the entities that engaged in naked short selling in March 2023. It was the first time for the FSC to use the strengthened measure since strict sanctions including penalty surcharge and criminal punishment were introduced against illegal short selling activities in 2021.

The government has also put in place various measures to establish a fair market order and to assure investor confidence in our capital market.



Regulatory Reform on Short Selling

To restore market discipline and provide a level playing field in short selling transactions, the government strengthened the monitoring and detection system over illegal short selling activities. We expanded the designation of overheated short selling stocks and introduced a reporting requirement for stock lending of more than 90 days for the purpose of short selling.



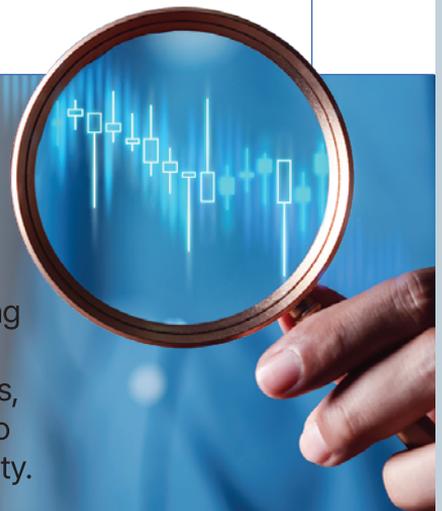
Improvements to IPO Regulation

To address the oversubscription problem in IPOs, which hinders the proper function of price discovery, the FSC has made improvements to the IPO process including book building and share allocation. To better forecast demand from institutional investors, the FSC introduced the 'test-the-waters' rule. We also strengthened the book runners' responsibilities in share allocation by requiring them to check institutional investors' stock payment capabilities.



Regulatory Guideline on Fractional Investment

To close the regulatory loophole of investor protection in newly emerging markets including fractional investment, the FSC has provided a regulatory guideline on new types of securities, under which fractional investment is subject to securities regulation if it is qualified as a security.



Part 3

Ensuring Financial Stability

Along with our capital market reform efforts, the government has taken preemptive and prompt market stabilization measures to ensure financial stability. In the second half of 2022, some securities firms had difficulties in refinancing their real-estate asset-backed commercial papers (PF-ABCPs) as CP rates surged with credit crunch in the short-term money market. To stem further spread of market jitters, the FSC—in cooperation with relevant institutions and the industry—provided liquidity supports.

PF-ABCP Purchase Program



The FSC and the securities industry jointly launched a KRW1.8 trillion program to buy PF-ABCPs. Since it started to operate in November 2022, the program has purchased the entire amount of PF-ABCPs on sale (KRW 504.5 billion), contributing to the easing of liquidity risks of smaller securities firms and stabilizing the overall short-term money market.



With money market conditions being gradually stabilized since then, the real estate PF-related risks of securities firms are kept at a manageable level. However, given that there still exist potential risks in the event of sudden deterioration in market conditions with ongoing uncertainty about interest rate movements, the FSC has taken measures to preemptively manage such risks.

Short-term PF-ABCPs To Be Switched into Longer-term Loans



To address maturity mismatch problems between real estate projects, which usually run for one to three years, and the ABCPs financing them, which typically need to be refinanced every one to three months, the FSC has incentivized securities firms to switch their PF-ABCPs into longer-term maturity loans by applying a lower risk weight on their net capital ratios (NCRs) to such loans.



Write-offs of Non-Performing Loans To Be Expedited



To ensure that surging delinquencies of PF loans amid the recent slump in the real estate market do not harm the soundness of securities firms, the FSC along with the FSS encourages securities firms to swiftly write off their non-performing loans by speeding up their review and approval process for the applications of write-offs.

Liquidity Support To Be Extended



The PF-ABCP Purchase Program, which was scheduled to expire at the end of May 2023, has been extended until February 2024.





Upcoming Plans

Based on the progress we have made so far, the government will continue our efforts to upgrade Korea's capital market. Boosting investor confidence and supporting the innovative and sustainable growth of our economy are our top priorities for capital market reform initiatives going forward.



To boost investor confidence, the FSC will continue to work on policy agendas intended to improve investor protection and stamp out unfair trading activities.

Regulatory Reform on Treasury Stocks

There has been criticism that treasury stocks in Korea are often being used as a tool for many companies to defend management control of majority shareholders, at the cost of general shareholders' rights and interests. To rectify such practice, the FSC plans to overhaul the current regulatory regime on treasury stocks. We are now gathering opinions from various stakeholders, including businesses, investors, and academia, to seek a right balance between the protection of general shareholders and the corporate demand for defending management control.

More Fairness in Convertible Bond Market

The FSC seeks to introduce regulatory improvements to enhance fairness and transparency in the convertible bond (CB) market. CBs usually serve as a means of raising funds for SMEs. However, they are often being used in unfair trading activities. We are planning to improve regulations including the disclosure requirement, while strengthening the monitoring and investigation system.



Unfair Trading Response System To Be Overhauled

In response to securities crimes which are becoming increasingly organized and sophisticated, the government will overhaul the response system, currently scattered across many organizations including the KRX, the FSS, the FSC and the Prosecutor's Office, to bolster our capabilities in monitoring, investigating and punishing unfair trading activities.

To support the innovative and sustainable growth of our economy, the FSC will continue to upgrade capital market regulations.

Capital Market Accessibility for Innovative Businesses

To enhance capital market accessibility for innovative businesses, the FSC plans to make special listing scheme for tech companies more open to deep-tech companies and SMEs and establish relevant rules for embracing a trading platform for unlisted stocks.



Trust Business Regulation Reform

The FSC seeks to overhaul regulations on trust businesses to strengthen their function of providing tailored professional and comprehensive asset management service and lay foundations to allow them to provide innovative alternative investment products such as fractional investment.



ESG Disclosure Roadmap

As part of our efforts to support sustainable growth in line with global norms, the FSC will draw up a roadmap for ESG disclosure to adopt the ESG disclosure regime into our regulatory framework.



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