

FSC PLANS TO WORK ON MEASURES TO IMPROVE THE COMPETITIVENESS OF PUBLICLY OFFERED FUNDS

- The government plans to hold series of meetings with experts and related authorities on ways to improve the competitiveness of the publicly offered funds market, as a part of the plan to resolve the issue of “Korea discount.”
 - FSC Vice Chairman stresses the importance of establishing a computerized system designed to prevent naked short selling in domestic stock markets.
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Vice Chairman Kim Soyoung of the Financial Services Commission presided over a meeting with officials from related authorities and an industry group¹ to discuss plans to improve the competitiveness of the publicly offered funds market on January 3. In his opening remarks, Vice Chairman Kim said that the government has never been more serious about making fundamental changes to our capital markets, and that this plan is also a part of the policy drive intended to resolve the issue of “Korea discount,” the persistent undervaluation of Korean companies in stock markets. In this regard, the proposed plan will focus on nine specific ways to bring about improvements regarding institutions, products and infrastructure, with aims to cut transaction costs, strengthen product marketability and boost transaction convenience.

First, the proposed plan intends to bring about improvements from institutions by strengthening the credibility and accountability of fund managers, sellers and related businesses including the fund accounting and administration companies and various ratings companies. Currently, the sales remuneration structure for fund sellers is designed in a way that all fund sellers are paid with fund assets in a uniform way. To boost accountability and competition between fund sellers, the authorities will introduce a more reasonable seller remuneration system (“fund class”) under which fund sellers will be paid directly from investors with the possibility of having different fee rates for different sellers within the statutory limit of one percent. For these types (or classes) of funds, the seller fee remuneration system can be linked to the performance of funds to boost responsibility of fund sellers. Along this line, the proposed plan will bolster asset managers’ accountability by requiring them to more regularly conduct evaluations on alternative investment assets and to more accurately advertise fees for exchange-traded funds (ETFs). With increases in demand for more fairness and objectivity in back office functions, the proposed plan will require fund accounting and administration companies and related ratings companies to submit business reports and set up internal control mechanisms to ensure credibility of these businesses.

Second, the propose plan will bring about improvements to publicly offered funds on a product-level. Through the financial regulatory sandbox program, publicly offered

¹ Officials from the Financial Supervisory Service, the Korea Exchange, Korea Securities Depository and Korea Financial Investment Association.

funds that are currently available for trading over-the-counter (OTC) only will be allowed to list on the exchange, thereby reducing various costs and enhancing convenience. After looking at the progress thereafter, the authorities will consider whether to seek a revision of the Financial Investment Services and Capital Markets Act (FSCMA) to make the availability of exchange traded publicly offered funds on a more permanent basis. In addition, the proposed plan will make more active use of the rule that restricts the launch of similar products for six months for innovative ETFs or ETNs and diversify the types of ETF products by making investment requirements in real estate investment trust (REIT) ETFs more reasonable.

Third, the proposed plan will upgrade relevant regulatory infrastructure to enhance investor convenience. Under the regulatory sandbox program, fintech businesses equipped with certain qualifications will be able to provide a comparison and recommendation service for publicly offered funds. To facilitate prompt decision-making, the entire process of annual beneficiaries' meeting will be made available online. Moreover, the scope of overseas funds subject to prior registration will be expanded and the registration of overseas funds sold exclusively to professional investors (excluding individual investors) will be streamlined to speed up registration of these funds for sales.

The proposed measures will either go into effect from the first half of this year or be submitted to the National Assembly for an amendment process in the second half of this year.

Meanwhile, at the meeting, Vice Chairman Kim also said that the authorities will step up efforts to more strictly respond to illegal naked short selling activities, and work seamlessly to build a computerized short selling system and pursue relevant measures to ensure fairness in the market.

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