

FSC HOLDS MEETING AND ANNOUNCES MEASURES TO UPGRADE RULES ON TREASURY STOCKS OF LISTED COMPANIES

- FSC Vice Chairman Kim Soyoung said that rules on listed companies' treasury stocks should be improved to bolster their primary goal of enhancing shareholder value.
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The Financial Services Commission held a meeting with officials from related authorities, industry groups and research organizations on January 30 to discuss and announce measures to improve rules on treasury stocks of listed companies. The authorities prepared the measures after having a policy seminar on this topic in June last year and drawing opinions from various stakeholders and experts.

At the meeting, FSC Vice Chairman Kim Soyoung delivered opening remarks, outlining market participants' views on Korea's treasury stock system and proposing measures for improvement. The following is a summary of Vice Chairman Kim's remarks.

Unlike in the U.S. or other advanced markets, treasury shares in Korea have often been utilized for bolstering the control of major shareholders in a company, as opposed to their primary goal of increasing shareholder value. This has been made possible mainly because allocation of new shares is permitted on treasury stocks when companies spin off their business units, so that treasury stocks were used to bolster the control of major shareholders. Moreover, information about treasury stocks has not been made available in the market either in a timely or adequate manner, which presents the potential for damaging the rights and interests of general shareholders.

Therefore, to protect the rights and interests of ordinary shareholders in corporate spin-offs, authorities will prohibit allocation of new shares on treasury stocks. In addition, authorities will upgrade rules to ensure a thorough review on the preparation of investor protection measures when a newly established company intends to list on an exchange after the spin-off.

In addition, to ensure the provision of transparent information on the acquisition, holding and disposal of treasury stocks, authorities will upgrade rules to require listed companies to disclose in detail when the proportion of their treasury stock holding rises above a certain level and to strengthen disclosure duty for disposal of treasury stocks. These measures will help to restore checks and balances in the market.

Along with these measures, the FSC will also pursue various policy measures intended to resolve the problem of "Korea discount" and boost investors' confidence in the market.

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