

RULE CHANGES PROPOSED REGARDING INSIDER TRANSACTIONS UNDER THE FSCMA

- Rule changes being proposed specify the entities and the transaction volume and type that will be exempted from the ex-ante disclosure requirement for insider transactions, while providing the procedure and method for disclosure.
 - Proposed rule changes will go through a revision process and take effect from July 24.
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The Financial Services Commission issued a preliminary notice of rule changes being proposed concerning the ex-ante disclosure requirement for insider transactions under the Financial Investment Services and Capital Markets Act (FSCMA). With regard to the ex-ante disclosure requirement for insider transactions, the revision proposal specifies the entities that will be exempted from the disclosure duty, the volume and type of transactions that will be exempted from the disclosure duty, and the procedure and method for disclosure.

First, the rule changes being proposed exempt pension funds and other financial investors that are expected to have higher levels of internal control standards and are unlikely to misuse material nonpublic information—such as collective investment vehicles, banks, insurance companies, specialized credit finance companies, financial investment businesses, venture capital firms, and the Korea SMEs and Startups Agency—from the duty to disclose their stock transaction plans in advance for insider transactions. Moreover, an exemption from the ex-ante disclosure duty will also be granted to foreign investors that are deemed to have an equivalent status to the above mentioned domestic financial investors to ensure more equal treatment of both domestic and foreign investors.

Second, the rule changes being proposed grant an exemption if the volume of transactions in particular securities types¹ over the past six months is less than one percent of the total number of shares issued by the company within that particular year and if the total amount of transactions is less than KRW5 billion. Moreover, an exemption from the ex-ante disclosure duty will also be granted for transactions resulting from a statutory requirement, tender offers, or acquisitions or dispositions following corporate spin-offs or mergers.

Third, the rule changes being proposed require that companies' insider transaction plans specify the expected transaction price and volume as well as the trading period, and have transactions completed within 30 days from the expected transaction opening date. The revision proposal will also allow an up to 30 percent of room for change regarding the actual amount of transactions from the previously planned transaction amount to allow insider traders to more flexibly deal with market situations. Plans for insider transactions should be disclosed at least 30 days prior to the

¹ Including equity stocks (both common and preferred shares), convertible bonds, bonds with warrants, and depository receipts.

expected date of transaction.

Fourth, the rule changes being proposed allow insider transaction plans to be withdrawn in the case that an unforeseeable event takes place, such as death, bankruptcy, delisting, suspension of stock transaction. In addition, excess market volatility² can also qualify as a reason for withdrawal.

Fifth, the rule changes being proposed establish a specific standard for calculating different levels of penalty surcharges imposable on those failing to comply with the ex-ante disclosure duty for insider transactions, while taking into account various factors, such as market capitalization, transaction amount, and the severity of violation.

The FSC expects that the revised FSCMA and its subordinate statutes will boost transparency and predictability in insider transactions, which will help to prevent unfair trading activities and enhance protection for investors. In addition, the FSC expects that timely disclosure of information about insider transactions will help to minimize market shocks.

The revision proposal will be put up for public comment from February 29 until April 11. After a legislative review process and an approval from the cabinet meeting, the revision proposal will go into effect from July 24, 2024, along with the revised FSCMA.

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For press inquiry, please contact Foreign Media Relations at fsc_media@korea.kr.

² Price volatility exceeding 30 percent from the previous closing price.