

## 2020 POLICY ROADMAP FOR CAPITAL MARKETS

The FSC unveiled its 2020 policy roadmap for capital markets on March 4, 2020, which aims to make capital markets play a more active role in financing innovative companies. The policy plans are mainly focused on (i) providing funds tailored to company's growth cycle; (ii) stimulating the IPO markets; and (iii) securing a transparent and advanced infrastructure in capital markets.

### **POLICY PLANS**

The government will take steps to improve the capital markets infrastructure in order to help support businesses throughout their growth cycle.

#### **I. FINANCING TAILORED TO COMPANY'S GROWTH CYCLE**

##### **(FOR START-UPS)**

- ▶ **CROWDFUNDING:** Ease crowdfunding regulations to enable companies at the stage of launching beta service or sample products to raise funds via crowdfunding by allowing unlisted SMEs and companies that have been listed on KONEX for less than 3 years to use crowdfunding; expanding the amount of fundraisings through crowdfunding; and allowing crowdfunding platforms to provide business advisory and brokerage services for securities issued through equity crowdfunding.
- ▶ **START-UP ACCELERATOR:** Allow securities firms to operate as start-up accelerators which engage in selecting start-up entrepreneurs, providing seed investments and incubating programs.

##### **(FOR SCALE-UPS)**

- ▶ **BUSINESS DEVELOPMENT COMPANY:** Introduce a business development company (BDC)<sup>1</sup>, which is an investment vehicle that pools money from many investors, lists itself on the stock exchange and make investments in non-listed companies.
- ▶ **EASING RESTRICTIONS ON SECURITIES FIRMS:** Ease regulatory restrictions on securities firms in financing SMEs by permitting a new type of debt financing called venture lending; clarifying the scope of corporate lending that securities firms are

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<sup>1</sup> The scheme will be designed as a hybrid of public and private funds, which allows the entry of various participants including asset management companies, securities firms and venture capital. It will be subject to less restrictions than public funds in terms of lending, leverage and investment caps in a company, etc.

allowed to extend (e.g. M&A, refinancing, lending to companies in debt restructuring, etc.); and adjusting capital requirements and leverage regulations on securities firms to expand their financing capability.

- ▶ **HIGH-YIELD CORPORATE BOND MARKET:** Create a high-yield corporate bond market for scale-ups in which professional investors can invest in high-yield corporate bonds issued by smaller private companies
- ▶ **ASSET-BACKED SECURITIES MARKET:** Overhaul the regulatory framework to increase corporate financing through asset securitization and enhance soundness and transparency in asset-backed securities market by expanding asset securitization to all companies; allowing companies to securitize a wider range of corporate assets including accounts receivable, corporate bonds, intellectual property, etc.; and establishing a data platform for asset-backed securities.

## **II. STIMULATING IPO MARKETS**

- ▶ **PROMOTING IPOs:** Work to create conditions in which innovative start-ups are able to raise a sizable amount of funds necessary to scale up through IPOs by introducing a “cornerstone investors”<sup>2</sup> system which can help improve the chances of a successful IPO through securing reliable long-term investors; increasing the maximum shares (from 5% to 10%) that securities firms are allowed to have in SMEs anticipating IPOs; and supporting unicorns with IPOs in the KOSDAQ market through a less rigorous technology test requirement.
- ▶ **INVESTMENT RESHORING:** Promote the development of a variety of investment products to channel overseas investment demands into domestic markets by easing requirements for exchange-traded notes (ETNs); and allowing securities companies to develop their own indexes under the condition that they adhere to transparency and appropriateness.
- ▶ **K-OTC:** Promote trading of non-listed company stocks in the K-OTC market by removing barriers that prevent companies from participating in the market; and reviewing ways to apply the ban on unfair trading activities in the K-OTC market.
- ▶ **PUBLIC OFFERING FUNDS:** Diversify products and sales channels while improving the competitiveness of fund management companies and encouraging the asset management practice centered on investors by promoting seed investment.

## **III. SECURING A TRANSPARENT AND ADVANCED INFRASTRUCTURE FOR CAPITAL MARKETS**

- ▶ **VENTURE CAPITAL INVESTMENTS:** Establish an integrated administrative management platform ‘Fundnet’ to enhance the security and convenience of making venture investments to non-listed companies.

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<sup>2</sup> Institutional investors who agree to purchase a portion of shares before an IPO.

Improve the reliability and efficiency of making investments into non-listed companies by computerizing and standardizing the issuance of securities and the management of stockholders' list; and making coordination and cooperation more efficient by venture investors, such as limited partners, general partners and mutual trusts.

- ▶ **NON-LISTED STOCK VALUES:** Establish a guideline on the fair value assessment method of non-listed company stocks to remove current uncertainties about their appraisal process.
- ▶ **DISCLOSURES RULES:** Provide tailored consulting support to innovative SMEs and modify disclosure rules to help them provide important investment information to investors.
- ▶ **PRIVATE EQUITY FUNDS:** Introduce a minimum necessary level of regulations to address vulnerabilities in the system, while continuing to guarantee the operation of private equity funds that serve as an essential source of venture capital.

Establish an internal control mechanism within fund management companies, bolster the 'checks and balances' system between sellers, trusts and prime brokerage service providers, and strengthen requirements for providing information to investors.

Strengthen investor safeguards regarding certain investment management structures that are proven to be vulnerable.

## **SCHEDULE**

Policy Plans	Schedule
<b>I. Financing Tailored to Company's Growth Cycle</b>	
▪ Crowdfunding	Details to be announced in the 1 <sup>st</sup> half of 2020
▪ Start-up accelerator	Open for applications in March
▪ Business Development Company	Revision bill to be submitted to the National Assembly in the 1 <sup>st</sup> half of 2020
▪ Easing regulatory restrictions on financing by securities companies	Details to be announced at the end of March
▪ High-yield corporate bond market for scale-ups	Revision bill to be drafted in the 1 <sup>st</sup> half of 2020
▪ Regulatory reforms in asset-backed securities market	Details to be announced in the 1 <sup>st</sup> half of 2020
<b>II. Stimulating IPO markets</b>	
▪ Promoting IPOs by innovative SMEs and start-ups	Details to be announced in the 1 <sup>st</sup> half of 2020
▪ Working to reshore overseas investment demands	Details to be announced in the 1 <sup>st</sup> half of 2020
▪ Promoting trading of non-listed stocks in the K-OTC market	Revision bill to be drafted in the 1 <sup>st</sup> half of 2020
▪ Diversifying products and sales channels for public offering funds	Details to be announced in the 1 <sup>st</sup> half of 2020
<b>III, Securing Transparent and Advanced Infrastructure in Capital Markets</b>	
▪ Venture capital investments	Pilot launch within 2020
▪ Establishing a guideline for assessing fair values of non-listed stocks	Announced in February 2020
▪ Improving disclosure rules	Details to be announced in the 3 <sup>rd</sup> quarter of 2020
▪ Modifying rules on private equity funds	Details to be announced In March

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