

PLANS TO IMPROVE COMPETITIVENESS OF PUBLICLY TRADED FUNDS

The FSC unveiled specific plans to improve the competitiveness of the publicly traded fund market on January 29, with an aim to make the sales and management process more investor-oriented. The plans include (a) increasing the accountability and efficiency of fund management, (b) making the sales process more investor-oriented, (c) encouraging the introduction of diverse types of funds and (d) strengthening support for investors.

BACKGROUND

Publicly traded funds serve as an importance source of asset management for the general public, allowing small-sum investment and fit for medium risk/medium return appetite. They are also important as they provide capital to productive sectors and help to spread out the real estate-oriented household asset structure. However, the volume of publicly traded funds has stagnated recently as retail investors have become less inclined to invest in publicly traded funds¹ due to the availability of private equity funds, equity-linked securities and other competitive products as well as the relatively low returns, cost burdens related to sellers' compensations and fees, inappropriate fund management practices, etc. Meanwhile, amid a low interest rate environment and abundant market liquidity, the general public's interest in financial investment has grown, particularly in direct investing.

Over the past 10 years, the volume of private equity funds grew 268.3 percent while that of publicly traded funds rose only 38.3 percent. Stock funds except exchange-traded funds (ETFs) fell 53.2 percent while ETFs and money market funds (MMFs) rose 759.0 percent and 57.3 percent, respectively. The stagnant development of the publicly traded fund market can be attributable to (a) the subpar performance of fund management in generating returns, (b) the declining trust on fund sellers, (c) the lack of diversification in the types of funds and (d) the lack of adequate support for investors. Against this backdrop, the authorities will seek following strategies to help improve the competitiveness of the publicly traded fund market.

KEY STRATEGIES

A. INCREASING THE ACCOUNTABILITY AND EFFICIENCY OF FUND MANAGEMENT

¹ Volume of publicly traded funds (in trillion KRW): 198.6 (2010) → 213.8 (2015) → 242.3 (2019) → 274.7 (2020)
Proportion of investment by retail investors: 51.0% (2015) → 47.6% (2019) → 41.5% (2020)

(ACCOUNTABILITY) (a) Ease the burden of seed investment requirement for smaller sized fund managers with less than KRW1 trillion in trust and introduce new incentive structures for fund managers based on the amount of seed investments (Apr 2021~) and (b) introduce a new type of funds that improves the compensation and fee structure for both fund managers and sellers and pay them according to the loss-profit structure and performance of fund management (Q3 2021)

(EFFICIENCY) Enhance the flexibility in making changes to investment strategy (Apr 2021~) and seek regulatory reforms to address the issue of regulatory arbitrage and the autonomy of fund management (Q3 2021)

B. MAKING SALES PROCESS MORE INVESTOR-ORIENTED

(COMPENSATION & FEE PAYMENT STRUCTURE) Revamp the sales compensation and fee payment structure to promote competition between sellers (Q2 2021) and expand choices for investors by allowing a fee payment scheme through which sellers can decide on their fee levels and collect fees directly from investors (Apr 2021~)

(ONLINE SALES CHANNELS) Promote online investment advising platforms to increase the number of funds available for sales by online advising firms² (Q2 2021~) and strengthen the role of online fund supermarket (Q2 2021~) while working to improve the convenience of purchasing funds through mobile- and online-based services (Apr 2021~)

C. ENCOURAGING MORE DIVERSE TYPES OF FUNDS TO BE INTRODUCED

(FOREIGN CURRENCY-DENOMINATED MMFs) Introduce foreign currency-denominated money market funds to support the foreign currency management of export enterprises and apply the same level of regulations to them as in the case with the KRW-denominated MMFs (Q3 2021)

(DIVERSIFYING ETF PRODUCTS) Make additional adjustments to the rules on active ETFs based on the trends in overseas markets, allow the sales of fixed-term maturity bond ETFs and lower the current requirement for launching balanced ETFs (Q3 2021)

(DIVERSIFYING FUND TYPES) Introduce diverse types of funds that provides more cashable opportunities and flexibility in fund management—for instance, an interval fund type that offers redemption opportunities periodically within a certain limit of the fund assets, etc. (Apr 2021~)

D. STRENGTHENING SUPPORT FOR INVESTORS

(INVESTMENT INFORMATION) Promote the provision of standardized fund data and

² Usually, an investment advisor has contracts with 2 to 3 securities firms and only handles funds offered by them.

comparative analysis to investors and improve the disclosure on fund sellers to make available to investors various data such as average yield, yield volatility, etc. (Q2 2021~)

(INVESTOR PROTECTION) Bolster investor protections on multi-manager investment funds (funds of funds) and carry out stress tests to monitor the liquidity risk of open-end funds while strengthening their duties in providing risk information to investors and filing reports to the regulatory authority (Q3 2021)

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