Financial Services Commission

Press Release

February 1, 2021

SECURITIES FIRMS TO PLAY BIGGER ROLE IN CORPORATE FINANCING AND VENTURE CAPITAL MARKET

The FSC decided on the measures to promote the role of securities firms in corporate financing and venture capital market on January 29.

BACKGROUND

To help our economy continue to search for sustainable growth areas and create quality jobs, an innovation-based development is necessary. Amid an acceleration of digital transition and the spread of contactless services, promoting new industries based on technology and intangible assets, such as IT and bio health, should take place. The government has worked on regulatory improvements to boost the role of securities firms in corporate financing.[1] As such, the number of securities firms with equity capital of KRW3 trillion or more increased from five in 2013 to eight in 2019, and their high value-added services such as investment banking has expanded. However, the securities firms' role in providing venture capital to innovative SMEs has been lagging. Instead, offering investor credit exposure and providing debt guarantee on real estate project financing took up most of their business. As such, the following measures are intended to promote the securities firms' role in providing venture capital to innovative SMEs.

KEY MEASURES

A. RE-ESTABLISHING THE ROLE OF COMPREHENSIVE FINANCIAL INVESTMENT BUSINESSES

Under the current system of comprehensive financial investment business entities, the total credit exposure offered to businesses rose from KRW0.4 trillion in 2013 to KRW14.3 trillion at the end of June 2020. Business loans to SMEs has taken up 51.7 percent (or KRW7.4 trillion), which indicates a significant rise. However, out of KRW7.4 trillion, SME loans excluding SPCs and real estate project financing stood at just KRW0.3 trillion, representing only 2.0 percent of the total credit exposure to businesses.

As such, adjustments will be made to the rules on comprehensive financial investment business entities' capital exposure limits to remove real estate-related credit offering from the currently allowed special capital exposure limit of 200 percent of equity capital while allowing corporate financing loans to early stage middle market enterprises of less than KRW300 billion in average sales earnings

[1] Introduced comprehensive financial investment business entities in 2013, SME specialized financial investment businesses in 2016 and a proposal on business development company in 2019.

over three years, for M&A refinancing purposes and loans to businesses with improved financial structures. The authorities will also work to redesign the incentive structure to channel funds raised from comprehensive financial investment business entities' issued bills and investment management accounts toward productive sectors.

B. Diversifying Corporate Financing Services

The prudential regulation on net capital ratio (NCR) will be eased to promote the securities firms' role in providing venture capital to early stage middle market enterprises and qualified innovative firms. In addition, securities firms will be allowed to offer venture debt (venture lending services) to innovative firms to encourage the growth of small- to mid-sized securities firms as venture capital specialized firms.

C. Promoting SME Specialized Securities Firms

The SME specialized securities firms were first introduced in April 2016. However, due to the limited number, there exists an issue of re-designation with high entry barriers for newcomers. Also, additional incentives are needed to facilitate the SME specialized securities firms to more actively provide support to their clients. To promote their role, the authorities will increase the total number of designated SME specialized firms from six to eight and work to strengthen their role in providing support for KONEX listing.

D. Improving Rules to Promote IPOs

For promising businesses, the listing requirements will be lowered to promote successful early stage IPOs. Currently available in KOSDAQ, the qualified firms with market capitalization of KRW1 trillion will be able to go public in the KOSPI market as well.

Underwriters will be encouraged to play a more active role from the process of selecting companies for IPOs to accurately predicting market demand and setting prices to post-IPO management.

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