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# Press Release

July 14, 2005

## **Draft Proposals on Reducing Regulatory Compliance Burden of Publicly-Held Companies Released**

The FSC/FSS released on June 28 draft proposals put forth by Korea Securities Research Institute to reduce regulatory compliance burden faced by publicly-held companies. The draft proposals are the result of a joint effort between KSRI and a task force made up of experts and representatives from the FSC/FSS, Korea Exchange, Korea Listed Companies Association and KOSDAQ Listed Companies Association.

Regulatory reform on accounting, disclosures and corporate governance for publicly-held companies has significantly boosted investor protection and market transparency in recent years. While these are clearly welcome and positive developments for the market, there has also been a growing recognition that the increasingly demanding rules and regulations are raising costs and compliance burden on publicly-held companies. In a recent survey of 201 listed companies, 25% of the respondents said that the benefits of staying as a publicly-held company were outweighed by the costs. Compliance with prompt disclosures and listing requirements, potential costs of class-action litigations, and high legal and regulatory standards for corporate governance were frequently cited by publicly-held companies as sources of concern.

The draft proposals are intended to address these issues so that listed companies are not unduly restrained by regulatory compliance burden. The FSC/FSS expects to come up with more concrete measures from the draft proposals that can be implemented through supervisory regulations or by the self-regulatory organizations of Stock Market Division (formerly KSE) and KOSDAQ Market Division at the Korea Exchange by the end of the year after further deliberations and consultations (After the passage of the Sarbanes-Oxley Act in 2002, the S.E.C. of the U.S. also created an advisory committee in March this year to look into reducing listing burden on small companies going public for the first time).

As summarized next, the draft proposals are divided along four general areas: (1) initial public offerings; (2) more varied equity financing and use of treasury stocks; (3) accounting and disclosures; and (4) corporate governance.



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### Initial Public Offerings

- Shorter contract period for underwriter

Companies seeking an initial public offering are to have an underwriting agreement concluded three months ahead of filing to the Korea Exchange for a preliminary review from the current six months.

- Expanded participation in book building

Investors eligible to participate in book building are to be expanded to include, among others, equity funds and foreign investors.

- Subscription for small investors during the subscription period

Small investors are to be allowed to put purchase orders for a new issue during the subscription period after institutional investors in consideration of the information asymmetry between them.

- Lower share buyback price (Greenshoe Option)

The price at which over-allotted shares (within 15% of the allotted IPO shares) may be bought back from the market is to be lowered to 90% of the offering price from 95%.

- Exemption from debt ratio requirement

An exemption may be granted to companies whose debt ratio does not fully satisfy the listing requirement if it is determined that the company's reliance on debt, its current ratio, and other qualitative considerations of the debt pose no threat to the company as a going concern.

### More Varied Equity Financing and Use of Treasury Stocks

- Adoption of new classes of equity securities

New classes of equity securities, including tracking stocks, stocks with limited voting rights, callable stocks, mandatory convertibles and warrants should be considered for trading to help companies raise capital more efficiently.



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- More flexible use of treasury stocks

Disposition of treasury stocks for profit is to be allowed if doing so does not harm investors. New regulatory basis should be provided for use of treasury stocks in mergers, stock dividends, and issuing convertible bonds and bonds with warrants.

- Stock conversion price for convertible bonds

The share price to be used when converting bonds into the issuer's stocks is to be changed from the highest price within the previous month to the lowest price within the previous month so as to make convertible bonds more attractive to investors and help small and medium-sized companies raise capital.

### Accounting and Disclosures

- Simplifying regulations on disclosures

The 236 prompt disclosure items currently in effect at the Korea Exchange are to be significantly reduced by eliminating items that are of relatively little use to investors.

Compliance with disclosure requirements is to be differentiated among the listed companies according to the ability to comply and the unique characteristics of the Stock market and the KOSDAQ market.

Unless deemed necessary for public interests, the self-regulatory organizations at the Stock market and the KOSDAQ market are to assume the primary responsibility for regulating and enforcing disclosures.

- Greater flexibility for mergers

Companies looking to merge with others should be afforded greater regulatory flexibility and latitude in determining merger ratio and other merger conditions. The valuation methods in use for unlisted companies need to be improved, and independent evaluation of merger ratio proposals needs to be used more effectively.

- Best practices for internal accounting controls

Best practice guidelines are to be provided to companies for internal accounting controls (according to their business scale).



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### Corporate Governance

- Limiting the financial liability of corporate directors

Limited financial liability of corporate directors is to be provided for in the articles of incorporation or through the resolutions of general shareholders' meeting.

- Standardized investor information on corporate governance

Standardized information on corporate governance of listed companies is to be made available to investors by self-regulatory organizations.

- Consulting service for listed companies

A specialized entity that provides supports and provides consulting services for listed companies on legal and regulatory compliance, accounting, disclosures, IR and other areas is to be established.

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