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Press Release

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ESTABLISHMENT OF KOREA NEW EXCHANGE

The FSC announced its plan for creating a stock exchange exclusively for SMEs, tentatively named 'Korea New Exchange (KONEX)', in order to facilitate direct financing of venture start-ups and SMEs through the capital market.

BASIC DIRECTIONS OF THE PLAN

- Provide investors with new investment opportunities by facilitating listing of SMEs with high growth potential
- Reduce the costs of listing and maintaining the listing for SMEs
- Establish a credible market with fair pricing mechanism

KEY SCHEMES FOR KONEX

1. Broaden the scope of 'professional investors'

- 'Professional investors'* under the definition of *the Financial Investment Services and Capital Markets Act (FSCMA)*

*financial investment firms (e.g. securities companies), mutual funds, policy banks (e.g. Korea Development Bank, Industrial Bank of Korea, Korea Finance Corporation), banks, insurance companies, pension funds (e.g. National Pension Service)

**In principle, retail investors are allowed only indirect investment through mutual funds.

- Among investors who are not 'professional investors' by the definition of the FSCMA, those with investment expertise in SMEs or risk-absorbing capability will be allowed to invest in KONEX-listed SMEs.
 - i) 'venture capital' under the definition of *the Support for Small and Medium Enterprise Establishment Act*
 - ii) retail investors qualified for hedge fund investment more than KRW 500 million

2. Set minimum requirements for listing and delisting

- **(Listing)** The audit opinion on a company's financial statement is proper; a company satisfies listing requirements on a selective basis in regard with equity capital, financial conditions and business performance; and etc.



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- **(Delisting)** A company falls into one of conditions for immediate delisting such as the court's decision of dissolution or refusal of rehabilitation procedures; the audit opinion on a company's financial statement is adverse or disclaimer of opinion; and etc.

3. Designate advisors to assist SMEs' listing

In order to address asymmetry of information about SMEs and provide listed SMEs with close assistance, there is need for designating advisors for SMEs to assume such responsibilities.

- **(Qualification)** Securities firms will be given priority as designated advisors.
- **(Responsibilities)** ① Prior to listing, designated advisors discover candidate companies, conduct listing eligibility review, and arrange sales of the to-be-listed company's stocks to professional investors; ② After the listing, advisors assist the listed SMEs in submitting business reports and holding IR events.

Advisors will be designated by KONEX, and their eligibility will be reviewed on a regular basis by KONEX as well as the financial regulator.

4. Ease regulations on public disclosure for SMEs

Disclosure requirements will be eased for KONEX-listed SMEs in order to reduce the costs of maintaining the listing.

- **(Securities issuance disclosure)** KONEX-listed SMEs will be exempted from submission of securities registration.
- **(Securities trading disclosure)** KONEX-listed SMEs will be allowed to submit annual report in a simpler form. Submission of semiannual and quarterly reports will be exempted.

5. Utilize various auction schemes

KONEX will adopt various auction schemes in order to enhance price-discovery function of the market. In the early stage, a single price auction scheme will be adopted in order to attract more quotes. Depending on trading conditions in the market, KONEX will gradually move to continuous auction scheme.



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