



Financial Services Commission  
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## Press Release

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### TRENDS IN ELS/DLS MARKETS AND RELATED MEASURES FOR IMPROVEMENT

#### **BACKGROUND**

Since the global financial crisis, the issuances of equity-linked securities (ELS) and derivatives-linked securities (DLS) have surged with the trend of low-interest rate and growing demand for customized investment.<sup>1</sup>

With the growing popularity of ELS and DLS, there is need to strengthen investors protection accordingly. In particular, ELS and DLS are legally treated same as corporate bonds; therefore, investors remain vulnerable to the issuer's credit risk.

Against this backdrop, the FSC came up with measures to strengthen investor protection and the soundness of ELS/DLS markets as follows:

#### **KEY MEASURES**

##### 1. Monitoring system for the issuance and operations of ELS/DLS

The monitoring system will be established for more effective management and oversight of the issuance and operation of ELS/DLS. Hedged assets will be managed separately from client-owned assets. Securities houses will be required to establish separate electronic systems by issuers to manage hedged assets.<sup>2</sup> The FSC will review ways to legally differentiate hedged assets from client-owned assets and provide effective protection for investors' assets. The status of ELS/DLS issuances and operation should be reported to the FSS on a monthly basis.

##### 2. Strengthened management of issuers' credit risk

The FSC will discourage securities houses from excessively issuing short-term ELS/DLS with three-month or less maturities in order to prevent overheated competition in the markets.<sup>3</sup> Based on the monitoring of market situation, the FSC will consider whether to directly limit the issuance of ELS/DLS to a certain ratio of issuers' equity capital.

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<sup>1</sup> The remaining balance of ELS/DLS: [ELS] KRW 18.4 trillion (2009) → KRW 37.5 trillion (June 2012), [DLS] KRW 1.2 trillion (2009) → KRW 11 trillion (June 2012)

<sup>2</sup> 'Best Practice Guideline on ELS/DLS Issuances and Internal Control' will be established by September.

<sup>3</sup> ELS/DLS with 3-month or less maturities account for 20% of the total issuances in 2012.



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