



Financial Services Commission
www.fsc.go.kr

Press Release

September 6, 2012

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.¹

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.² 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 FSC 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.³ 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.

¹ 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)

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

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



Financial Services Commission
www.fsc.go.kr

Emkay Kim
Foreign Press Spokesperson
Foreign Press Relations
Financial Services Commission

tel: +82-2-2156-9582
fax: +82-2-2156-9589