



## Press Release

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November 26, 2014

### PLAN TO REVITALIZE KOREA'S STOCK MARKET

#### OVERVIEW

The FSC announced a set of measures to revitalize the Korean stock market, which has been in a slump in recent years. The benchmark index KOSPI has been hovering around the 2,000-point level since it hit 2,000 points for the first time in 2007. There is not enough supply of newly listed stocks to boost trading. The market infrastructure and trading system are not attractive to investors, compared to the advanced markets.

The measures are aimed to address such structural problems of the stock market. First, the FSC will boost stock market trading by allowing the listing of more blue-chip stocks and new derivatives products and by encouraging more active role of institutional investors. Second, the FSC will enhance efficiency of the market infrastructure and trading system. Third, the FSC will strengthen investor protection and trust by improving disclosure rules.

#### MEASURES TO REVITALIZE THE STOCK MARKET

##### 1. EXPAND INVESTMENT PRODUCT

###### **Revise listing regulation**

###### **(Revision to the Capital Markets Act in the first half of 2015)**

In order to encourage the listing of more blue-chip stocks, the FSC will revise listing regulations to incentivize companies to go public such as allowing the issuance of bond with separable warrants and simplifying procedures for dividend payout.

###### **Introduce new derivatives products**

###### **(Revision to the KRX regulation in 2015~2016)**

The FSC will allow the listing of new derivatives products such as Mini futures and RMB futures in one to two years. The listing of V-index options or ETF futures will be also considered depending on commodity market situation.

##### 2. ENLARGE PARTICIPATION OF INSTITUTIONAL INVESTORS

###### **Create a common investment pool for small pension funds (in the first half of 2015)**

A common investment pool will be set up for smaller private pension funds. Korea Securities Finance Corp and asset management companies will jointly attract and manage investments from universities' funds and private pension funds of corporations.

### **Enlarge stock investments by Korea Post and banks**

#### **(Revision to relevant regulations in the first half of 2015)**

Korea Post will be allowed to invest up to 20% of its deposited funds in stocks, up from the current cap of 10%. The limit on stock investment for banks will be also raised from the current 60% to 100% of their capital.

### **Revise the 10% rule for public funds**

#### **(Revision to the Capital Markets Act in the second half of 2015)**

To stimulate stock investment by public funds, the FSC will revise the so-called 10% rule that bans a public fund from investing more than 10% of its assets in securities of the same issuer. Public funds will be allowed to invest up to 25% of its half of assets in securities of the same issuer. For the remaining half of assets, investment in securities of the same issuer will be limited to 5%.

### **Establish a 'stewardship code' (in the first half of 2015)**

The FSC will establish a 'stewardship code' to provide guidelines for institutional investors in exercising their rights as shareholders and participating in decision making of corporate management.

## **3. IMPROVE THE MARKET INFRASTRUCTURE AND TRADING SYSTEM**

### **Create a new stock index 'KTOP 30' (in the first half of 2015)**

A new stock index, tentatively named 'KTOP30' will be created, composed of the 30 best performing stocks on the KOSPI and KOSDAQ, to better represent Korea's economic and industrial structure.

### **Introduce electronic securities**

#### **(Enactment of Electronic Securities Act in the second half of 2015)**

The FSC will introduce the issuance and trading of electronic securities in a bid to reduce cost and enhance transparency in securities trading. A draft bill on Electronic Securities Act will be submitted to the National Assembly in the first half of 2015.

### **Expand daily stock price movement limit**

#### **(Revision to the KRX regulation in the first half of 2015)**

The daily limit on stock price movement will be raised to  $\pm 30\%$  compared to the previous day's closing prices, up from the current  $\pm 15\%$ , in the KOSDAQ and KOSPI markets the within the first half of 2015.

### **Strengthen stabilizing measures**

#### **(Revision to the KRX regulation in the first half of 2015)**

The KRX introduced a stabilizing mechanism, Volatility Interruption(VI)<sup>1</sup> in last September against sudden and temporary fluctuations in stock prices. Additional measures will be taken

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<sup>1</sup> VI is triggered when the expected trading price of individual stocks exceeds 2~3% of the last trading price. In the event of VI trigger, the stocks will be traded in single price auction for two minutes.

as the daily limit on stock price movement will be raised in the first half of 2015. When individual stocks rise or fall by more than 10% from the previous day's closing prices, trading will be converted into single price auction for ten minutes.

**Improve quotation system for share buy-back**

**(Revision to the KRX regulation in the first half of 2015)**

The range of buy-back quotes will be changed reflecting real-time transaction prices.

		Current	Revised
Buying	Ceiling	Max(daily highest price, best bid price)	Max(best bid price, last bid price)+5Tick
	Bottom	Max(best bid price, last bid price)-10Tick	Max(best bid price, last bid price)-5Tick
Selling	Ceiling	Lowest bid price+10Tick	Min(best bid price, last bid price)+5Tick
	Bottom	Min(best bid price, last bid price)	Min(best bid price, last bid price)-5Tick

**Improve procedure for exercising shareholder's rights**

**(Revision to the Enforcement Decree of the Capital Markets Act in the first half of 2015)**

Participation in general shareholders' meeting will be increased by facilitating proxy solicitation<sup>2</sup> and electronic voting system. The KSD will develop and start operating necessary systems for proxy solicitation and electronic voting system before the end of 2014.

**4. ENHANCE INVESTORS' TRUST**

**Strengthen disclosure rules**

**(Revision to the Capital Markets Act in the second half of 2015)**

The FSC will strengthen disclosure requirement for asset and fund managers so that investors could get transparent and objective information about their performance.

**Introduce disclosure rules for short-selling positions**

**(Revision to the Capital Markets Act in the first half of 2015)**

The FSC will introduce disclosure rules for short-selling positions. Currently, individual investors are reporting their short positions to the supervisory authorities<sup>3</sup> but not disclosed to the public. Since there is a possibility for the price volatility to increase upon the expansion of stock price limit, it is necessary to prevent speculative short-selling and enhance market transparency with disclosure of investors' short positions. The revision bill on the Capital Markets Act is now pending in the National Assembly to introduce disclosure rules for short positions. Details will be set out upon parliamentary approval for the revision.

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<sup>2</sup> Proxy solicitation is expected to increase as shadow voting will be banned from January 1, 2015

<sup>3</sup> When short-selling position is more than 0.01% of the total number of issued stocks