

PLAN FOR NURTURING MEGA-INVESTMENT BANKS IN KOREA

The FSC announced its plan to nurture mega-investment banks (IBs) in Korea with equity capital of more than KRW10 trillion by allowing a broader range of new businesses for securities firms with a larger amount of equity capital.

BACKGROUND

The FSC introduced a scheme for 'Comprehensive Financial Investment Business' in 2013, in which a securities firm with equity capital of more than KRW3 trillion is permitted to engage in corporate lending. Since then, the securities industry has been still focused mainly on brokerage services and fell short of their IB activities to channel risk capital to innovative companies. Against this backdrop, the FSC outlined a plan to strengthen securities firms' IB functions to enable them to provide more comprehensive financial services for businesses and boost their global competitiveness.

KEY POINTS

- ✓ New financing channels will be allowed for securities firms to raise sufficient capital for corporate financing — e.g. issuance of promissory notes, introduction of an 'Investment Management Account' (IMA) to utilize a pool of customers' deposit for investments.
- ✓ Regulatory amendments will be made to facilitate risk-underwriting activities by securities firms — e.g. separate NCR standards (NCR-II) to be applied to long-term corporate lending; securities firms to be allowed to lend companies up to 100% of their equity capital.
- ✓ Securities firms will be permitted an expanded business scope for corporate financing — e.g. internalization of order executions for unlisted company stock, foreign exchange operations, property-backed trust business, etc.
- ✓ Cooperation between securities firms and policy banks will be strengthened to support their global activities in overseas investments and M&As.

DIFFERENTIATED BUSINESS SCOPE DEPENDING ON EQUITY CAPITAL SIZE

The FSC differentiated the scope of new business allowed for securities firms according to their equity capital size, in an attempt to incentivize them to further boost their capital to become a mega-IB with more than KRW10 trillion in the medium-to-long term.

1. Securities firms with equity capital of more than KRW 4 trillion

Those with equity capital exceeding KRW 4 trillion will be permitted to issue promissory notes and engage in foreign currency exchange business.

2. Securities firms with equity capital of KRW 10 trillion

The FSC will permit securities firms with equity capital close to KRW 10 trillion to establish Investment management Accounts (IMA) and engage in property trust business as a means to raise sufficient capital for corporate financing.

3. Securities firms with equity capital of less than KRW 4 trillion

Securities firms with equity capital of less than KRW 4 trillion will as well be subject to the key reforms* to enable them to secure enough capital to engage in corporate financing.

*a) application of separate NCR-II, b) increased corporate lending limit up to 100% of equity capital, c) permitting internalization of order executions for unlisted company stock, d) cooperation with policy banks, sovereign funds, Growth Ladder Fund

SCHEDULE

The FSC will gather feedback for the plan from the industry and experts in August. Based on the feedback, the plan will go into effect starting from 2017 after revising relevant laws.

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