

## FOLLOW-UP MEASURES FOR CAPITAL MARKET REFORM

FSC Chairman Choi JongKu announced follow-up measures for capital market reform on his visit to a venture company in the Geomdan Industrial Complex, Incheon. As part of the capital market reform proposal<sup>1</sup> announced last November, the follow-up measures include new schemes of introducing a specialized brokerage company to facilitate investment into unlisted securities of SMEs and venture companies; and expanding a pool of professional investors.

### **I. SME-SPECIALIZED BROKERAGE COMPANY TO BE INTRODUCED**

The FSC will introduce a new category of brokerage companies specialized in capital raising business for SMEs & venture companies.

#### **Scope of business**

The new type of brokerage firms will mainly engage in brokering transactions of private and unlisted securities. They will be also permitted to engage in a broader range of corporate financing for SMEs & venture companies – e.g. advisory services for securities issuance and evaluation of corporate value in regard with M&As. However, given that the business involves high investment risks, they will only be allowed to professional investors.

#### **Entry requirement**

To facilitate the establishment of new specialized brokerage companies, the FSC will lower barriers to entry: newcomers will be allowed to enter the business with registration only, with the minimum capital of KRW500 million and professional workforce of two or more.

#### **Applicable regulation & investor protection**

The FSC will reduce regulatory requirements, given their limited scope of business and limited impact in financial markets: they will be exempted from prudential regulations – e.g. NCR or leverage ratios; and will be allowed to submit their reports on management and financial performance on a quarterly, not monthly, basis. To protect investors, however, they will be required to have appropriate internal controls which prevent conflict of interest.

#### **Schedule**

A proposal to amend the Financial Investment Services and Capital Market Act (FSCMA) will be submitted to the National Assembly in the first quarter of 2019 to make it possible the creation of first SME-specialized brokerage company this year.

---

<sup>1</sup> Press Release 「FSC Proposes Capital Market Reform」 (November 1, 2018)

## **II. Pool of professional investors to be expanded**

It is important to nurture a pool of professional investors capable of actively investing in unlisted SMEs, in order to make SME-specialized brokerage companies to be successful. To broaden and diversify a pool of professional investors, the FSC will ease registration requirements and streamline the procedures.

### **Registration requirements**

- The requirement for investment experience will be eased to a financial investment balance of KRW50 million, far lower than the current KRW 500 million.
- The requirement for loss absorbing ability will be widened to include a new provision of minimum annual household income of KRW150 million, in addition to the current requirement of minimum annual income of KRW100million or minimum property value of KRW500 million.
- A new track will be added to the current requirements: individuals who have financial investment experience and securities-related knowledge – e.g. certified accountants, tax accountants, lawyers, patent lawyers, and certified appraisers – will also be qualified to register as ‘professional investors’.

### **Registration procedures**

- Individual investors will no longer have to go through the registration procedure with the Korea Financial Investment Association. An individual will be able to be registered as a professional investor with a respective brokerage firm.
- Brokerage companies which registered unqualified customers as professional investors will be subject to disciplinary actions – e.g. fines or compensatory damages.

### **Schedule**

The FSC will propose amendment to the Enforcement Decree of the FSCMA in January 2019, aimed at being implemented in the second half of this year.

# # #

For any inquiry, please contact Foreign Press & Relations Team at [fsc\\_media@korea.kr](mailto:fsc_media@korea.kr)