

FSC TO EASE LISTING RULES FOR TECH START-UPS & SCALE-UPS

The FSC approved amendment proposals by the KRX to ease listing regulations on Kospi and Kosdaq to facilitate IPOs of innovative tech start-ups and scale-ups.

I. Listing review standards to be tailored to sector-specific factors (KOSDAQ)

Despite a series of deregulatory measures to facilitate IPOs of innovative start-ups, standards for listing review are still mainly focused on current business and market status, making it difficult for tech start-ups with growth potential to list on KOSDAQ.

Against this backdrop, differential standards for listing review will apply across sectors to better reflect sector-specific conditions, particularly high-tech and bio-tech sectors in the fourth industrial revolution. The focus of listing review will be on innovativeness and potential value of technology.

(i) Industry 4.0 sectors

- ▶ subject: 152 strategic items in 20 sectors
designated by the Ministry of SMEs & Startups
- ▶ qualitative review standards to be focused on innovativeness

As-is	To-be
<ul style="list-style-type: none"> ▪ (business status) sustainability of continued business with current customers, possibility of securing new customers, etc. 	<ul style="list-style-type: none"> ▪ (innovativeness) relevance of core technology and business with industry 4.0 and their creativeness, etc.
<ul style="list-style-type: none"> ▪ (technology evaluation) status of technology development, independence, level of difficulty, etc. 	<ul style="list-style-type: none"> ▪ (technology evaluation) possibility of realization and commercialization of core technology, R&D capability, etc.
<ul style="list-style-type: none"> ▪ (growth potential) possibility of generating revenue or profits in the near future after being listed 	<ul style="list-style-type: none"> ▪ (growth potential) growth potential and scalability of relevant industry 4.0 sectors

(ii) biotech sector

- ▶ subject: bio-tech companies to be listed via special tracks
based on their technology innovativeness and growth potential
- ▶ technology evaluation criteria to be further detailed

As-is	To-be
<ul style="list-style-type: none"> ▪ possession of intellectual property rights ▪ completeness & differentiation of technology ▪ levels of R&D, investment in R&D activities ▪ expertise of technology manpower 	<ul style="list-style-type: none"> ▪ possession of core technology, records of technology transfer ▪ possession of multiple pipelines ▪ clinical trials ▪ records or plan of joint R&D with partners ▪ past records of R&D performance by essential R&D personnel

II. Rules to designate administrative issues to be eased for biotech companies (KOSDAQ)

Currently, bio-tech companies listed on KOSDAQ via a special track for tech companies are designated as administrative issues if such company's total revenue is below KRW 3 billion in 5 years after listing. To meet such revenue requirement, biotech companies are often forced to reduce R&D activities, consequently undercutting their growth potential.

Against this backdrop, the revenue requirement will be eased for biotech companies suffering from temporary drop in revenue. Even if a biotech company's revenue in the latest business year falls short of KRW3 billion, it will not be designated as an administrative issue if its total revenue in the recent three years is KRW9 billion or more.

Biotech companies which qualify for certain criteria will be exempted from the revenue requirement: (i) those designated by the Ministry of Health and Welfare as 'innovative pharmaceutical companies' with excellent R&D records; or (ii) those with daily market capitalization of more than KRW 40 million.

III. Special listing to be extended from tech start-ups to scale-ups (KOSDAQ)

The scope of special listing scheme for tech companies, currently limited to domestic SMEs, will be widened to include scale-ups¹ and foreign companies.

Given that foreign companies are out of Korea's supervisory reach, separate measures to protect investors will be required:

- (i) External Audit Act will be applicable to ensure accounting transparency
- (ii) foreign companies incorporated in "qualified" markets – e.g. NYSE, Nasdaq, Euronext, Tokyo, London, Germany, Hong Kong, Singapore, Australia, Canada
- (iii) technology evaluation with AA or higher grades received from more than two evaluation agencies
- (iv) IPO sponsors will be restricted to those with record of sponsoring IPOs of foreign companies or insolvent companies. They will be required to acquire KRW 5 billion of shares, up from KRW 2.5 billion, in companies they sponsor.

IV. Profit requirements for KOSPI listing to be unified (KOSPI)

The minimum profit requirement for KOSPI listing is KRW3 billion, currently calculated with the smallest one among a company's operating profit, pre-tax profit and current net income. These will be unified into a single criterion of 'pre-tax profit,' making it more consistent with KOSDAQ and overseas markets including NYSE, NASDAQ, Tokyo and Singapore

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¹ non-SMEs whose average revenue growth is 20% or more for two business years