

FSC FINALIZES MEASURES TO STRENGTHEN INVESTOR PROTECTION WITH HIGH-RISK INVESTMENT PRODUCTS

The FSC announced a finalized plan to strengthen investor protection with high-risk investment products on December 12. Taking into account opinions from the financial industry, the finalized plan includes detailed measures and amendments to the original plan announced on November 14.¹

SUPPLEMENTARY & AMENDED MEASURES

I. STANDARDS FOR 'HIGHLY COMPLEX' INVESTMENT PRODUCTS

'Highly complex' investment products will be determined by the following criteria: (i) the complexity of structure in investment products, (ii) the amount of possible loss and (iii) whether investment products are listed or not.

| | Complex (derivative-linked products) | Simple (regular investment products - e.g. stocks, bonds, funds) |
|--|---|---|
| Possible loss higher than 20% of principal | <'Highly complex' investment products> - Derivatives products & derivative-linked securities - Derivative-linked funds (trust, discretionary investment) | - Investment products, such as stocks, bonds and real estate - Equity-, bond- or hybrid funds or index funds |
| Possible loss less than 20% of principal | Derivative-linked securities with complex structures but which provides 80% or more of principal guarantee | |

In the case that financial companies are unable to determine whether an investment product qualifies as 'highly complex,' they may request a decision by the Korea Financial Investment Association and the FSC.

II. VALIDITY FOR CLASSIFICATION OF INVESTORS BY RISK APPETITE

The classification of investors by their risk appetite will be valid for 1-2 years, shorter than the previously announced 1-3 years, to ensure a more up-to-date classification.

¹ Press Release 「Measures to Strengthen Investor Protection with High-risk Investment Products」 (November 14, 2019)

III. SCOPE OF UNFAIR SALES PRACTICE

Underestimating the riskiness of 'highly complex' investment products and selling them as mid-risk products will be classified as 'unfair sales practice,' which will face strict punishment.

IV. CLARIFICATION OF BUSINESS SCOPE BETWEEN FUND MANAGERS AND SELLERS

The scope of business between fund managers and sellers will be specified to determine whether a fund belongs to an OEM fund or not.

A fund does not belong to an OEM fund if:

- (i) fund managers and sellers discuss investor demand and market trend *without specifying investment targets or management methods;*
- (ii) they exchange *general information irrelevant to the establishment and management of funds;* and
- (iii) they keep *records of their discussion with relevant internal control*

V. LIMITED PERMISSION FOR BANKS TO SELL 'HIGHLY COMPLEX' INVESTMENT PRODUCTS

The previously announced plan placed a sales ban on banks for private offering or trust funds of 'highly complex' investment products. After a request from the banking sector, the government has decided to grant limited permission for banks to sell 'highly complex' investment products while applying an enhanced level of supervision and inspection as well as of sales regulations.

The sales of 'highly complex' investment products by banks are limited to:

- (i) equity-linked trusts (ELT) with possibility of loss less than 100 percent of principal, issued in public offering, and with the underlying asset of 5 major stock indexes: KOSPI200, S&P500, Eurostoxx50, HSCEI and NIKKEI225
- (ii) less than the balance amount of ELT at the end of November 2019.

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