

PLANS TO PROMOTE CROWDFUNDING

FSC Chairman Eun Sung-soo held a meeting with relevant officials from the public and private sectors on June 16 and unveiled the government's plans to promote crowdfunding.

CHAIRMAN'S REMARKS

Over the past four years, many firms, agencies and investors have joined efforts to promote venture capital market through crowdfunding. As the term "crowdfunding" has its origins in "crowdsourcing," it is distinct from other investment methods using the "wisdom of crowd." As there have been many successful crowdfunding cases, the role of crowdfunding as an "untact" fundraising and investment mechanism is expected to grow in the future.

In this regard, the FSC has prepared specific plans to promote crowdfunding to support the growth of innovative start-ups and SMEs through venture capitals and strengthen foundations to foster an ecosystem for innovative solutions in financial services.

The changes in our work environment and lifestyles brought about by the COVID-19 pandemic, such as telecommuting and online shopping, may present opportunities for innovative firms. In order to sustain further development of crowdfunding, trust building is important. Therefore, fostering a trustworthy crowdfunding market requires a high degree of responsibility from crowdfunding intermediaries and other relevant institutions.

KEY MEASURES

As the crowdfunding system is transitioning from an adoption period to a take-off stage, the government will work to (a) bolster its role of supporting innovative firms by improving the rules for businesses, investors and intermediaries and (b) create an accountable investment market through an expansion of support from policy banks and investor protection measures.

I. EXPANDING THE SCOPE OF ISSUERS AND LIMIT ON CAPITAL RAISE

- (a) The scope of issuers will be expanded from non-listed start-ups and venture companies to non-listed small- and medium-sized enterprises.
- (b) The annual cap on issuing securities will be raised from KRW1.5 billion to

KRW3 billion.

- (c) To encourage more crowdfunding-based project investments, the scope of investment projects will be expanded and investment funds will be created.
- (d) For simple advertisements, current restrictions will be lifted to promote more self-regulated advertising practices.

II. CREATING ENVIRONMENT TO PROMOTE INVESTMENT

- (a) In order to promote investment by the “wisdom of crowd,” a guideline will be provided to make demand predictions possible online before the fund raising process begins, and offline IR events will be allowed so that investors can more readily evaluate ideas, entrepreneurship, etc.
- (b) The limits on annual investment amounts allowed by investors will be doubled (about KRW20 million for retail investors and KRW40 million for qualified institutional buyers).
- (c) Close communication between businesses and investors will be promoted for trust building purposes.

III. EXPANDING THE ROLE OF INTERMEDIARIES

- (a) Intermediaries will be allowed to acquire securities issued by the companies they broker for follow-up management of the companies and to provide follow-up management advises. Securities companies will be highly encouraged to participate in crowdfunding investment through SME-specialized securities firms and business development companies (BDCs).
- (b) Intermediaries will be allowed to function in the areas where their professional expertise can be put to use, including the role of start-up accelerators or in the areas of company disclosure or shareholder relations.

IV. INCREASING SUPPORT FROM PROMOTE CROWDFUNDING

- (a) A new “K-Crowdfund” will be established in the amount of KRW20 billion by Korea Growth Investment Corporation and Korea Securities Depository for seed capital and follow-up investment with the possibility of creating additional funds.
- (b) KRW150 billion in guaranteed loans for successful firms will be provided over the next five years.
- (c) Secondary market activities will be promoted through KRX Start-up Market (KSM) and KOSCOM's unlisted stock exchange platform.
- (d) Policy banks will promote crowdfunding through their IR programs.
- (e) Crowdfunding promotional hall will be set up at Mapo Front 1, the government-backed start-up incubating facility, and make more education and information sessions available.

V. STRENGTHENING INVESTOR PROTECTION

- (a) Companies with prior records of engaging in illicit activities will be prohibited from issuing securities for crowdfunding.
- (b) The financial regulators will strengthen supervision of illegal and unfair sales

practices by intermediaries.

- (c) Information about investment by securities issuing firms should be made available to investors through intermediaries and Korea Securities Depository's "Crowdnet" service.

EXPECTATION

With the improved regulatory framework, the crowdfunding market is expected to grow and provide important sources of funding for non-listed start-ups. According to a simulation from the Korea Capital Market Institute, the number of securities issuing firms for crowdfunding will increase from 195 in 2019 to more than 500 in 2025, with the total amount of issuance growing from KRW37.6 billion to more than KRW120 billion. The number of jobs created is also expected to rise from about 500 per year to more than 1,500 per year. Crowdfunding is also expected to facilitate angel investing.

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