

## FSC PROPOSES LEGISLATIVE CHANGES TO ENHANCE CORPORATE DISCLOSURE AND INVESTOR PROTECTION

The FSC proposed revisions to the Financial Investment Services and Capital Markets Act and its subordinate statute with an aim to improve the corporate disclosure rules and enhance investor protections. The revision proposal is a follow-up measure to the government's plans to stamp out unlawful and unfair trading activities and to improve corporate disclosure rules announced in October 2020 and January 2021, respectively.<sup>1</sup> The revision proposal will be put up for public notice for 40 days from September 3 to October 13, 2021.

### **KEY REVISIONS FOR IMPROVING CORPORATE DISCLOSURE RULES**

- a) Strengthen the effectiveness of monetary sanction on violation of the so-called "five percent rule" which requires investors holding five percent or more of equity securities of a listed company or those changing their holding status by one percent or more in the company to file a report with the FSC and the KRX within five days of such change taking place by raising the maximum fine from 1/100,000 of market capitalization to 1/10,000 of market capitalization<sup>2</sup>
- b) Enhance disclosure rules for issuing private convertible bonds (CBs) or bonds with warrants (BWs) by requiring companies to file material disclosure at least one week prior to the payment due date in order to make relevant information available to investors in advance
- c) Require newly listed companies to submit their quarterly and semi-annual reports covering the accounting period immediately preceding their listing to make relevant information available to investors
- d) Require companies that decide to issue perpetual bonds to file material disclosure within one day from making such decision to strengthen investor protection
- e) Improve penalty standards for violating the periodic and material disclosure requirements by adjusting the level of fines that can be imposed on both listed companies (between KRW1 billion and KRW2 billion) and non-listed companies (from maximum KRW2 billion to maximum KRW1 billion) for the purpose of imposing relatively heavier penalty burdens on listed firms
- f) Grant a one-year grace period from filing business report for companies that have become subject to external audits for the first time
- g) Reduce disclosure burdens by requiring only essential items to be filled out in quarterly reports

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<sup>1</sup> Please click [here](#) and [here](#) to see the previous press releases dated October 19, 2020 and January 14, 2021.

<sup>2</sup> Revision proposal also sets up a minimum market capitalization standard of KRW100 billion which will apply to companies with lower market caps of below KRW100 billion for the purpose of imposing fines.

- h) Exempt small-scale public offerings with less than 25 securities holders from submitting closing financial statements
- i) Reduce the maximum fine on violating disclosure requirements for small-scale public offerings from KRW60 million to KRW30 million

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