

**2011 Asia Securities Forum**



# **Member Report : Korea**

**28-30 September 2011**

**Presented by the Korea Financial Investment Association**



## **I. Current Status of the Korean Capital Market**

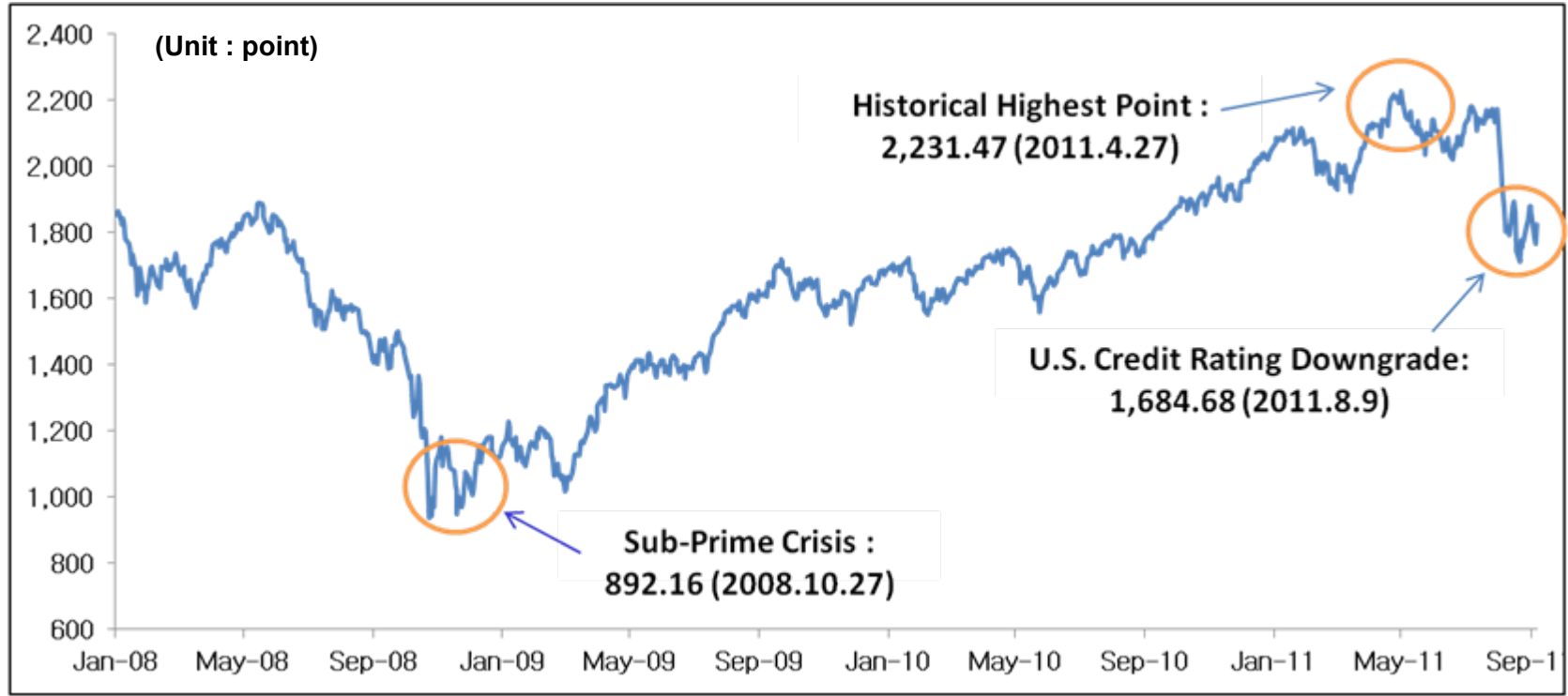
## **II. Prospects of the Korean Capital Market**

## **III. Regulatory Development**

## **IV. Activities of the Korea Financial Investment Association**

# Current Status of the Korean Capital Market

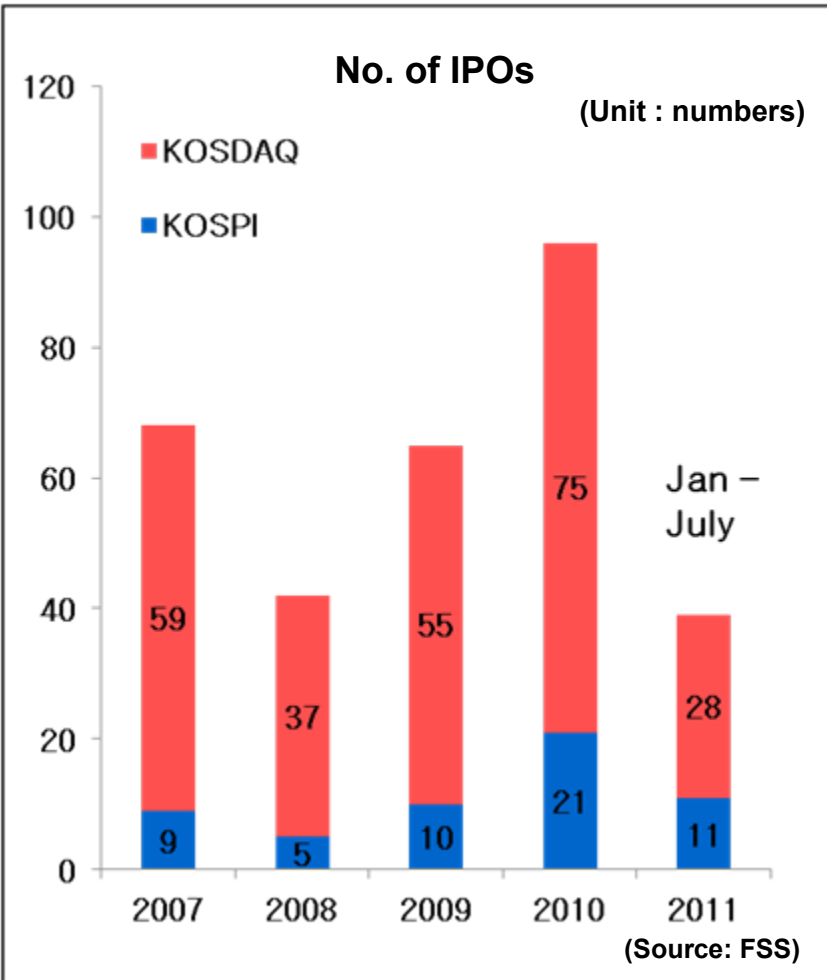
## 1. Stock Market – KOSPI Trend



- ✓ After hitting bottom in 2008, the KOSPI rose to its highest level on April 27 2011.
  - ✓ Recent downgrade of U.S. credit rating and European Debt Crisis -> KOSPI's sharp drop.
- (Market cap. of KRX Stock Market: KRW 1,313 Tril. [USD 1.225 Tril.] as of July 30 2011 )

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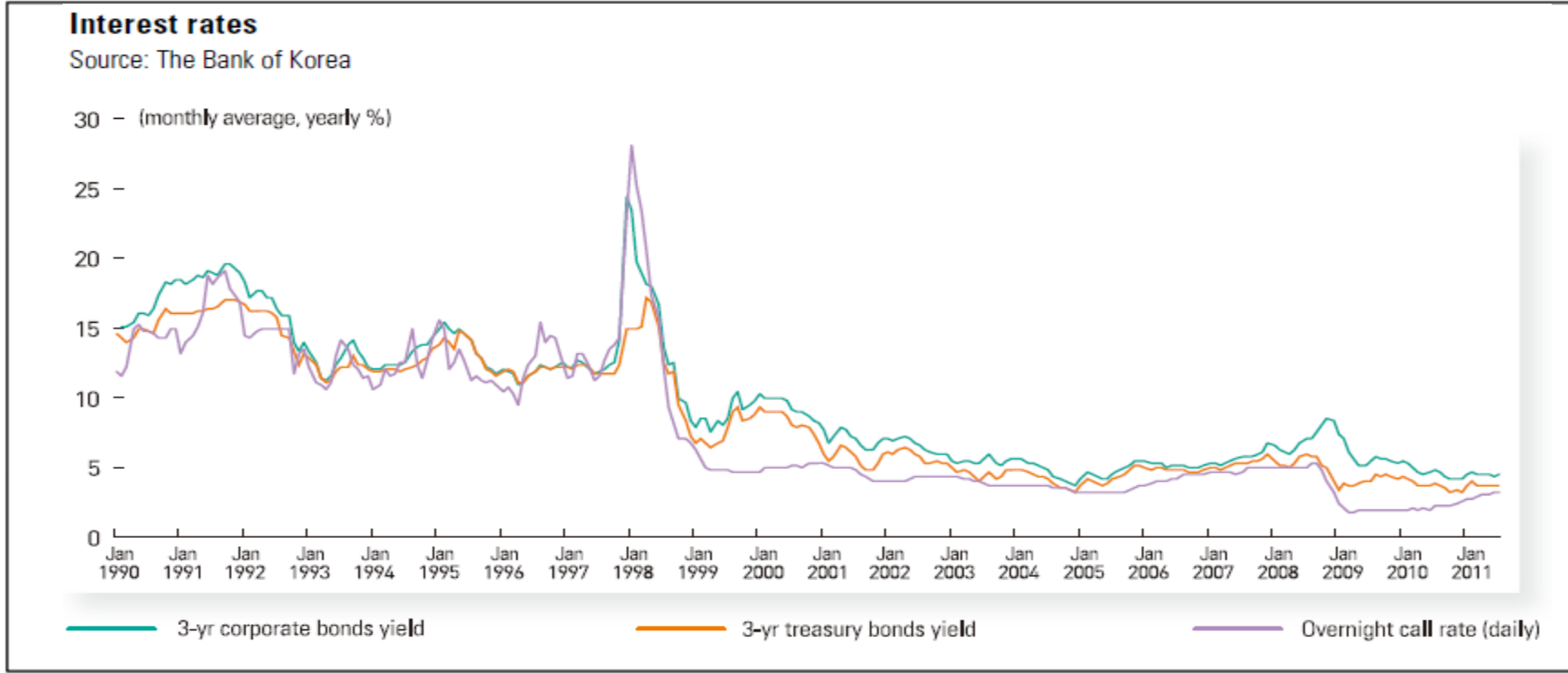
## 1. Stock Market - IPO



- ✓ Record number of public offerings through IPOs.
  - In 2010, the amount of public offerings through IPOs stood at KRW10.09TN (including 7 foreign companies and 21 SPACs)
  - Large companies such as Korea Life Insurance (KRW 1.8TN) and Samsung Life Insurance (KRW 4.9TN) were newly listed.
- ✓ As of July 2011, 11 companies went public on KOSPI, and 28 companies on KOSDAQ.

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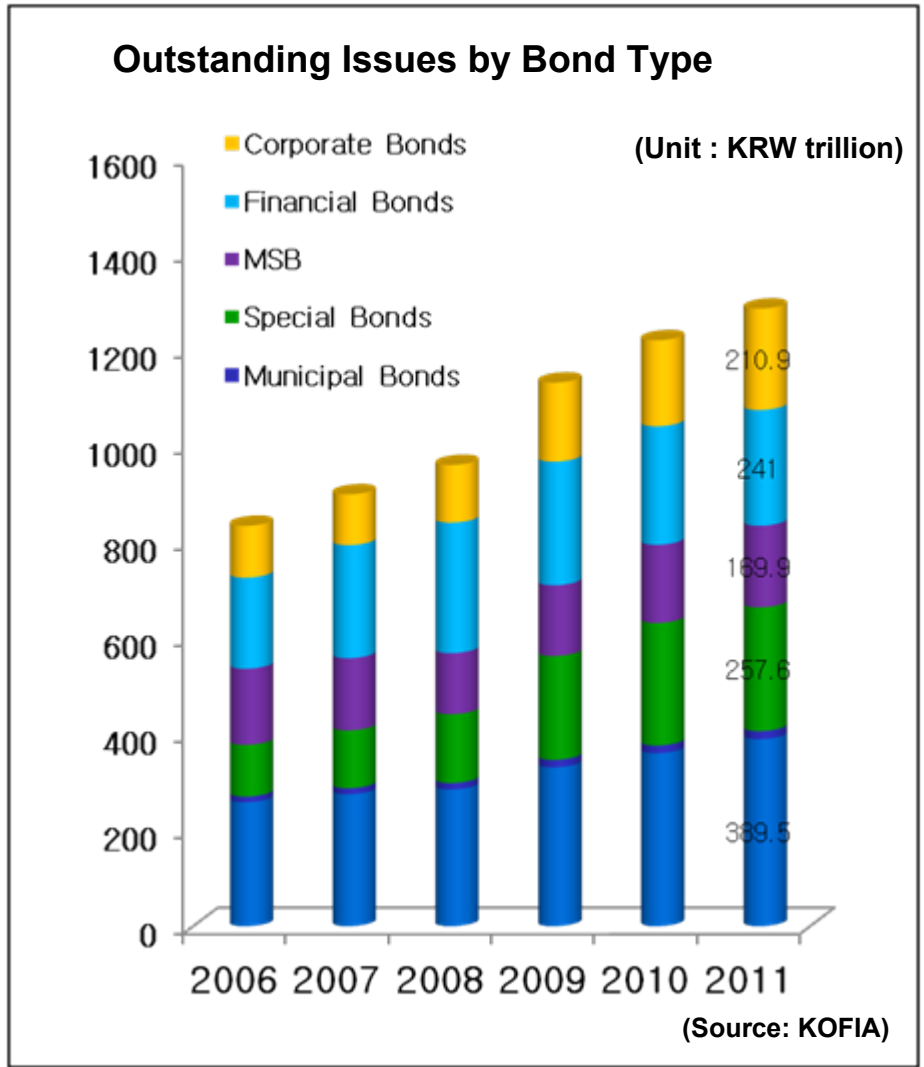
## 2. Bond Market - Yield



✓ 3 year Treasury bond yield now at 3.85% ( as of July 2011).

Despite debt concerns in the US and Europe, the Treasury bond yields rose, with investors continuing to invest in the T-bonds as expectations over interest rate hike heightened.

## 2. Bond Market - Issues

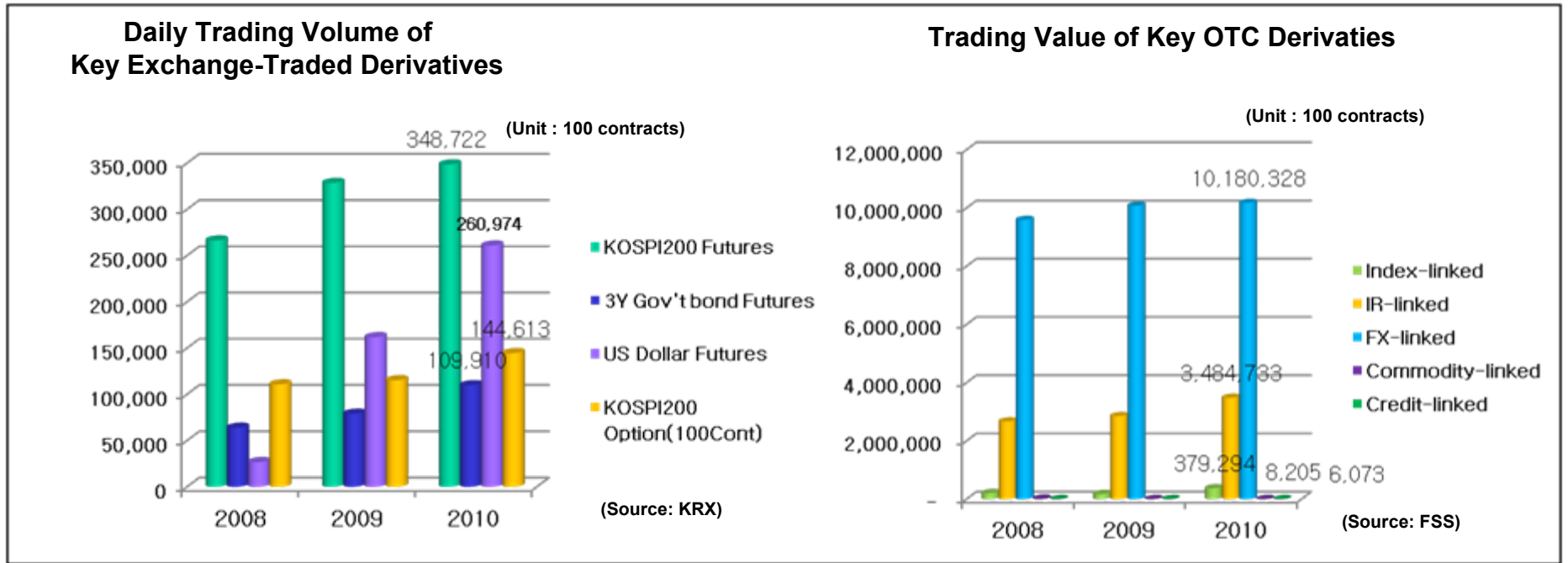


✓ Total outstanding issues of bonds reached KRW1,286TN as of August 2011, showing continuous growth.

✓ Like most advanced economies, growth in the Korean bond market is driven by the OTC market.

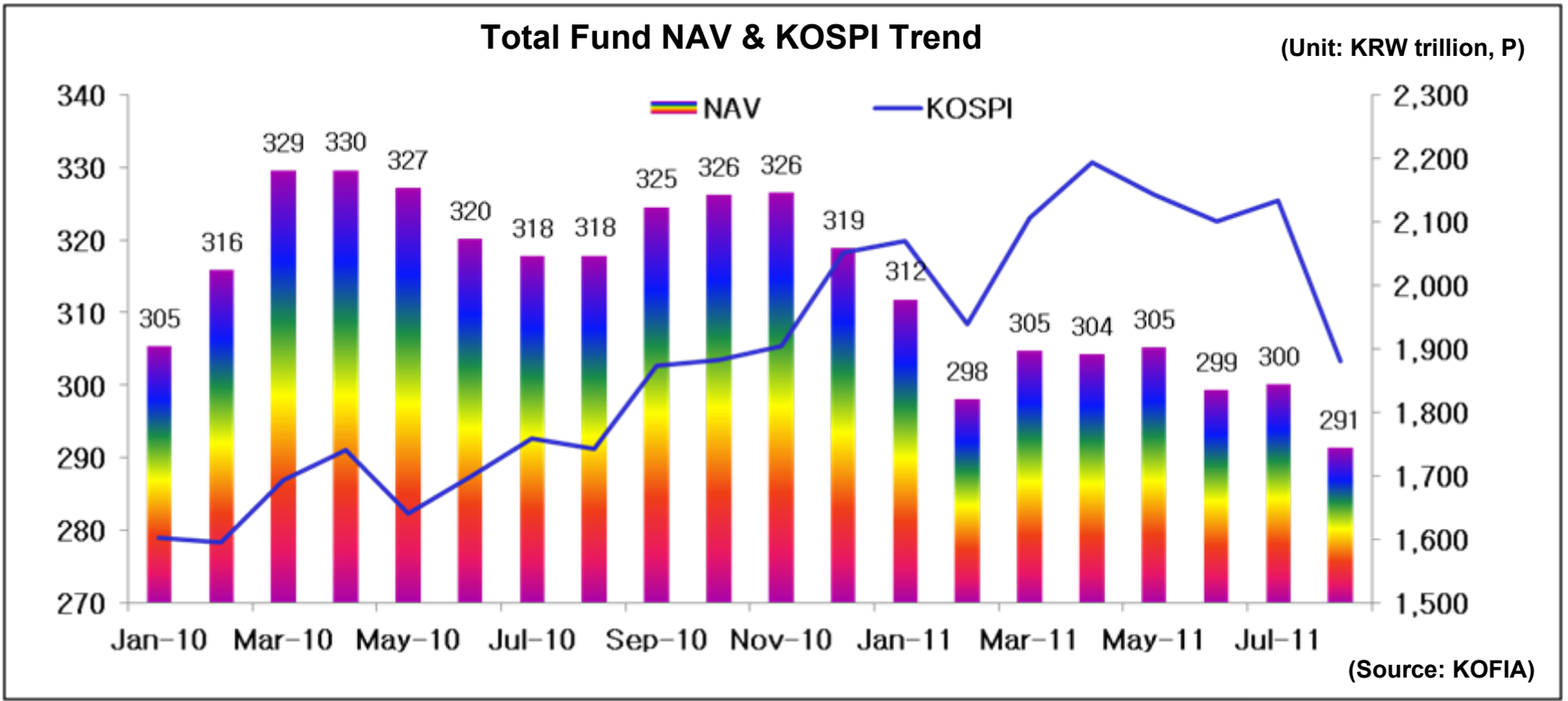
✓ As of the end of 2010, foreign bond holdings totaled KRW 74.2TN, accounting for 6.6% of the total value.

## 3. Derivatives Market



- ✓ Last year, the daily average trading volume of exchange-traded derivatives increased 21.4% YoY.
- ✓ With greater participation in the market by securities firms, the average daily trading volumes of 3-year government bond futures (approx. 110,000 contracts) and US dollar futures (approx. 260,000 contracts) increased by 40% and 23% YoY respectively.
- ✓ The size of ELS issuance surpassed KRW 22.6TN, while the daily average trading value of ELWs reached KRW 1.6TN, up 92% YoY.

## 4. Fund Market



✓ The fund market showed a record net outflow in September 2009 and January 2010 due in part to the KOSPI recovering to pre-crisis levels. However, since 2H 2010, fund redemption has decreased with the KOSPI remaining at record highs.



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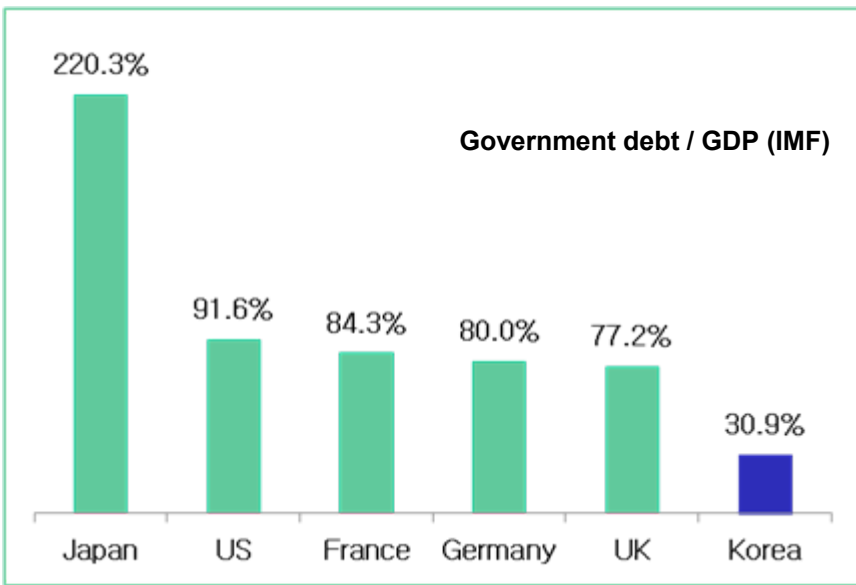
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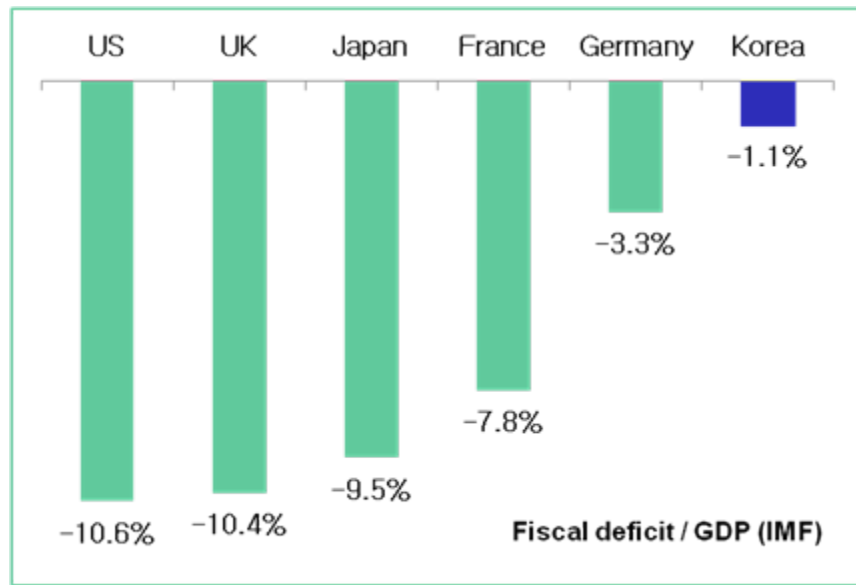
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## 1. Fiscal Soundness

Major countries' government debt to GDP in FY2010



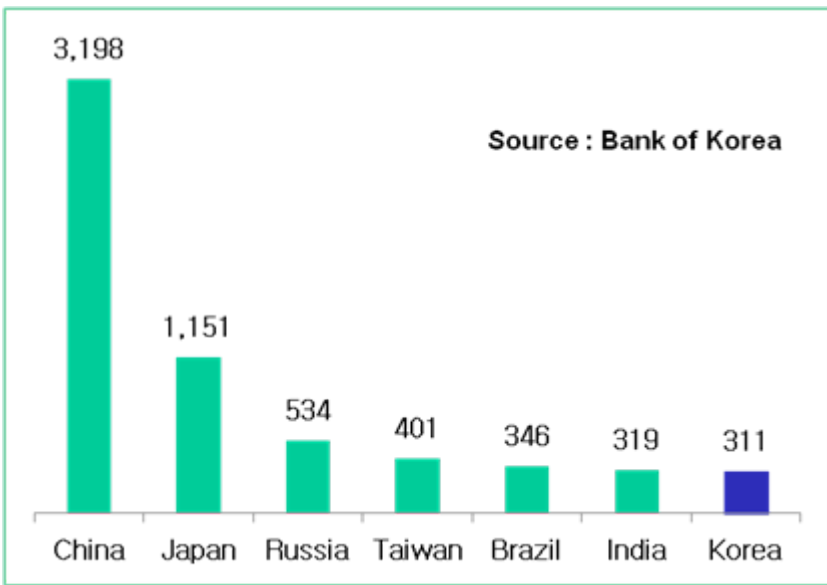
Major countries' fiscal balance in FY2010



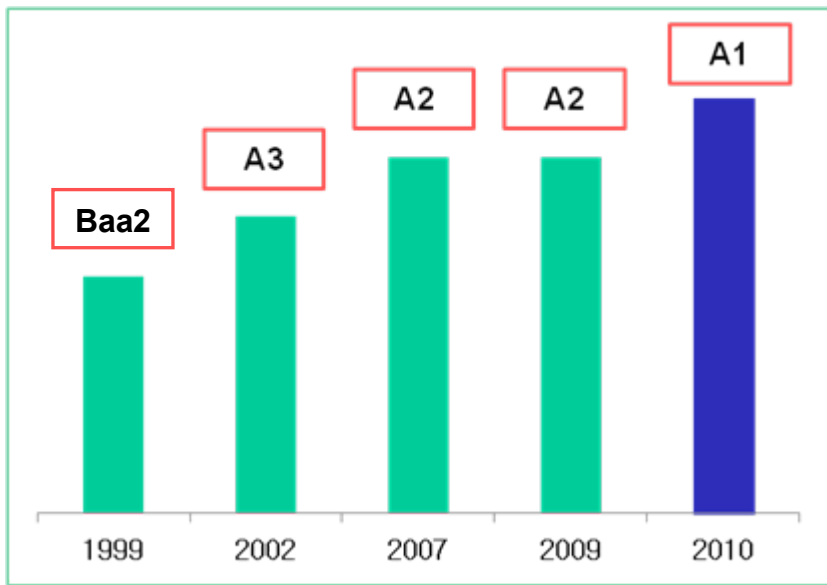
- ✓ Korea's fiscal soundness is in good shape compared to that of other advanced nations
- ✓ Government debt and fiscal deficit as percentages of GDP are 30.9% and -1.1%, respectively

## 2. Credibility

Foreign Reserves (USD bil.)



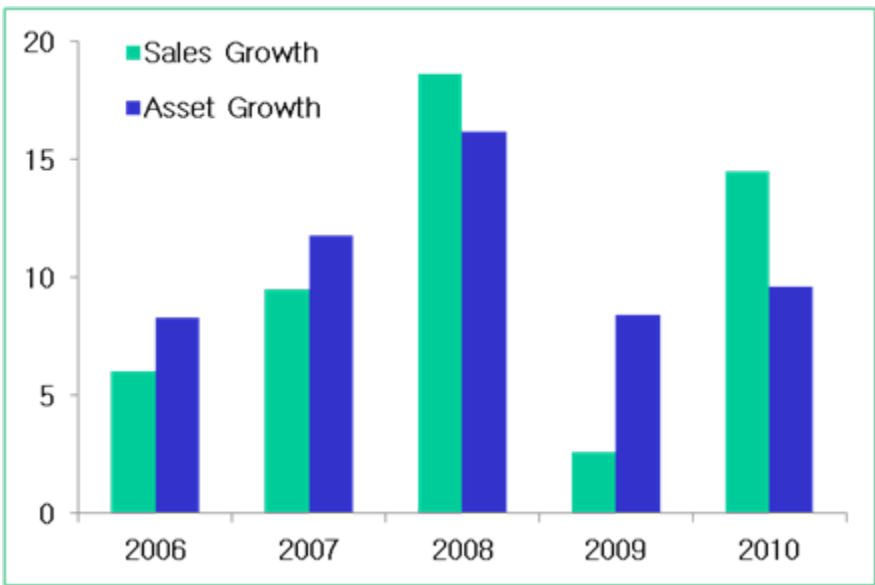
Credit Ratings of Korea (Moody's)



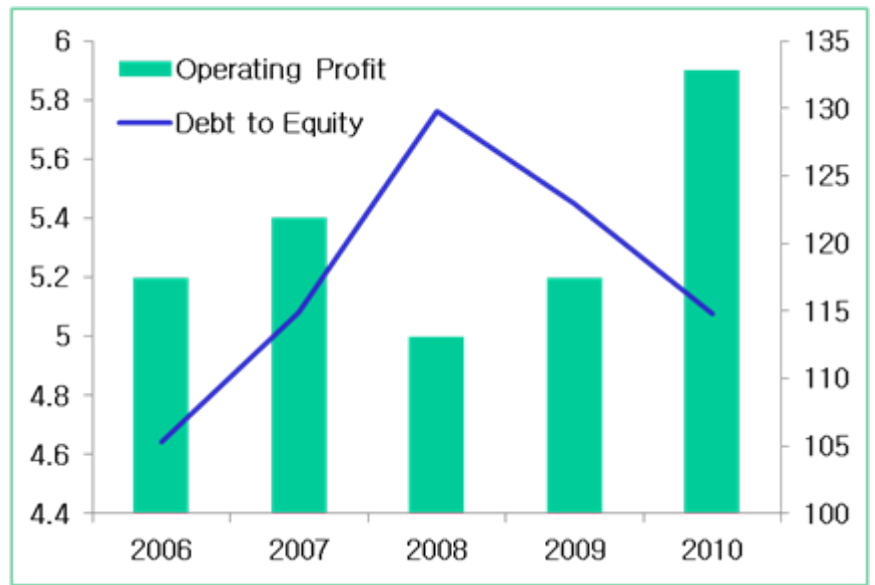
- ✓ Korea's foreign exchange reserves stood at USD 311 bil. as of July 2011 (ranked 7<sup>th</sup> globally)
- ✓ Moody's upgraded Korea's credit rating from A2 to A1 in April 2010

## 3. Corporate Profitability and Soundness

Growth Potential

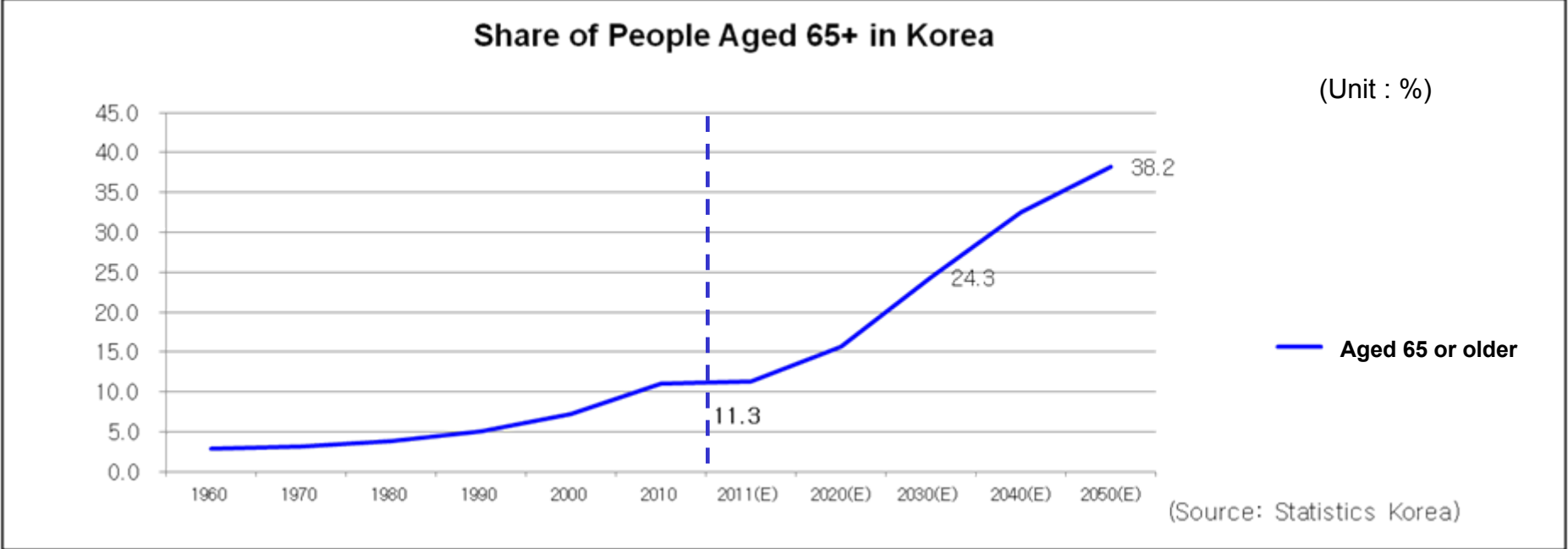


Profitability and Soundness



- ✓ Listed Korean corporations recorded a YoY 14.5% increase in sales and a 9.6% increase in assets.
- ✓ Operating profit and debt to equity ratio were respectively recorded at 5.9% and 114.8% at the end of 2010.

## 4-1. Pension Funds for the Aging Society



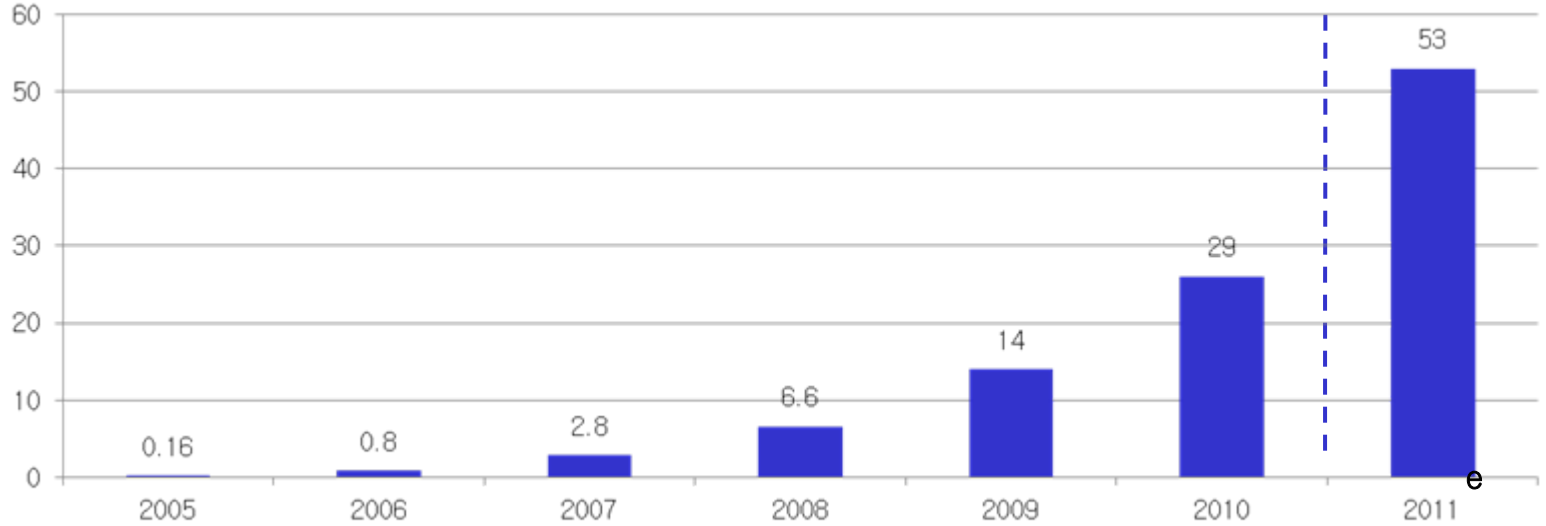
- ✓ Population aging will have a great impact on Korea's capital market paradigm in the future.
- ✓ Korea's share of the elderly population (aged 65 or older) is 11.3%.
- ✓ As a way to address issues arising in the aging society, financial companies need to create new businesses by promoting pension funds.

## 4-2. Pension Funds for the Aging Society(continued)

- ✓ As of the end of December 2010, the estimated accumulated value of Korean pension funds stood at KRW 29TN, which is more than a 2-fold increase from 2009.
- ✓ According to industry estimates, the number will surpass KRW 53TN in 2011.

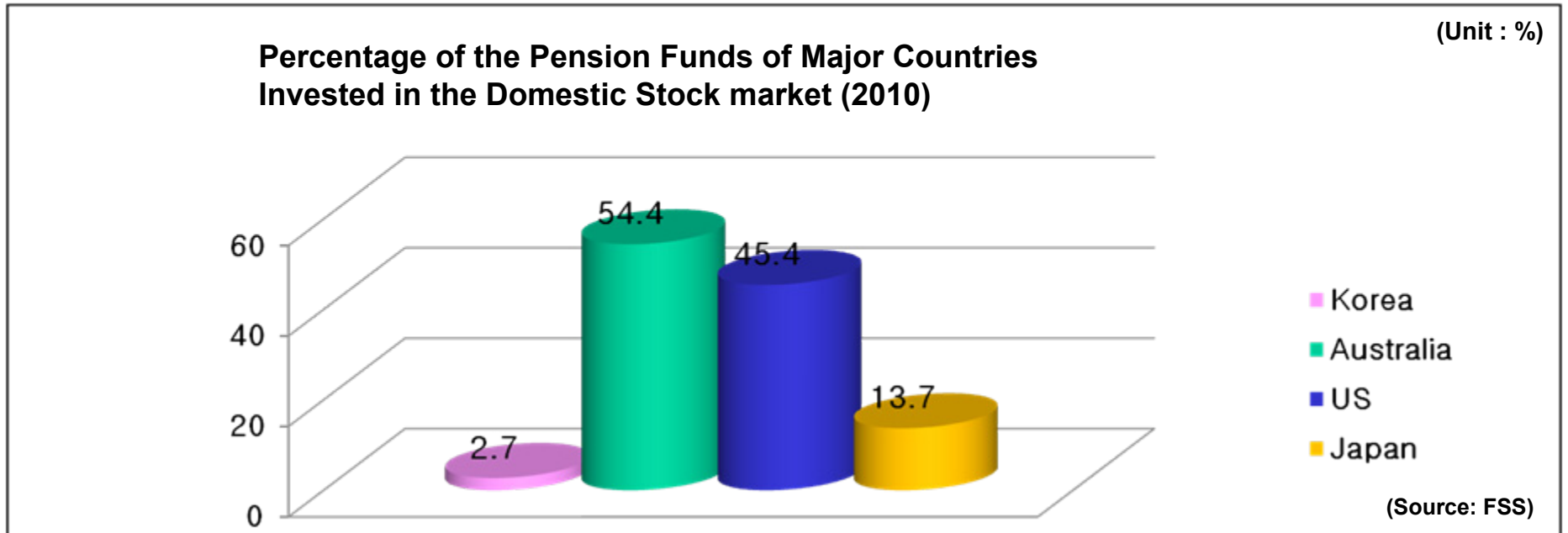
Trend of Pension Fund Reserve

(Unit : KRW trillion)



(Source: MOEL, FSS)

## 4-3. Pension Funds for the Aging Society(continued)



- ✓ In Korea, the share of pension funds invested in the domestic stock market is a mere 2.7%.
- ✓ The percentage of the National Pension Fund invested in the domestic stock market is 17% (approx. KRW 55TN).
- ✓ In the past, pension systems such as 401K (the US) and Superannuation (Australia) contributed greatly to the growth of the domestic capital markets and stock prices.

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## 1. Background

- ✓ *The Financial Investment Services and Capital Markets Act (“FSCMA”)* was established in 2007 as a comprehensive overhaul of capital markets regulations.
- ✓ Since the **FSCMA took effect in February 2009**, Korea had to deal with the impacts of the global financial crisis.
  - As a result, there were not enough innovative changes originally intended with the enactment of the FSCMA
- ✓ Global discussions on strengthening financial regulations and international coordination have been underway;
  - Time to lay the foundation for the future of Korea’s financial industry, while coping with current global and domestic financial issues.
- ✓ The **FSC has drafted a revision bill of the FSCMA in July 2011**

## 2. Key Revisions

- ✓ Development of **Korean IBs**
- ✓ Improvement of **Asset Management Regulations**
- ✓ Reform of **Capital Markets Infrastructure**
- ✓ Diversification of **Direct Financing Channels**
- ✓ Strengthened Regulations on **Unfair Trading Practices**

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## 1. Fostering the Securities Industry's Growth

### ✓ Ensuring Stable Capital Market Growth

- ❖ Vitalize Korea's Corporate Finance
- ❖ Promote Long-term Investment Culture

### ✓ Improving Capital Market Infrastructure

- ❖ Upgrade Retirement Pension Market Regulations
- ❖ Deregulate the Derivatives Market

### ✓ Introducing Global Standards

- ❖ Improve Securities Firms' Incentive System
- ❖ Reform Corporate Governance Practices
- ❖ Introduce K-IFRS and GIPS in Korea
- ❖ Advance Private Funds and Offshore Funds

## 2. Establishing Market Friendly Self-Regulation

### ✓ Reasonable Regulation

- ❖ Tune up 'the Investor Solicitation Rule'
- ❖ Rewrite 'the Securities Underwriting Rule'

### ✓ Support Member Firms' Internal Control

- ❖ Reestablish Internal Control System for Securities Firms
- ❖ Actively Promote 'Business Best Practices'

### ✓ Pre-emptive Risk Management

- ❖ Prepare 'Contingency Plans' for External Crisis
- ❖ Prevent Bad Loans on Real Estate Project Financing
- ❖ Minimize Derivatives Market's Shock such as 11/11 Option Shock

## 3. Ensuring Investor Protection

- ✓ **Prior Approval of OTC Derivatives – 27 cases in 2010, 15 cases in 2011 (as of June)**
- ✓ **Agreement Review – 194 cases in 2010, 203 cases in 2011 (as of August)**
- ✓ **Advertisement Review – 7,267 cases in 2010, 4,130 cases in 2011 (as of June)**
- ✓ **Dispute Resolution – 45 cases in 2010, 14 cases in 2011 (as of June)**

## 4. Upgrading the Bond Market Infrastructure

### ✓ Improving Bond Market Infrastructure

- ❖ Organize 'Free-Bond'
- ❖ Set up 'Bond Mall'
- ❖ Develop a New Bond related Index
- ❖ Participate in ABMF(Asean+3 Bond Market Forum)
- ❖ Prepare the QIB(Qualified Institutional Buyer) market

## 5. Training Industry Professionals

- ✓ GCMA
- ✓ IFID
- ✓ Professional Training
- ✓ Green Finance
- ✓ E-Learning

## 6. Global Network

### ✓ ICSA

- ❖ KOFIA - elected chair (May 2011)
- ❖ Policy development and communication among members

### ✓ AFIE-IFIE

- ❖ KOFIA - elected chair (Feb 2010)
- ❖ Developing Asian financial market's investor education structure

### ✓ MOUs with Other Associations

- ❖ Uzbekistan (Sep 2010), Turkey (Oct 2010), Brazil (May 2011), South Africa (June 2011)

### ✓ Korea Capital Market IR (2008 ~ 2011)

- ❖ Beijing, Shanghai, Shenzhen, Tokyo

### ✓ Korea-Australia Financial Investment Forum (Jan 2011)

### ✓ Korea Capital Market Training Program (2006~2011)



