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
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)
Current Status of the Korean Capital Market

1. Stock Market - IPO

- Record number of public offerings through IPOs.
  - In 2010, the amount of public offerings through IPOs stood at KRW 10.09TN (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.

No. of IPOs

- Number of IPOs (Unit: numbers)
- KOSDAQ
- KOSPI

<table>
<thead>
<tr>
<th>Year</th>
<th>KOSDAQ</th>
<th>KOSPI</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>59</td>
<td>9</td>
</tr>
<tr>
<td>2008</td>
<td>37</td>
<td>5</td>
</tr>
<tr>
<td>2009</td>
<td>55</td>
<td>10</td>
</tr>
<tr>
<td>2010</td>
<td>75</td>
<td>21</td>
</tr>
<tr>
<td>2011</td>
<td>28</td>
<td>11</td>
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</tbody>
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(Source: FSS)
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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1. Fiscal Soundness

- 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

- Korea’s foreign exchange reserves stood at USD 311 bil. as of July 2011 (ranked 7th globally)
- Moody’s upgraded Korea’s credit rating from A2 to A1 in April 2010
**3. Corporate 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](chart.png)
Prospects of the Korean Capital Market

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**
Regulatory Developments – Revision of the FSCMA

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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Activities of the Korea Financial Investment Association

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
Activities of the Korea Financial Investment Association

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
Activities of the Korea Financial Investment Association

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)
Activities of the Korea Financial Investment Association

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
Activities of the Korea Financial Investment Association

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)