

# MEMBER REPORT : KOREA (2013)

Presented by the Korea Financial Investment Association



K O R E A  
C A P I T A L  
M A R K E T

# CONTENTS

---

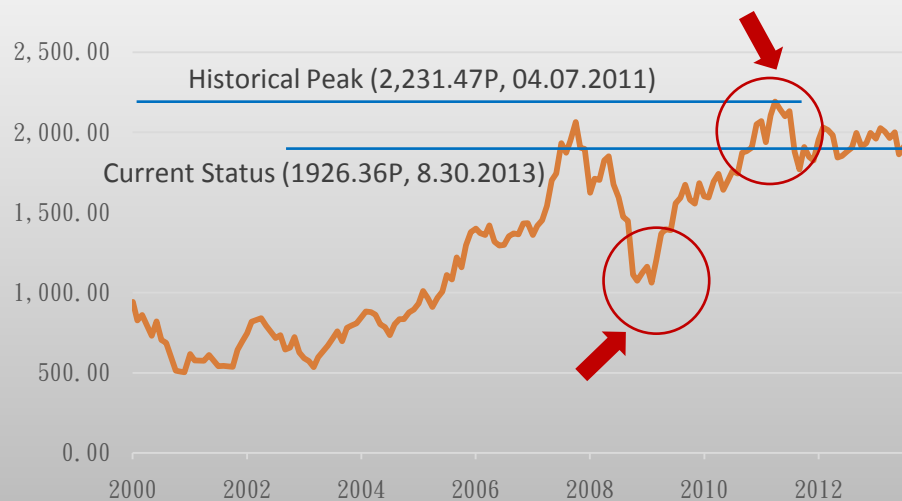


1. Current Status of the Korean Capital Market
2. Prospects of the Korean Capital Market
3. Regulatory Developments

# 1 Stock Market – KOSPI Trend

- After bottoming out in 2008, the KOSPI rose to its highest point ever on April 27, 2011
- **From 2012 to 2013, the KOSPI Index remained flat, moving between 1,850 and 2,000 points**

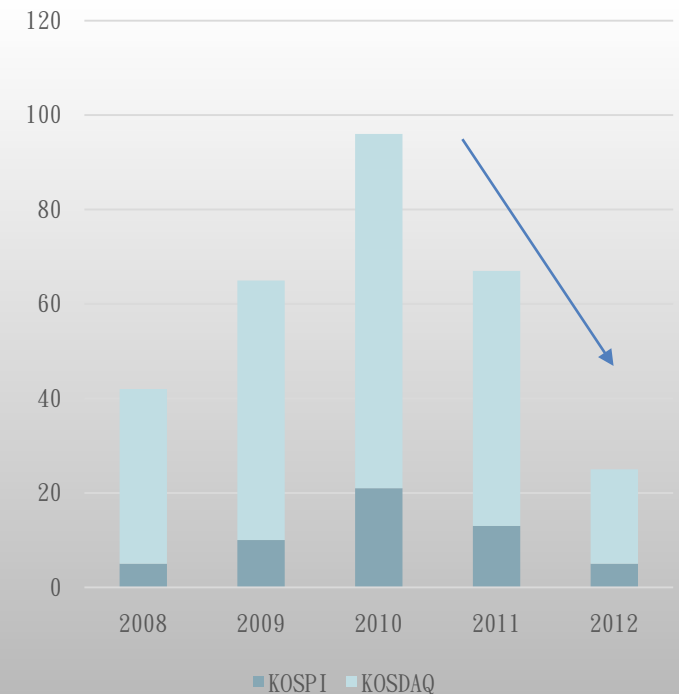
## 1. Current Status of the Korean Capital Market



|  | KOSPI |
|--|-------|
| Market capitalization<br>(USD bn.,<br>As at end of Aug.2013) | 1,017 |
| Daily trading amount<br>(USD bn.,<br>as at end of Aug.2013)  | 4.6   |
| No. of<br>listed companies<br>(as at Aug. 2013)              | 917   |

1. Current Status  
of the Korean  
Capital Market

- **In 2010, there was a record number of public offerings through IPOs**
  - ✓ In 2010, the amount of public offerings through IPOs stood at USD 9.3BN (include 7 foreign companies and 21 SPACs)
- **From 2011, the number of public offerings started to decline**
  - ✓ In 2012, only 5 companies went public on the KOSPI, and 20 companies on the KOSDAQ



- **3-year treasury bond yield is now at 2.94% (as of Aug, 2013)**
  - ✓ The proven stability of won-denominated bonds, the upgrade of Korea's credit rating by international rating agencies, and the reduction of the key interest rate are factors affecting the current rate

### 1. Current Status of the Korean Capital Market

## Interest Rates

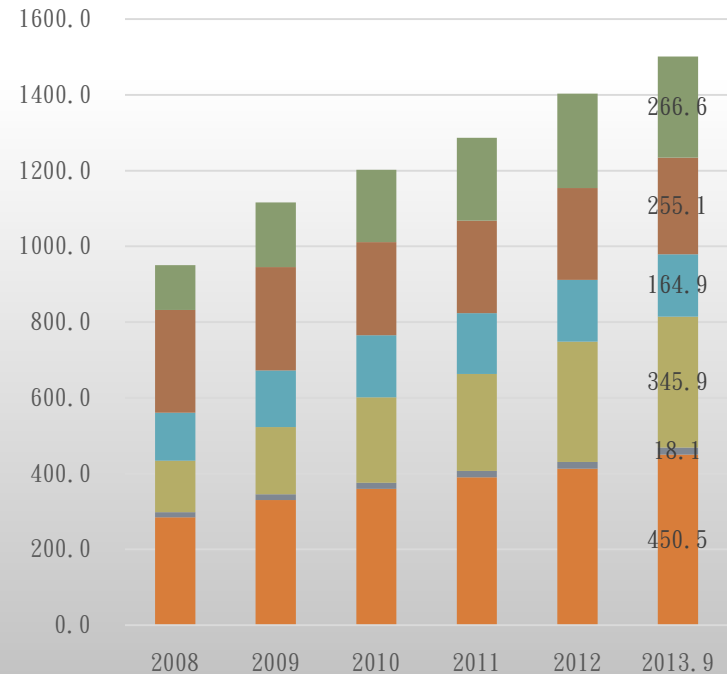
(Unit: %, Source: Bank of Korea)



- **Total outstanding issues reached USD 1.39TN as at the end of Sep. 2013, showing a continued growth**
  - ✓ Government bonds account for 30%, special bonds 23%, and financial bonds 17% and corporate bonds 18%, respectively.
- **As in most advanced economies, the growth of the Korean bond market is driven by the OTC market**
  - ✓ OTC trading makes up 88% of the market: yearly trading volume (par value) was USD 5,360BN in 2012, with an average trading volume of USD 21.5BN per day
- **As of the end of 2012, foreign bond holdings totaled USD 83BN, accounting for 7.0% of the total value**

### Outstanding Issues by Bond Type

(Unit : KRW tn, Source : KOFIA)

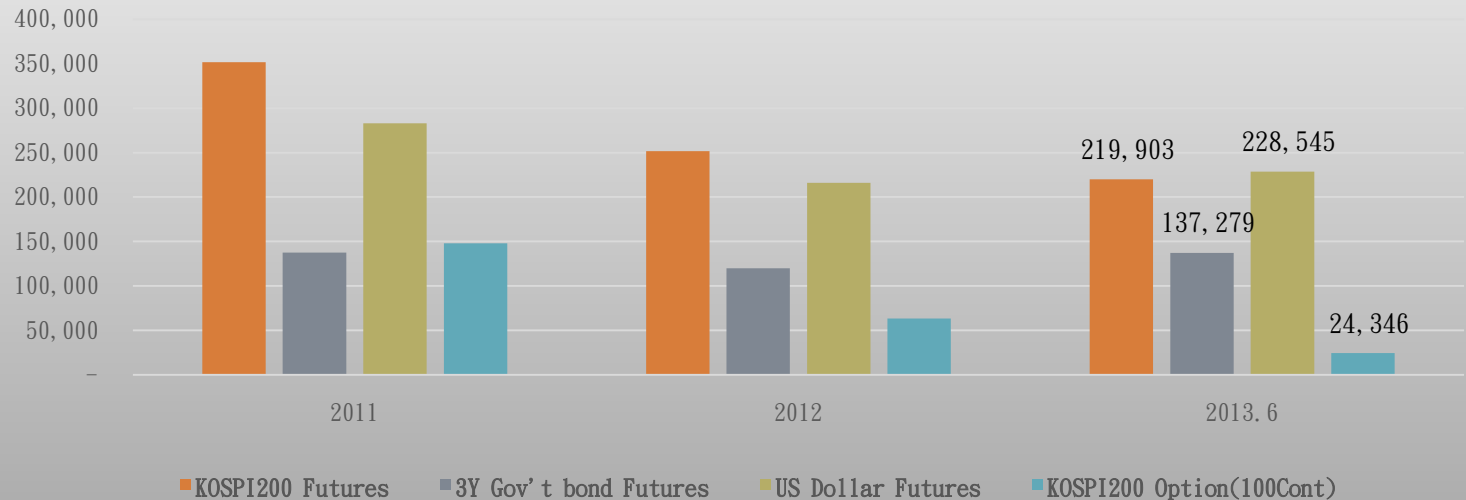


■ Government Bonds 
 ■ Municipal Bonds 
 ■ Special Bonds  
■ MSB 
 ■ Financial Bonds 
 ■ Corporate Bonds

- In 2012, daily average trading volume of exchange-traded derivatives dropped by 53.3%
  - ✓ The average daily trading volumes of the KOSPI200 Option (approx. 6.4 million contracts) and the KOSPI200 futures (approx. 252K contracts) decreased by 57% and 29%, respectively

### Daily Trading Volumes of Key Exchange-Traded Derivatives

(Unit: contracts, Source: KRX)



# 4 Size of Asset Management Industry

- 13th largest market with AUM of USD 268BN, but also 2nd largest in the number of funds with 9,121 funds
  - ✓ Korea has the lowest average AUM per fund among top 15 countries
  - ✓ Main Reason: institutional investors desire customized products that meet their portfolio needs, which drives up operating costs for asset management firms

1. Current Status of the Korean Capital Market

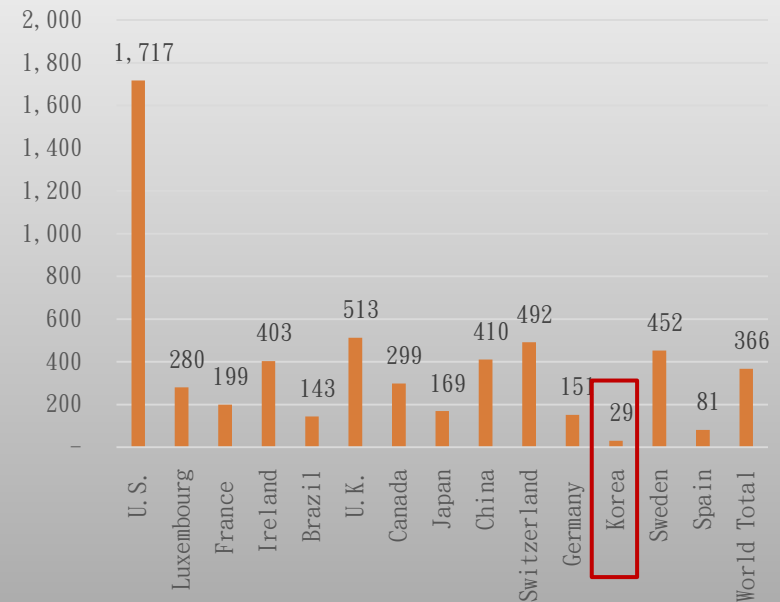
## Top 15 Countries by AUM

(Unit: USD bn, %, as of 2012)

| Rank               | Country      | AUM           | M/S          | # of Funds    |
|--------------------|--------------|---------------|--------------|---------------|
| 1                  | U.S.         | 13,045        | 48.61%       | 7,596         |
| 2                  | Luxembourg   | 2,642         | 9.84%        | 9,435         |
| 3                  | Australia    | 1,667         | 6.21%        | N/A           |
| 4                  | France       | 1,473         | 5.49%        | 7,392         |
| 5                  | Ireland      | 1,277         | 4.76%        | 3,167         |
| 6                  | Brazil       | 1,071         | 3.99%        | 7,468         |
| 7                  | U.K.         | 986           | 3.67%        | 1,922         |
| 8                  | Canada       | 856           | 3.19%        | 2,866         |
| 9                  | Japan        | 739           | 2.75%        | 4,384         |
| 10                 | China        | 437           | 1.63%        | 1,065         |
| 11                 | Switzerland  | 328           | 1.22%        | 667           |
| 12                 | Germany      | 311           | 1.16%        | 2,059         |
| 13                 | <b>Korea</b> | <b>268</b>    | <b>1.00%</b> | <b>9,121</b>  |
| 14                 | Sweden       | 206           | 0.77%        | 456           |
| 15                 | Spain        | 191           | 0.71%        | 2,349         |
| <b>World Total</b> |              | <b>26,837</b> |              | <b>73,243</b> |

## Average AUM per Fund

(Unit: USD mn, as of 2012)

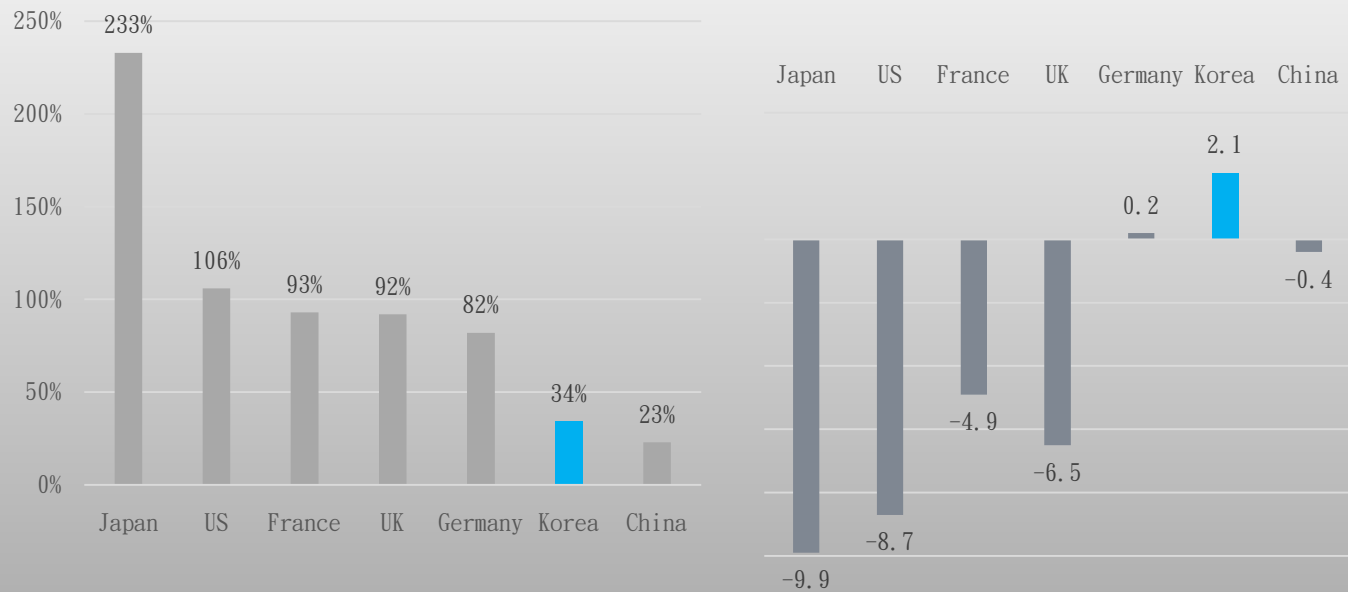




- Korea's fiscal soundness is relatively good compared to other advanced nations
- Government debt and fiscal surplus as percentages of GDP are 34% and 2.1% in 2012, respectively

### Major Countries' Government Debt to GDP in FY2012

(Unit : %, Source : IMF)



- Korea's foreign exchange reserves stood at USD 314 BN as of Jul. 2012 (ranked 7<sup>th</sup> globally)
- The major global credit rating agencies recently upgraded Korea's credit rating
- Moody's : A1 to Aa3 in Aug. 2012, Fitch : A+ to AA- in Sep. 2012, S&P : A to A+ in Sep. 2012

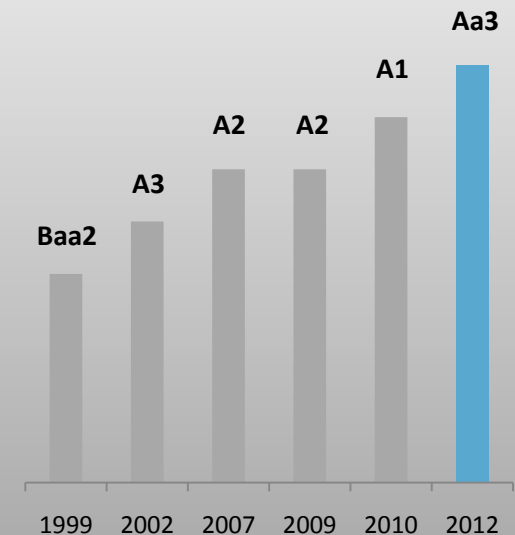
## Credit Ratings of Major Countries

(as of Sep. 2012)

| Grade      | Moody's                      | Grade      | S&P                 | Fitch               |
|------------|------------------------------|------------|---------------------|---------------------|
| Aaa        | US, UK<br>France             | AAA        | UK,<br>France       | US, UK<br>France    |
| Aa1        | Hong<br>Kong                 | AA+        | US,<br>France       | Hong<br>Kong        |
| Aa2        | -                            | AA         | Belgium             | Belgium             |
| <b>Aa3</b> | <b><u>Korea</u></b><br>Japan | <b>AA-</b> | Japan<br>China      | <b><u>Korea</u></b> |
| A1         | -                            | <b>A+</b>  | <b><u>Korea</u></b> | Japan<br>China      |
| A2         | -                            | A          | -                   | -                   |
| A3         | Malaysia                     | A-         | Malaysia            | Malaysia            |

## Korea's Credit Ratings

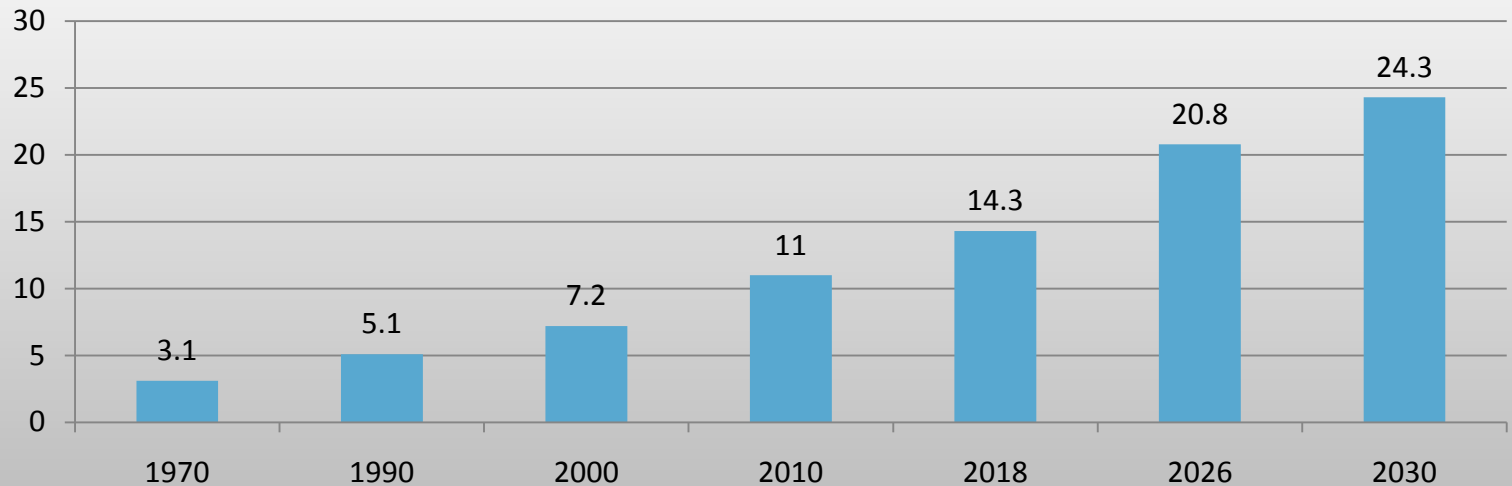
(Source : Moody's)



## PENSION FUNDS FOR THE AGING SOCIETY

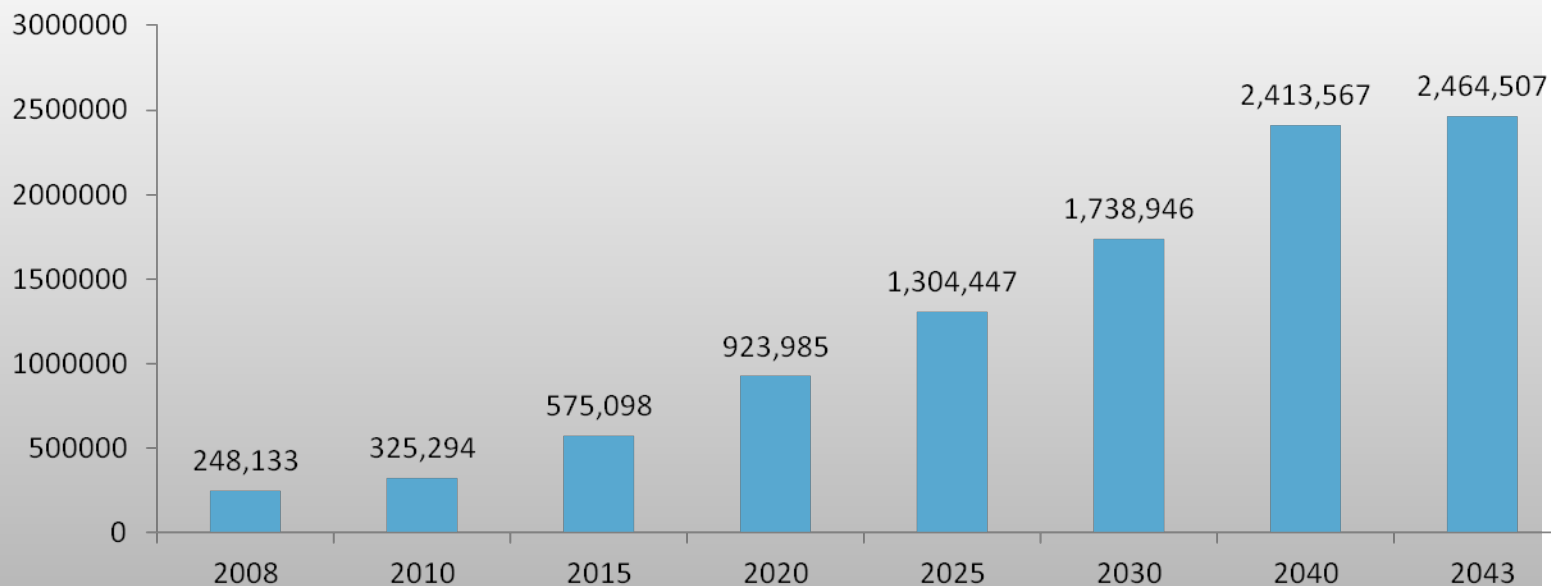
- Korea's aging population will have a great impact on its capital market paradigm in the future
- People aged 65 and older make up 11.0% of Korea's population
- To address the aging society issue, the government needs to promote pension plans through the capital markets

PERCENT OF KOREAN POPULATION AGED 65 AND OVER (Unit : %, Source : Statistics Korea)



- The National Pension Service estimates the public pension fund will reach USD 2,181 BN by 2040, making it the largest fund in the world
- Population aging will have a great impact on Korea's capital market paradigm in the future

ESTIMATED SIZE OF NATIONAL PENSION FUND (Unit : KRW bn, Source : Ministry of Health and Welfare)

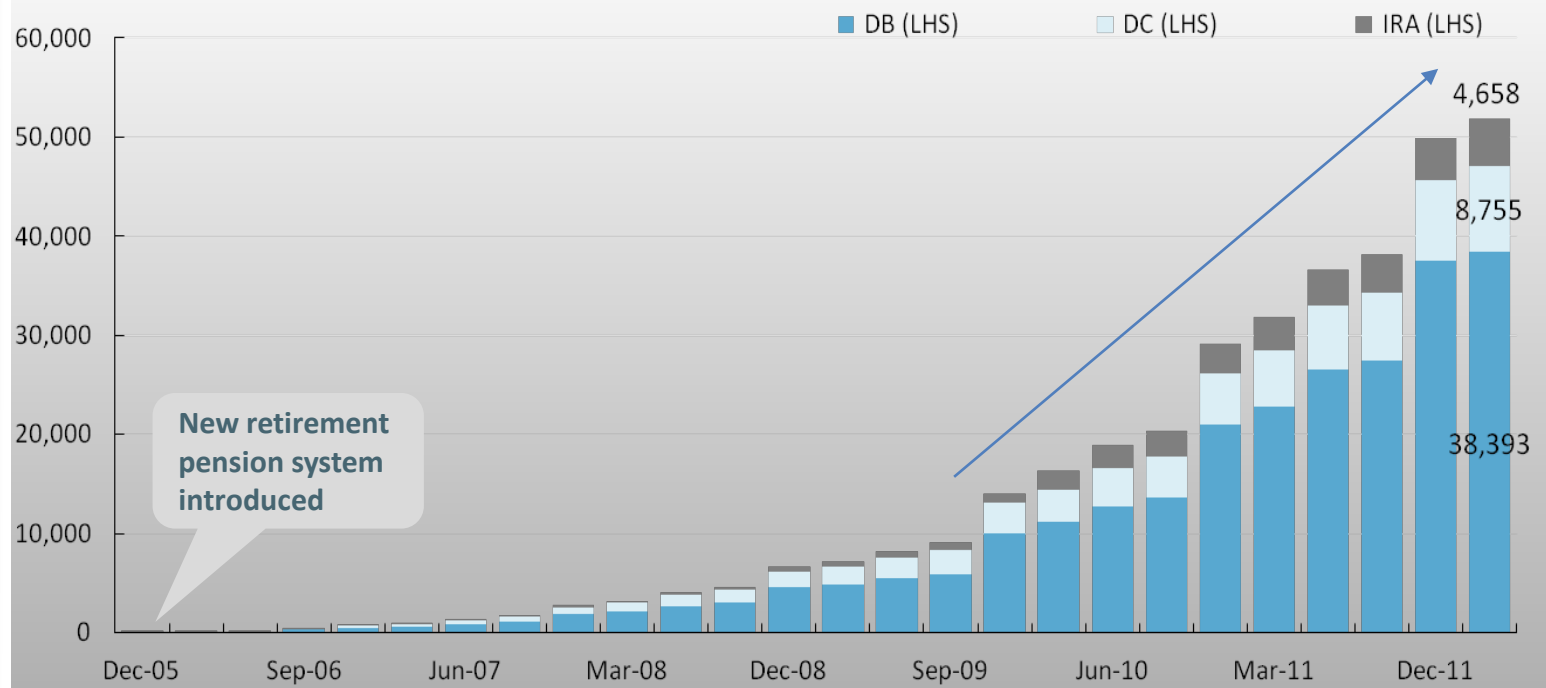


## Retirement Pension Plan

- Strong growth : After being introduced in 2005, the market has increased every year
- Expected to reach USD 212 BN by 2020 due to Korea's rapidly aging society and a desire to improve the pension system

### RETIREMENT PENSION PLAN GROWTH

(Unit : KRW bn, as of Mar. 31, 2012, Source : FSS)



## Revision of the FSCMA - Background

- The Financial Investment Services and Capital Markets Act (“FSCMA”) was established in 2007 as a comprehensive overhaul of capital market 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 as 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 revision of FSCMA was drafted by the FSC in 2011, and was passed at the National Assembly in May this year.

## 2 Revision of the FSCMA – Key Revisions

- Development of Korean Investment Banks (IBs)
- Improvement of Asset Management Regulations
- Reform of Capital Markets Infrastructure
- Diversification of Direct Financing Channels
- Strengthened Regulations on Unfair Trading Practices

(FSC's website : [www.fsc.go.kr/eng](http://www.fsc.go.kr/eng))



**THANK YOU**

(KOFIA' s website : [eng.kofia.or.kr](http://eng.kofia.or.kr))