Korea Financial Investment Association

CURRENT STATUS AND DEVELOPMENTS OF THE KOREAN CAPITAL MARKET

KOFIA, October 2024

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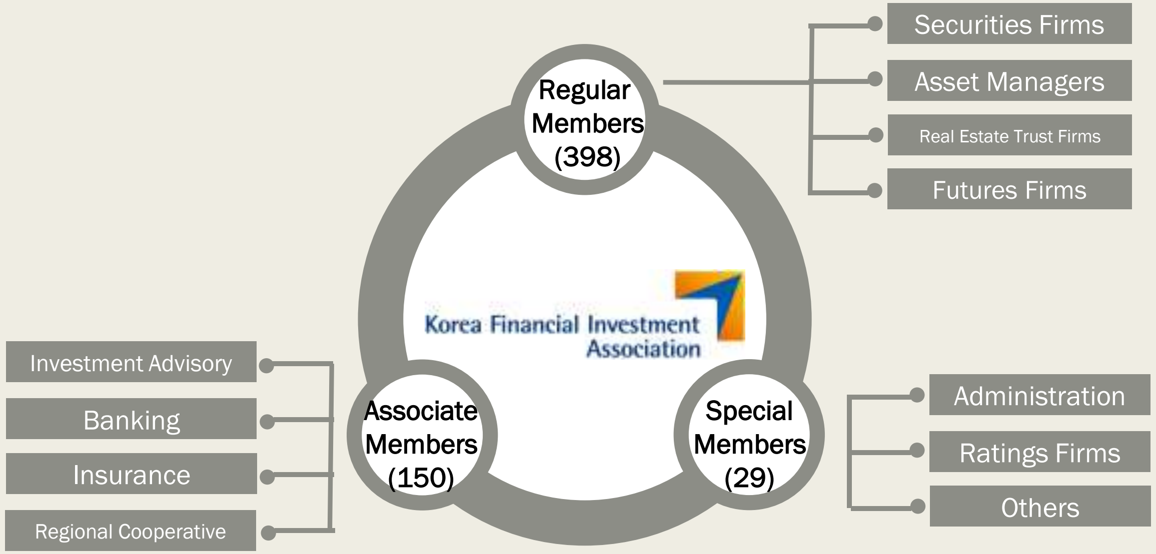
I. Korea Financial Investment Association

- Trade association & SRO (self regulatory organization) established in Feb. 2009, through merger of 3 associations, Korea Securities Dealers Association (est. 1953), Asset Management Association of Korea (est. 1996) and Korea Futures Association (est. 1996)
- Membership comprised of 577 financial institutions including 61 securities firms, 320 asset managers, 14 real estate trust firms and 3 futures firms

Financial Investment Services and Capital Market Act

Article 283 of Chapter I of PART VI

"The Korea Financial Investment Association shall be established for the purposes of **maintaining business practices between members**, **ensuring fair trade**, **protecting investors**, and **promoting the sound development of financial investment services**"



I. Korea Financial Investment Association

Policy Advocacy

- Works closely with lawmakers and supervisory authorities to ensure legislation of policies conducive to investors and improve government regulations.

- Interacts with business leaders, scholars and researchers from the financial investment industry to study and analyze latest issues in the industry and ensure government policy to reflect the needs of the private sector.

Recent Efforts

Strengthened the global competitiveness of comprehensive financial investment companies by easing regulations on corporate credit provision through their overseas branches

Initiated discussions on the introduction of “Stepping Stone Funds” to expand the pension market

Improving the Capital Market Infrastructure and Enhancing Fundamentals through Support for the Value-up Program

Strengthened the capital market’s role of providing capital to early stage companies

I. Korea Financial Investment Association

- As a self-regulatory organization of the Korean financial investment industry, the KOFIA pursues a responsive, flexible and market-friendly self-regulation.
- The KOFIA operates the Self-Regulation Committee which makes decisions on regulatory enactments and revisions and mandates member firms and individuals' compliance with regulations.

Areas of Self-Regulation

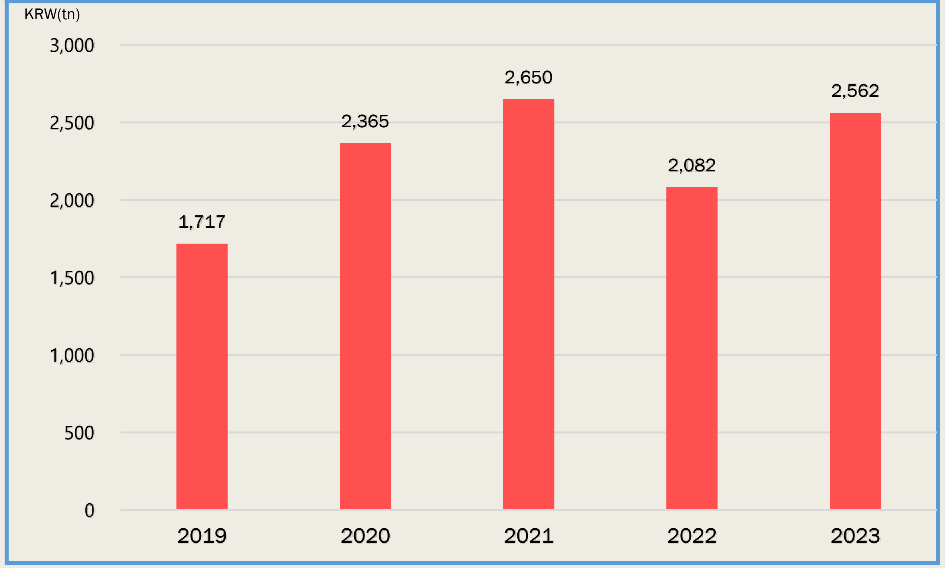
Enacting regulations and codes of best practices	Reviewing standard agreements and ads	Conducting member inspections	Registering and administering qualification exams	Mediating disputes
Establishes business conduct regulations for member firms on sales and other common business activities, as well as various guidelines	Conducts preliminary reviews on ads of financial investment products and business activities of member firms to ensure investor protection	Conducts member inspections and imposes sanctions on regulatory violations	Grants accreditations to financial professionals who pass qualification exams, complete training, and register through the KOFIA	Runs an investor protection center with an in-house attorney to arbitrate disputes between member firms and their customers too safeguard investors' interests

II. Overview of the Korean Capital Market

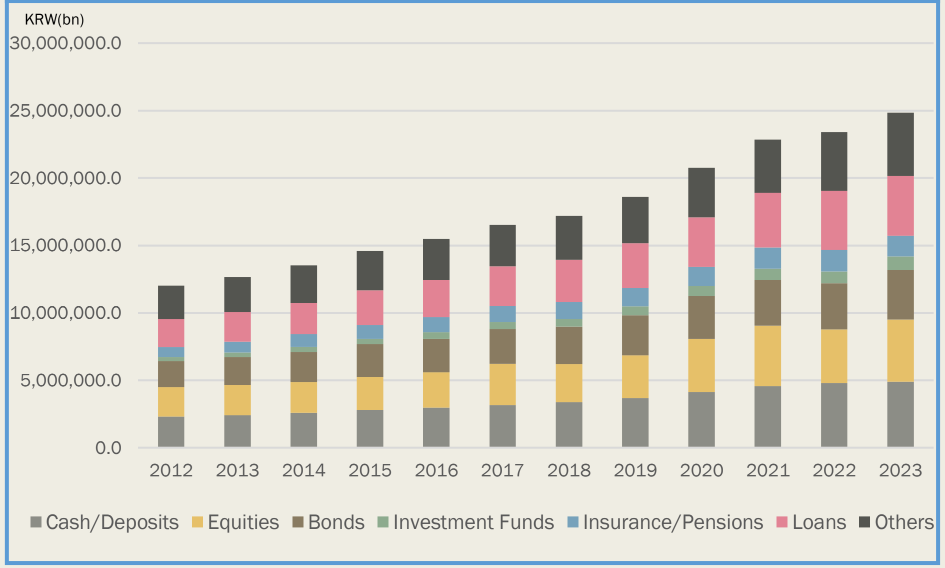
- As of the end of 2023, the stock market cap. reached KRW 2,562tn (USD 1.9tn), 23.1% higher than the previous year.
- Korea's total financial assets steadily increased to KRW 24,855tn (USD 18.6tn), with growth rate of 6.2% YoY (2023).

⇒ In 2023, despite challenges, the Korean capital market recovered in the second half, showing progress in market revitalization. However, in 2024, the market is facing contraction due to domestic and international conditions, with the government promoting value-up initiatives to support it.

Size of the Capital Market



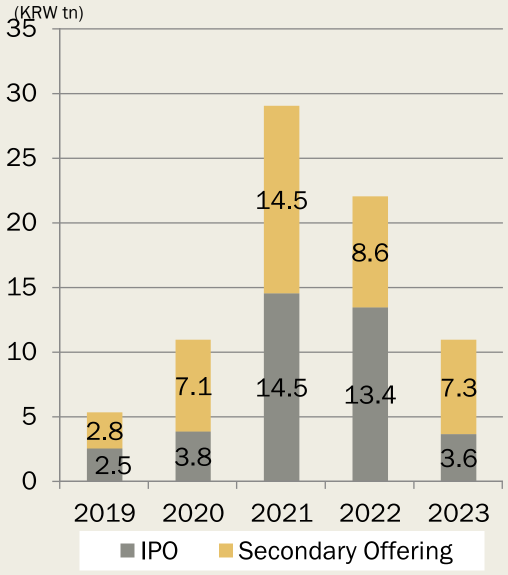
Annual Financial Asset Volume

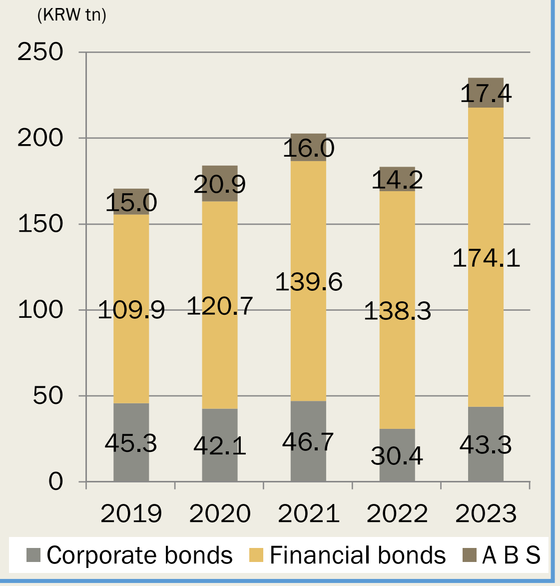


II. Overview of the Korean Capital Market

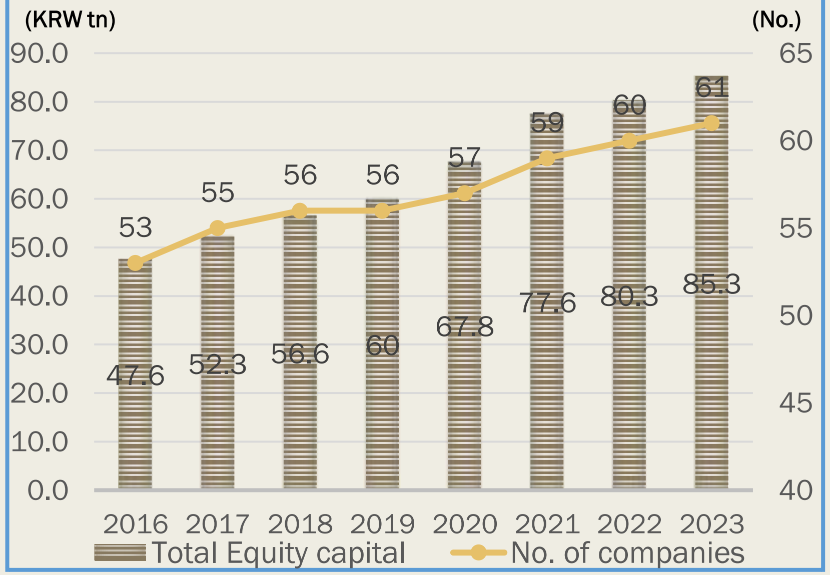
- As of the end of 2023, corporate financing through the capital market (equity, bond) increased 20.1% to KRW 245.7tn (USD 183.3bn) compared to the previous year.
- As of the end of 2023, the number of securities firms has increased by one to a total of 61 securities firms and the equity capital remained on an upward trajectory.

Corporate Financing via the Capital Market





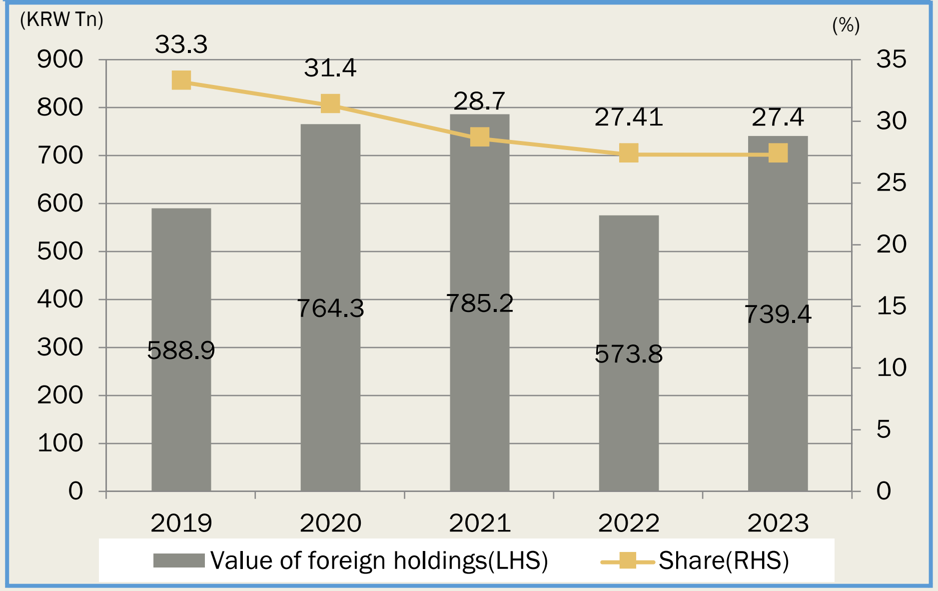
No. of Securities Companies and Equity Capital



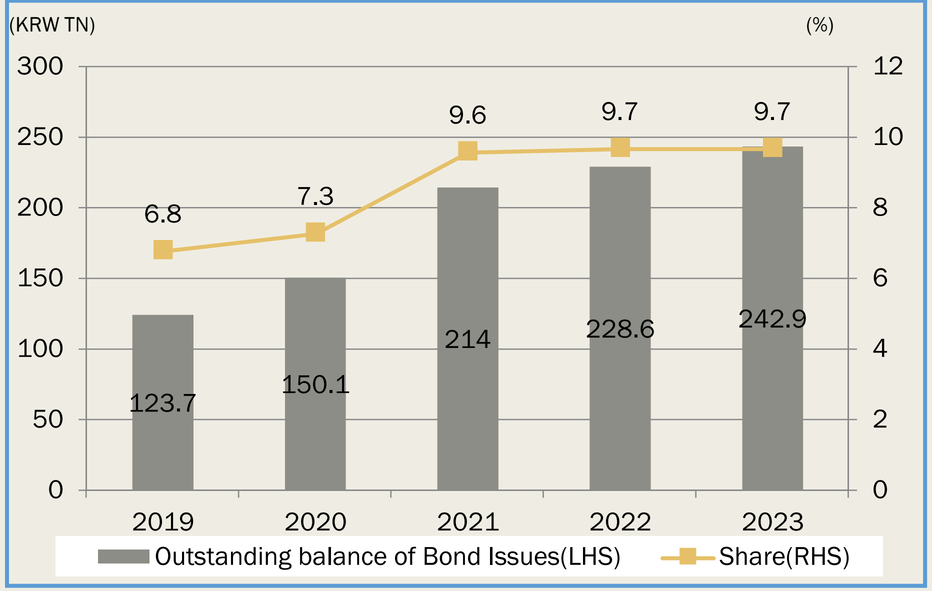
II. Overview of the Korean Capital Market

- As of the end of 2023, foreign holdings of listed stocks were worth KRW 739.4tn (USD 551bn), which is 27.4% of the total market cap.
- As of the end of 2023, foreign holdings of listed bonds were valued KRW 242.9tn (USD 181bn), which is 9.7% of the total outstanding balance of listed bond issues.

Foreign Investment Trend in Stock Market



Foreign Investment Trend in Bond Market



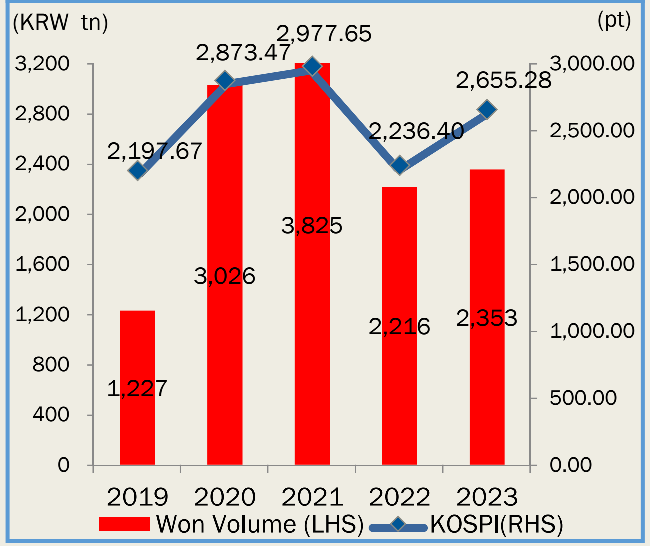
II. Overview of the Korean Capital Market

1) Equity Market

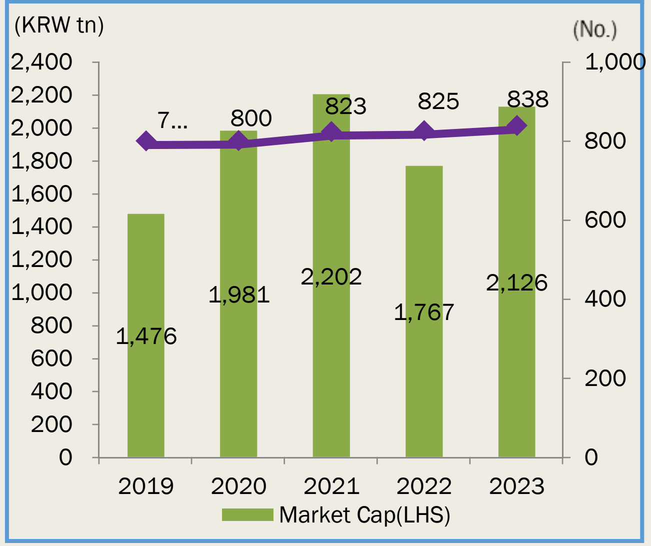
- The 2023 KOSPI closed at 2,655pts, indicating a 18.7% increase from that of 2022
- The market cap. of listed companies increased from KRW 1,767tn (USD 1.3tn) in 2022 to KRW 2,126tn (USD 1.6 tn) in 2023
- The proportion of transactions by individuals and foreigners increased by 10.39% and 3.98%, respectively, while transactions by institutions decreased by 2.5%.

⇒ In the first half of 2024, the KOSPI increased by 6.4% to 2,797 pts from the end of 2023, with its market capitalization rising by 7.4% to KRW 2,284 tn ($1.7 trillion).

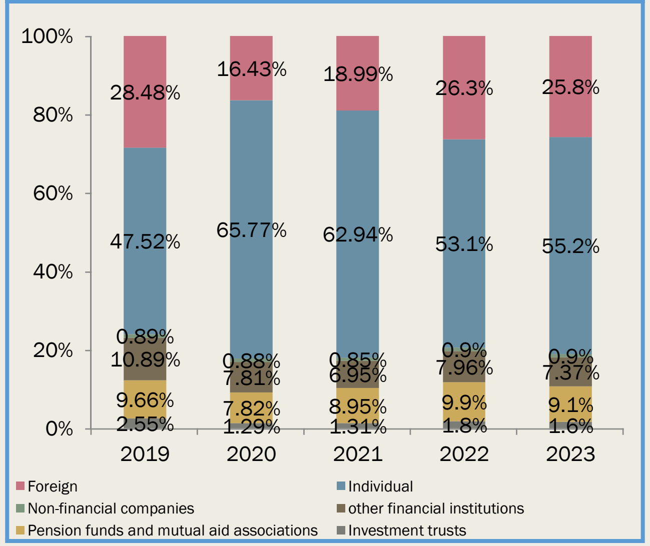
Stock Market Trend



Listed Companies and Market Cap.



Stock Market Breakdown by Investor Type

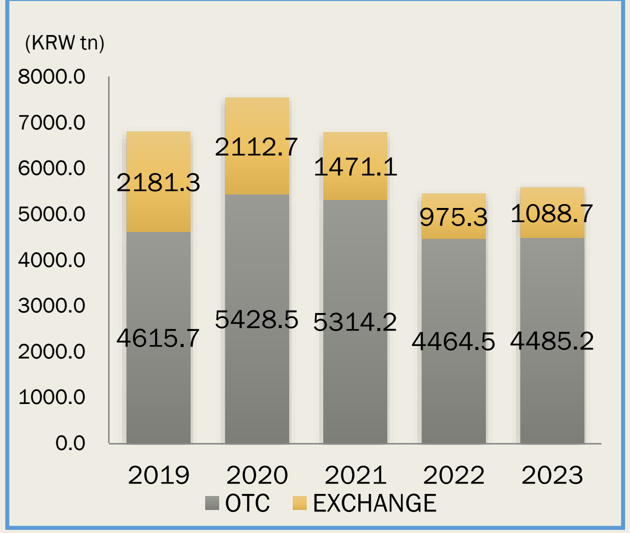


II. Overview of the Korean Capital Market

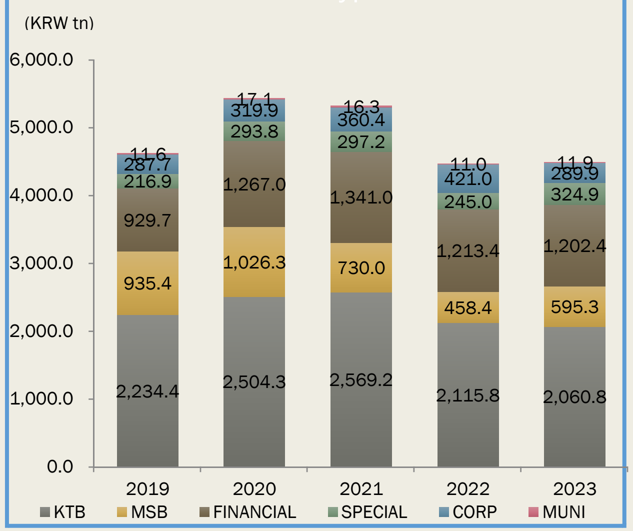
2) Bond Market

- In 2023, bond trading in the both exchange and OTC market increased by approximately 2.5% year on year to KRW 5,573.9tn(USD4.3tn), owing to interest rate cuts and increased bond issuance.
- While the trading volume of the KTBs is the largest in both markets, financial bonds and MSBs take up the second largest trading volume in the exchange and OTC markets, respectively.

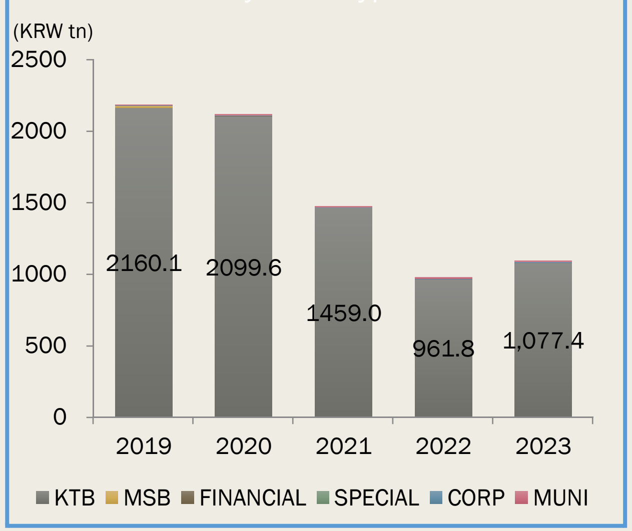
OTC and Exchange Annual Trading Volume



Annual OTC Trading Volume(notional) by Bond Type



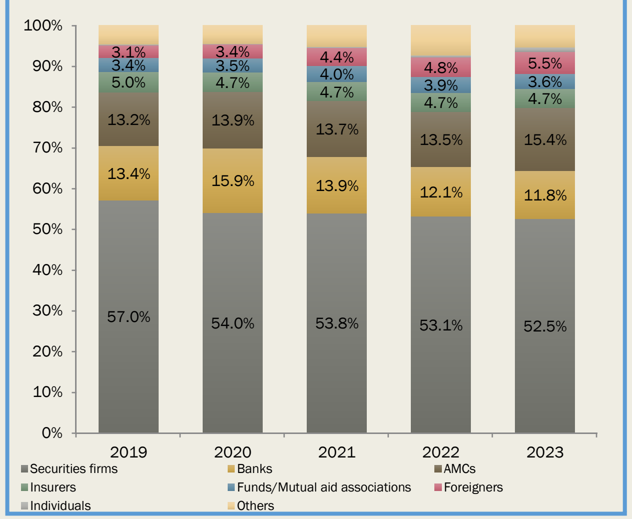
Annual Exchange Trading Volume(notional) by Bond Type



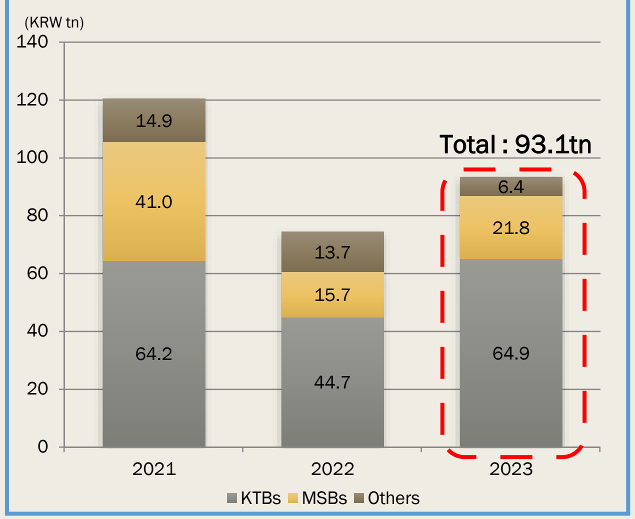
II. Overview of the Korean Capital Market
2) Bond Market

- Korean financial companies including securities firms and banks take up the largest portion of bond trading in the OTC market, standing at around 88.0%.
- Korean bond is an attractive asset for foreign investors, with their net bond purchase volume in 2023 amounting to KRW 93.1tn (USD 70bn) and bond holdings standing at KRW 242.9tn (USD 181bn) as of the end of 2023.

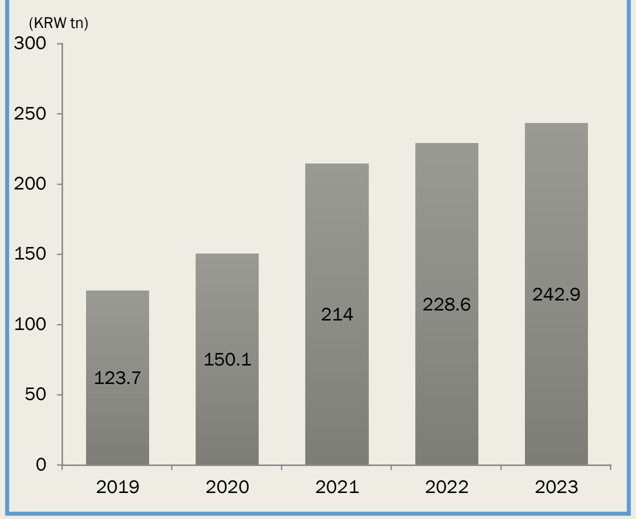
OTC Trading by Investor Type



Net Bond Purchases by Foreign Investors



Korean Bond Holdings of Foreign Investors

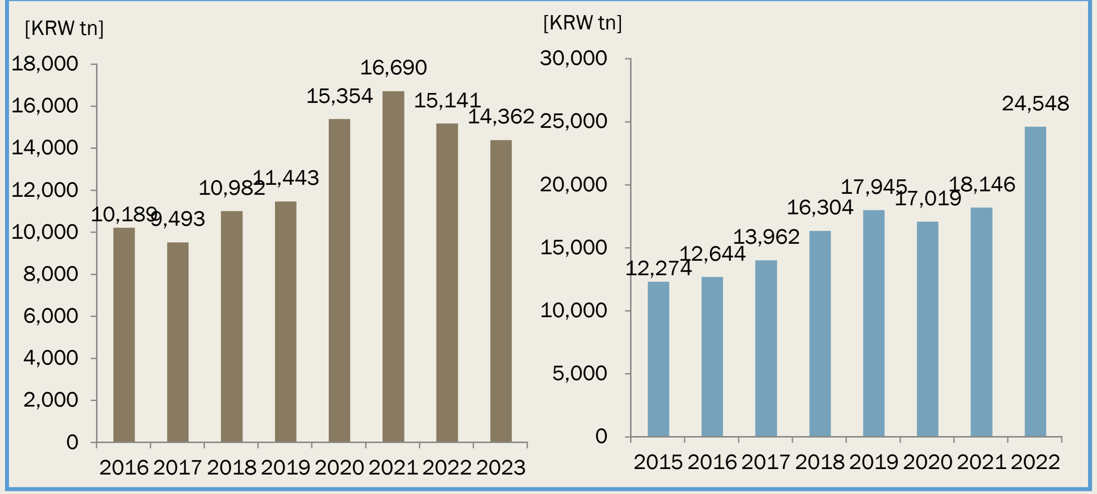


II. Overview of the Korean Capital Market

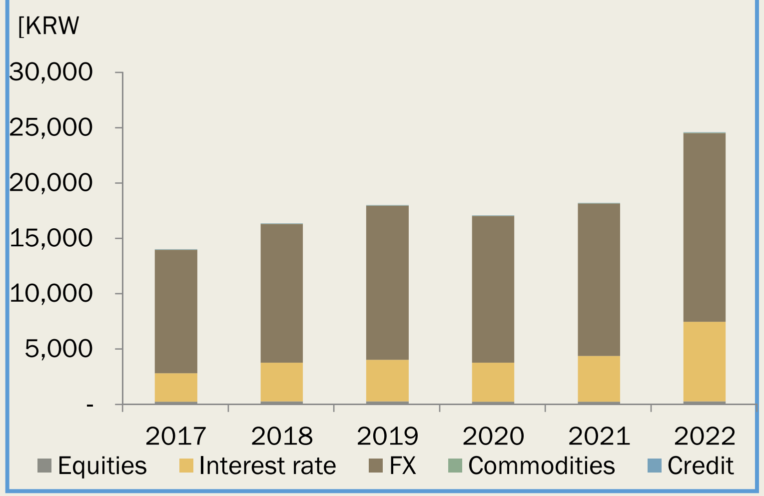
3) Derivatives Market

- In 2023, approximately 2,038.38mn contracts were traded in the exchange traded market, a slight decrease (1.0%) compared to 2022.
- Derivatives based on FX and interest rate account for the largest ratio in derivative trading, standing at around 98.7%, and the trading share by investor type is led by banks (80.5%) followed by securities firms (15.9%) and trusts and insurance companies. Banks and securities firms together account for the vast majority at 96.4%.

Annual Won Volume of Exchange-Traded and OTC Derivatives



OTC Derivatives Trading



III. Current Market and Regulatory Issues

VALUE UP

LISTING PUBLICLY OFFERED FUNDS

STEPPING STONE FUND

ABOLISHMENT OF REGISTRATION REQUIREMENT FOR FOREIGN INVESTORS

EXTENSION OF SHORT SELLING BAN

III. Current Market and Regulatory Issues

Value up

- (Background) The Financial Services Commission (FSC) announced the "Support Plan for Corporate Value Up Program" as part of efforts to advance the capital market (Feb. 26, 2024).
- (Main Points)
  1. Listed companies to establish and disclose mid to long-term plans to enhance corporate value
  2. Providing incentives to actively participating companies
  3. Developing the Korea Value Up Index/ETF
  4. Reflecting the program in pension funds' stewardship codes
  5. Supporting investors by providing various key investment indicators
- (Progress)
  - 32 companies are currently participating in the value-up disclosure.
  - In September, Korea Exchange (KRX) is set to announce the Korea Value-Up Index.

Promotion of Listing Publicly Offered Funds as "X-Class"

- (Background) As part of the efforts to enhance the competitiveness of publicly offered funds, steps are being taken to allow the listing of publicly offered funds that are traded over-the-counter.
- (Progress)
  - Initially, through the financial regulatory sandbox, the direct listing of over-the-counter publicly offered funds on the exchange is being pursued until 2024.
  - Task forces composed for each segments (asset management and securities) are reviewing key issues. (From June 2024)

  ※ 32 Companies(24 asset managers, 4 securities, and 1 custodian companies) are participating
  - The legalization of exchange-traded publicly offered funds through amendments to the Capital Markets Act will be pursued from 2025 onward
- (Expectations) The accessibility of South Korea's capital market for not only domestic investors but also foreign investors is expected to improve.

III. Current Market and Regulatory Issues

Stepping-Stone Fund

- ■ (Background) As life expectancy continues to increase, the need for retirement preparedness grows as well. In response, KOFIA proposed the "Stepping-Stone Fund" as a measure to expand the public's retirement assets
- ■ (Main Points)
  - Introduction of a balanced fund product that diversifies assets across stocks, bonds, and alternative assets, utilizing an asset allocation strategy similar to that used by pension funds
- ■ (Progress)
  - KOFIA, together with member firms, is developing representative products for each company and promoting them jointly

※ 25 asset management companies are expected to launch products.

ABOLISHMENT OF REGISTRATION REQUIREMENT FOR FOREIGN INVESTORS

- ■ (Background) FSC announced the abolishment of the foreign registration system to enhance market accessibility and transparency (Jan. 5, 2023)
- ■ (Main Points)
  - Abolishing the mandatory registration system for foreign investors that lasted for 30 years
  - Introducing an alternative system using globally recognized identification, such as passports and LEIs (Legal Entity Identifiers)
- ■ (Progress)
  - Amendment of the Enforcement Decree of the Capital Markets Act (Dec. 14, 2023)
  - After the amendment of the Enforcement Decree, over a period of six months, approximately 1,400 accounts were opened, leading to an inflow of foreign capital.

III. Current Market and Regulatory Issues

EXTENSION OF SHORT SELLING BAN

- (Background) FSC extended the short-selling ban in response to findings from investigations conducted following last year's short-selling prohibition.
  - Illegal naked short-selling practices were uncovered, highlighting the need for regulatory and system improvements to prevent illegal short-selling.

  ※ Extended from the end of June 2024 to the end of March 2025

- (Main Points)
  - Securities firms will establish an internal electronic system to prevent naked short-selling by the end of the year.
  - KRX will develop a centralized monitoring system by March 2025.
  - Securities firms will be required to verify electronic systems and internal control standards.
  - Penalties for violations will be strengthened and diversified.

Appendix – Value up Program

- **1. Background of the Initiative**
  - **Economic Slowdown**: Declining productivity, aging population, and geopolitical conflicts have led to slower economic growth.
  - **Capital Efficiency Issues**: Korean companies show lower capital efficiency and undervalued stock prices compared to global peers (Korea Discount).
  - **Capital Market Reform**: There is a need for structural reform, including deregulation and corporate innovation, to strengthen the capital market.
- **2. Key Features of the Corporate Value-Up Program**
  - **Voluntary Corporate Value Enhancement**
    - Companies are encouraged to voluntarily create value enhancement plans, assess their capital efficiency, and communicate these plans to shareholders.
    - This fosters a culture of respect for shareholder value, supporting mutual growth between companies and investors.
  - **Incentives**
    - **Tax Benefits**: Provided to promote shareholder returns.
    - **Recognition**: Awards for companies excelling in value enhancement.
    - **White Paper**: Annual reports evaluate progress and promote best practices.
  - **Investment Inducement**
    - **Korea Value-Up Index**: A new index and ETF highlight companies with strong value-enhancing efforts.
    - **Stewardship Code**: Institutional investors are guided to consider value-enhancement efforts in their investment decisions.
    - **Public Metrics**: Key indicators like PBR, PER, and ROE are publicly disclosed to aid investor decision-making.
- **3. Support System Establishment**
  - **Dedicated Support**: A new department within the Korea Exchange (KRX) will focus on monitoring and supporting corporate value enhancement efforts.
  - **Advisory Committee**: Formed to evaluate and improve the program through collaboration with companies and experts.
  - **Support for Disclosure**
    - **Training**: Disclosure training is provided for companies to improve transparency.
    - **Consulting**: Tailored consulting and translation support is available for smaller companies to develop and publicize their value enhancement plans.
  - **Centralized Information Platform**: A section on the KRX's website will house all relevant corporate value-up information, metrics, and best practices.

THANK YOU

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