

### PLAN TO STIMULATE FINANCIAL ADVISORY SERVICES

The FSC outlined its plan to stimulate financial advisory services in response to growing demand of financial consumers for more accessible and more tailored financial advisory services. The plan is mainly focused on offering financial consumers comprehensive advisory services in a professional and independent manner; facilitating more innovative and affordable advisory services such as robo-advisers; and making financial advice more accessible and more convenient for financial consumers.

#### 1. Lowering barriers to entry for financial advisers

Under the current Financial Investment Services and Capital Markets Act (FSCMA), the minimum capital requirement is KRW500 million for registration as a financial adviser to provide advisory services for retail investors. The FSC will propose amendments to the Enforcement Decree of the FSCMA in the first half of this year to create a new registration category for financial advisers who offer advisory services only in a restricted range of financial products such as savings, funds and derivative-linked securities and lower capital requirement for them to KRW100 million.<sup>1</sup> Banks will be also allowed to offer financial advice within the newly-created category of advisory services; however, they will be prohibited from offering financial advice in equities, bonds and derivatives, due to a possible conflict of interest.

#### 2. Introduction of Independent Financial Advisers (IFAs)

Independent Financial Advisers (IFAs) will be newly introduced to provide ‘independent’ advice, free from product providers. The IFAs are required to meet strict standards for independence: 1) they must receive advisory service fees from their clients, not from product providers; 2) they cannot provide financial products concurrently, but discretionary investment business providers are exceptionally allowed to provide both advisory service and products; and 3) they are prohibited from providing advice for specific products, while they are allowed to offer advice for restricted types of products or restricted investment purpose on condition that they should disclose such facts. Amendments will be proposed to the Regulation on Financial Investment Business in the first half of this year to detail requirements for IFAs.

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<sup>1</sup> For financial advisory services for derivatives, equities and bonds, the current capital requirement of KRW500 million will be maintained.

**3. Strengthening investor protection**

To make sure financial advisers to put their clients’ interest first, best practice guidelines for financial advisers will be established in the first half of this year to provide detailed rules for fiduciary duty. Financial advisers must receive fees from clients, and the fees must be charged independently, regardless of product providers. Non-IFA advisers are not forbidden from receiving commissions from product providers besides advisory fees from their clients; however, they must disclose such payments to their clients. Financial advisers are also required to disclose all the factors that could affect their advice and provide sufficient explanation to their customers prior to signing a contract.

**4. Facilitating Robo-advisory (RA) services**

Robo-advisory services are classified into four types depending on whether human advisers are involved or not.

**4 TYPES OF ROBO-ADVISORY SERVICES**

	customers (advisory service)	asset managers (discretionary investment)
back office service	<b>(phase 1)</b> Human advisers provide advisory service to customers, utilizing RA’s asset allocation	<b>(phase 2)</b> Human asset managers manage customers’ assets, utilizing RA’s asset allocation
front office service	<b>(phase 3)</b> RAs directly provide customers with advisory service base on their asset allocation results	<b>(phase 4)</b> RAs directly manage customers’ assets, without any help of human advisers or managers

Korea’s robo-advisory services are in the early stages of development as asset managers recently launched the second phase of robo-advisory services. Under the current regulatory system, robo-advisors are not allowed to provide fully-automated services in the form of third and fourth phases. The FSC will propose amendment to the Enforcement Decree of the FSCMA in the first half of this year to enable robo-advisors that meet certain requirements to provide direct front-office services to customers. A pilot test of fully-automated RA services will be launched in July 2016.

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