Financial Services Commission

Press Release

November 28, 2022

AUTHORITIES HOLD POLICY SEMINAR ON MAKING IMPROVEMENTS TO CAPITAL MARKET REGULATIONS

The FSC, the Korea Exchange (KRX) and the Korea Capital Market Institute (KCMI) jointly held a policy seminar for alleviation of the “Korea discount” on November 28. The theme was “improving the consistency of Korea and global capital markets’ rules and regulations.”

In his opening remarks, FSC Vice Chairman Kim So-young outlined the government’s policy direction for regulatory improvements in Korean capital markets. The policy draft has been prepared by the FSC through a taskforce with private sector experts.

SUMMARY OF VICE CHAIRMAN’S REMARKS

In our capital markets, there are outdated regulations and unreasonable practices that have been first introduced decades ago and kept for too long without being scrutinized for their validity, some of which are nonexistent in the economies with advanced financial markets. These regulations and practices made sense and were considered necessary at the time of their introduction. However, in order to establish a system suitable for the current status of Korean capital markets and to satisfy the needs of a new era, our capital markets should bravely break the familiar but outdated framework and undertake reforms.

(REGISTRATION FOR FOREIGN INVESTORS) Foreign investor registration has long been regarded as one of major outdated regulations that deviate from global norms. This regulation requires foreign investors’ registration before trading listed securities in the Korean capital markets. Under the registration scheme, foreign investors are issued investment registration certificates, and all of their transaction data are recorded. This rule has been in force for more than 30 years since Korean capital markets were opened to foreign investors in 1992. Suppose that we acquire or dispose of listed stocks in a foreign country. If we had to register with the country’s financial authority in advance and if each individual’s transaction records are piled up in real-time, it will induce not only procedural but also psychological burden. In advanced markets, it is uncommon for foreign investors to be required to register prior to investing. Meanwhile, there has been some misunderstanding among foreign investors that their transactions are being observed in real-time by financial authorities through identification (ID) numbers given to them.

First, the government plans to abolish the foreign investor registration and allow foreign investors freely invest in our capital markets after verifying their identity with personal passport numbers and corporate LEIs (legal entity identifiers) that are widely used internationally. Second, to eliminate unnecessary misunderstanding among foreign investors, financial authorities will not pile up and keep foreign investors’ transaction records in real-time any more, which has been a source of foreign investors' irritation without contribution to any usefulness. Instead, authorities will access transaction records afterwards, when it is necessary, for example, to look into them to investigate unfair trading activities. Third, authorities will broaden the extent of over-the-counter (OTC) transactions for foreign investors, which are now limited in scope. Rationalization of regulations on the omnibus account system, which has been inactive since it was introduced in 2017, will also be made. In addition, to ensure global investors' equal access to disclosed information of public companies, authorities will phase in a mandatory rule for providing English disclosure information, starting with large listed firms.

(RULES REGARDING DIVIDEND) The government also plans to actively seek improvements to rules regarding dividend on a par with global standards. Most Korean companies designate shareholders who shall receive dividends first at the end of each year and then determine dividend amounts thereafter at a general shareholders' meeting held in the spring next year. In other words, investors invest without knowing the amount of dividends they will get and have no choice but to accept the dividend decision, which will be made months later. Due to this practice, managers of huge global dividend funds undervalue the investment in Korean dividend stocks and even become reluctant to invest in them. From the perspective of the national economy as well, the low dividend rates make it harder to create an atmosphere conducive to long-term investment. They also drive people wishing for a steady cash flow from investments out of capital markets into real estate markets where rent income can be earned monthly. This diversion undermines the growth potential of our economy.

The FSC will work together with the Ministry of Justice to improve laws and practices regarding dividend. Dividend amounts will be determined first, like the cases in other advanced economies, so that investors can choose whether to invest or not, based on the amount of dividends they would be paid. Authorities expect such improvements will help create a virtuous cycle in our capital markets: better dividend-related laws and practices encourage more dividend investing, which lead to bigger dividend payouts from companies, which will attract more long-term investors seeking dividend payouts..

(IPO MARKET) The government will enhance the soundness of the initial public offering (IPO) market, which acts as a gateway for promising businesses going public. Until now, the IPO market has been ridden with fictitious oversubscription exceeding institutional investors' real demand and payment capacity, which made the market's price discovery function difficult to work properly. For each stage of IPO, the government will improve rules and practices that can potentially hamper market trust. Even prior to submitting a securities registration statement, a book running lead manager will be allowed to examine demands from institutional investors("test the waters"), which will substantialize book building. Authorities will also strengthen the role of IPO lead managers. Lead managers will be permitted to differentially allocate publicly offered stocks to institutional investors after checking their abilities to pay for stocks and considering their contribution in book building process. In addition, authorities will increase the limit range of the difference between public offering price and opening price on the day of IPO. This increase will help alleviate the phenomenon in which the quotation prices of stocks reach to the upper limit price on the first day or on the first and the second day of an IPO, which makes transactions fall off a cliff – sharply drop in trading volumes – and hinders the market's price discovery functions from operating properly (several days of stock price surges are followed by a nosedive).

(TRADING RULES) Lastly, the government will find room for improvement in our trading rules by comparison with other advanced economies. We will listen to opinions from experts and, together with KRX, look into the current trading system with a focus on whether there are order placement methods that are widely available in all other countries except for Korea and whether market accessibility such as trading hours is sufficiently permitted.

Suggestion by Dr. Nam Gil-nam, research fellow at the KCMI
At the seminar, Dr. Nam offered recommendations for improvement to the current trading system that would bring it in line with global levels because the advancement of information technology has made the trading environment more globalized. Specifically, his recommendations include extending the trading hours for derivatives market and enabling additional trading methods

Having discussions on the aforementioned issues at today's seminar will be a meaningful step toward alleviation of the factors that have contributed to "Korea discount."

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