

## REVISED RULE TO REQUIRE IPO BOOKRUNNERS TO CHECK PAYMENT CAPABILITY OF INSTITUTIONAL INVESTORS

The FSC approved a revision bill of the regulation on financial investment businesses at its 8<sup>th</sup> regular meeting held on April 26. This revision bill is a follow-up to the measures to improve the soundness of the initial public offering (IPO) market announced in December last year and contains a measure to facilitate carbon emissions trading by securities companies along with other regulatory overhaul items.

### *Requirement for IPO bookrunners*

First, when managing IPOs, the IPO bookrunner will be responsible for verifying institutional investors' ability to pay for stocks before the allotment of shares takes place. In an IPO, the bookrunner performs a book building to check demands from institutional investors in order to determine an appropriate IPO price. The public offering price decided is then used to get subscription from retail investors. However, for certain high-demand items, the issue of fictitious subscription by institutional investors in excess of their payment capabilities and that of over-competition have been problematic. It has been pointed out that this practice of fictitious subscription has been hindering the price discovery function of the book building process, causing distortions in the IPO market.

Thus, this revision is aimed at preventing the practice of fictitious subscription and strengthening the responsibility of IPO bookrunners throughout the book building process by introducing sanctions such as imposition of an administrative fine for unfair transaction activity when bookrunners fail to check institutional investors' stock payment capabilities prior to allotting shares. This requirement will take effect from the securities registration reports for IPOs filed after July, after relevant rules change is completed by the industry association. With this revision bill, apart from the measures for allowing bookrunners to preliminarily review institutional investors' demands and introducing the cornerstone investing system, all other follow-up items under the measures to improve the soundness of the IPO market will have been completed. The FSC expects that once the revised measures actually take root in the market from the second half of this year, subscription and allocation of IPO shares will be based on the actual demand, which will promote fairness and the sound development of the IPO market.

### *Facilitating carbon emissions trading*

When carrying out transactions, securities companies are required to set aside a certain level of equity capital according to the risk weight determined by the net capital ratio rule. Until now, there has been no specific rule guiding how carbon

emission rights should be treated by financial investment businesses in terms of their risk weight. Thus, carbon emission rights have been categorized under the “other assets” type with the risk weight of 32 percent assigned. However, this revision bill categorizes carbon emission rights under the same category as the energy- and weather-related financial products with the assignment of 18 percent risk weight. This will take effect immediately from April 30. The FSC expects that as the risk weight for carbon emission rights becomes more reasonable, securities companies will be less burdened to handle carbon emission rights.

#### *Other regulatory overhaul items*

Investor protection for equity-linked securities (ELS) and derivatives-linked securities (DLS) will be strengthened. Following the revision of the Financial Investment Services and Capital Markets Act (FSCMA), which went into effect in May 2021 and allows the sale of ELS and DLS to be subcontracted to other securities companies, this revision bill requires securities companies to establish relevant internal control standards. Specific items that need to be verified by securities companies for protecting investors will be determined by the industry association in May, which will be reflected in the industry-wide model internal control standards. The revised rule takes effect from July.

The administrative procedure for transferring or acquiring a business by foreign financial investment businesses operating in Korea will also be streamlined as in the case of the exemption granted for the review certain requirements in the process of obtaining an approval to operate as a financial investment business when making a change in organizational structure from a branch to a subsidiary for instance. This eased authorization procedure for business transfer or acquisition takes effect from April 30.

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For press inquiry, please contact Foreign Media Relations at [fsc\\_media@korea.kr](mailto:fsc_media@korea.kr).