

FSC ANNOUNCES A PLAN TO IMPROVE THE SOUNDNESS OF THE CONVERTIBLE BOND MARKET

- Proposed measures to boost information disclosure on the issuance and distribution of convertible bonds (CBs) and clarify method on the refixing of convertible prices.
 - Investigation over unfair trading activities involving CBs will be strengthened, with the application of strict sanctions on wrongdoers.
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Vice Chairman Kim Soyoung of the Financial Services Commission held a meeting with officials from relevant organizations and industry groups and announced a plan to bolster the soundness of the convertible bond (CB) market on January 23.

The measures included in the plan are intended to strengthen rules on disclosure of information on the issuance and distribution of convertible bonds, making improvements to the current refixing rules and procedure, and strengthening investigation over unfair trading activities involving CBs. The FSC expects that these measures will help to address the following three oft-cited problems regarding the CB market—the lack of transparency in the issuance and circulation of CBs, the arbitrariness in the refixing of convertible prices, and the potential misuse in unfair trading activities. In this regard, the FSC has prepared the following three measures to address these problems, taking into account opinions and suggestions raised during the public seminar held on the topic in last July.

First, the disclosure of information about the issuance and circulation of CBs will be strengthened to boost transparency in the market. Authorities will seek to ensure that the types of information that can be critical to the corporate governance structure and share valuation, such as information about the entity designated by the company to exercise the call option and the plan for CB selloff close to maturity, are opened up to the public in a more transparent way.

Second, the rules and procedure for refixing convertible prices of CBs will be made more reasonable. Current rules set the minimum level of refixing at 70 percent of the initial convertible price and allow companies to refix convertible prices below the minimum level only in exceptional cases—e.g. corporate restructuring—via securing a special resolution at a general shareholders' meeting or through their articles of incorporation. However, some companies have exploited such exceptions to the rules to bypass the minimum refixing limit through their articles of incorporation even for non-exceptional reasons and have engaged in arbitrarily refixing their convertible prices with the aim to generate profits for certain shareholders, causing damages to shareholders' values. To resolve this problem and to ensure that convertible prices can more appropriately reflect market prices, authorities will make it clear that companies are allowed to refix convertible prices below the minimum level only when they secure an approval from shareholders at a general shareholders' meeting.

Moreover, to prevent damages to ordinary shareholders caused by unreasonable conversion prices, it will be made clearer that the downward adjustment of a convertible price following any change in capital status, such as a capital increase or stock dividend, will only be allowed above the value reflecting such event.

Third, authorities plan to strengthen investigation over unfair trading activities using CBs and enforce strict sanctions on wrongdoers. By maintaining close cooperation between the FSC, the Financial Supervisory Service and the Korea Exchange, authorities have undertaken investigation on a total of 40 unfair trading cases involving CBs last year. Among them, 14 cases are closed and a total of 33 individuals have been reported to the prosecution office for their wrongdoings. The authorities will continuously make efforts to ensure that unfair trading activities using CBs face strict penalties.

The FSC plans to revise relevant rules in the first half of this year to ensure a prompt implementation of these measures. The authorities will keep on closely monitoring market situation and seek further regulatory reforms if deemed necessary.

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