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Press Release

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Plans to Advance Financial Infrastructure of Funds Market

Background & Issues

Even as the funds market has continued growing in volume and quality, investors' interest in funds are expected to rise further from a number of factors, such as an aging population.

Among other contributing reasons, tax exemptions on overseas stocks and the need to globally diversify private assets caused assets under management to increase sharply at overseas investment funds, climbing from KRW9.1 trillion at end-2005 to KRW54.9 trillion as of June 18 this year.

As the availability of asset classes for investment has increased, the variety of funds has also broadened to include real estate, special asset, derivatives and other assets in their funds.

But at the same time, the financial infrastructure related to the funds market has been pointed out to have room for improvement.

In a few exceptional cases, investors who held overseas investment funds and fund of funds took advantage of other beneficiary owners by buying into a fund with prior information on the direction of stock prices as funds' base prices are based on the previous day's closing prices.

In other instances, shortfalls in the financial infrastructure related to overseas investment could erode investor confidence as a result of discrepancies in the base price of overseas investment funds.

There is also a loss in efficiency as trades, settlement, and the review of assets held in overseas investment funds are conducted manually.

Improvement Plans

To raise the level of confidence in the base price and improve the efficiency of fund-related systems, the financial supervisory authorities are to jointly develop the financial infrastructure of the funds market with the funds industry.

To prevent buying a fund with foreknowledge in the direction of stock prices, the applicable base price of overseas investment funds and fund of funds will be changed from the current T+1 day to T+2 days.



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To prevent the frequent resetting of the base price, the current base price tolerance will be adjusted after taking into consideration the respective characteristics of each product.

Management instructions and settlements regarding overseas assets will also be automated through 'FundNet', the Korea Securities Depository system that has been automating domestic assets since 2004. Improvements could also see automation being introduced to the review and confirmation process of asset portfolios held by funds.

To provide investor protection, the financial supervisory authorities plan to strengthen their oversight in companies where base price discrepancies are frequent.

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