



Financial Services Commission
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Press Release

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PRINCIPLES AND PLANS FOR AUTHORIZATION OF FINANCIAL INVESTMENT BUSINESSES

<Basic Principles for Future Authorization of Financial Investment Business>

Authorization shall be given in accordance with the following basic principles:

- (1) Authorization for newly created companies or extended business activities should not raise market risks and supervisory concerns.
- (2) Newly authorized businesses should be closely related to existing business activities and promote investors' convenience
- (3) Authorization should diversify existing companies' revenue sources and encourage fair competition in the market.

Detail Plans for Authorization of Financial Investment Businesses

A. Allowed businesses under the existing authorization policy

In principle, all new business authorization applications will be accepted except real estate single-category investment authorization, considering the current market conditions.

※ New add-on business authorization permitted onto existing businesses

① Securities houses / futures dealers

- ◆ Futures dealer authorization by securities houses (brokering and selling of exchange-traded derivatives)
- ◆ Stock trading authorization by futures dealers (brokering and selling of stocks).
- ◆ Stock selling authorization by stock intermediary businesses
- ◆ Acquisition authorization by securities houses
- ◆ Trust business authorization needed for retirement pension management by securities houses (collected investment business authorization needed for retirement pension management of insurance firms included)
- ◆ OTC derivative products selling authorization by securities houses and futures dealers permitted on a limited basis. (limited to standardized products such as ELSs and ELWs)



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- ② Collected investment business operators (asset management companies)
 - ◆ Newly issued special asset collected investment business operator authorization
 - ◆ Expansion of specialized asset management to collected asset management
 - ◆ Fund sales authorization needed for direct sales
- ③ Multi-financial services providers (banks for example)
 - ◆ Currency and interest rate-linked OTC derivatives trading authorization
 - ◆ Investment sales authorization for government bonds (limited to businesses wanting to participate in the competitive bidding of treasury bonds as a PD)

B. Newly permitted businesses

➤ Stocks and OTC derivatives

① Specialized small-scale securities houses

In the interest of encouraging firms to compete with larger-scale investment companies and to enhance the professionalism in the financial sector, new authorization will be given to specialized small-scale securities companies, which will first go through a stringent screening process by outside assessment committee; not being allowed to add-on other financial business operations until the specific sector is evidently developed (within 5 to 10 years).

② The new business will be limited to OTC derivatives that do not raise the overall market risk

● Securities houses

i. Stock-based OTC derivative investment sales authorization

Considering the close connection of the business and the need to have the authorization to become an LP as a liquidity provider to the ELW market, securities houses, which do not already have it, will be granted the authorization.

ii. Non-stock-based (interest rate, currency, commodities) DLS issuance related derivative investment sales authorization

Since there is no reason why these DLSs have to be treated differently than ELS or ELW, to enhance public clients' diversification of assets, the authorization will be granted to those that do not already have it.



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- Banks and other multi-financial service providers
 - i. Authorization shall be granted to banks that engage in investment sales and brokerage businesses of OTC commodity derivatives* in order to provide commodity importers with risk-hedging strategies and encourage fair competition among financial investment service providers.

*commodity derivative products based on underlying assets of energy, metals, and agricultural products

- ii. Authorization pursuant to the FSCMA shall be granted to some investment activities, if necessary, among financial services already provided by banks such as gold banking services¹⁾ or currency swaps linked to government bonds²⁾.

- 1) A financial product that banks convert customers' savings deposited in the local currency into gold based on the international market price for gold and the won/dollar exchange rate. Upon customers' request to withdraw their savings, banks give them back either in currency or in gold. This product falls into a category of non-stock based derivatives-linked securities (DLS).
- 2) Currency swaps linked to government bonds are traded similar to ordinary currency swaps in normal circumstances; however, when credit crisis such as government bond defaults occur, they are cleared earlier than its maturity and pay the counterparty only the discounted amount of cash flow, applying the government bond rate at that moment.

③ Others

- Banks are allowed to engage in selling and acquiring government bonds. Previously, in order for a bank to trade in government bonds, it was required to be a PD (primary dealer); however, such requirement is no longer needed.
- Foreign currency brokerage service providers are allowed to engage in investment brokerage business of debt securities, and fund brokerage companies are allowed to extend their business activities to brokerage services of OTC derivatives linked to currencies or interest rates.

In order to provide companies specialized in brokerage services with mutually reinforcing opportunities and promote fair competition in the market, authorization shall be granted to mutually related investment businesses such as trading of bonds, interest rate derivatives, and RPs.



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➤ Collective investment and trust businesses

- ① Subject to performance* evaluation, authorization shall be given to collective investment business in a single asset such as securities funds.

*e.g. investment advisory business or discretionary investment business providers with more than five-year experience, no change in majority shareholder for the recent one year, and good performance for the recent three years

- ② Authorization shall be granted to banks and securities companies which sell qualified funds but have not been authorized under the FSCMA.
- ③ To meet a variety of demands including customer's asset management, some securities and insurance companies are allowed to engage in trust business. Previously, those companies were allowed to do trust business only in retirement pension management; however, such condition is no longer required.

Principles for the Removal or Change of Limitation on Business Scope

Previously, there have been cases where under the FSCMA, the former the Securities Exchange Act, and the Indirect Investment Asset Management Business Act, securities and asset management companies were granted with authorization with limited scope of business activities.

※ For example:

- ① When a securities company was authorized for futures contract trading, it was required to limit its business activities only to domestic markets.
- ② When an asset management company was to renew authorization under the FSCMA, it was required to meet the condition that it would be engaged only in a limited scope of collective investment business, for example, excluding MMF.

When companies file applications to change or cancel such limitations on the scope of their business activities, the FSC will review additional requirements* for these companies to meet to extend their business activities and policy implications** and approve change or cancellation, if all conditions are met.

*business feasibility, human resources and facilities, control of conflicts of interests

** (i) whether there is any change in circumstances or justifiable reason to change or cancel the limitation

(ii) whether the change or cancellation would bring any negative impact to management or investor protection



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Future Plans

The FSC will have a briefing session in June on details of authorization principles and evaluation criteria for the related industries and begin to receive applications for authorization in July.

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