



Financial  
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Commission

## Press Release

July 2, 2015

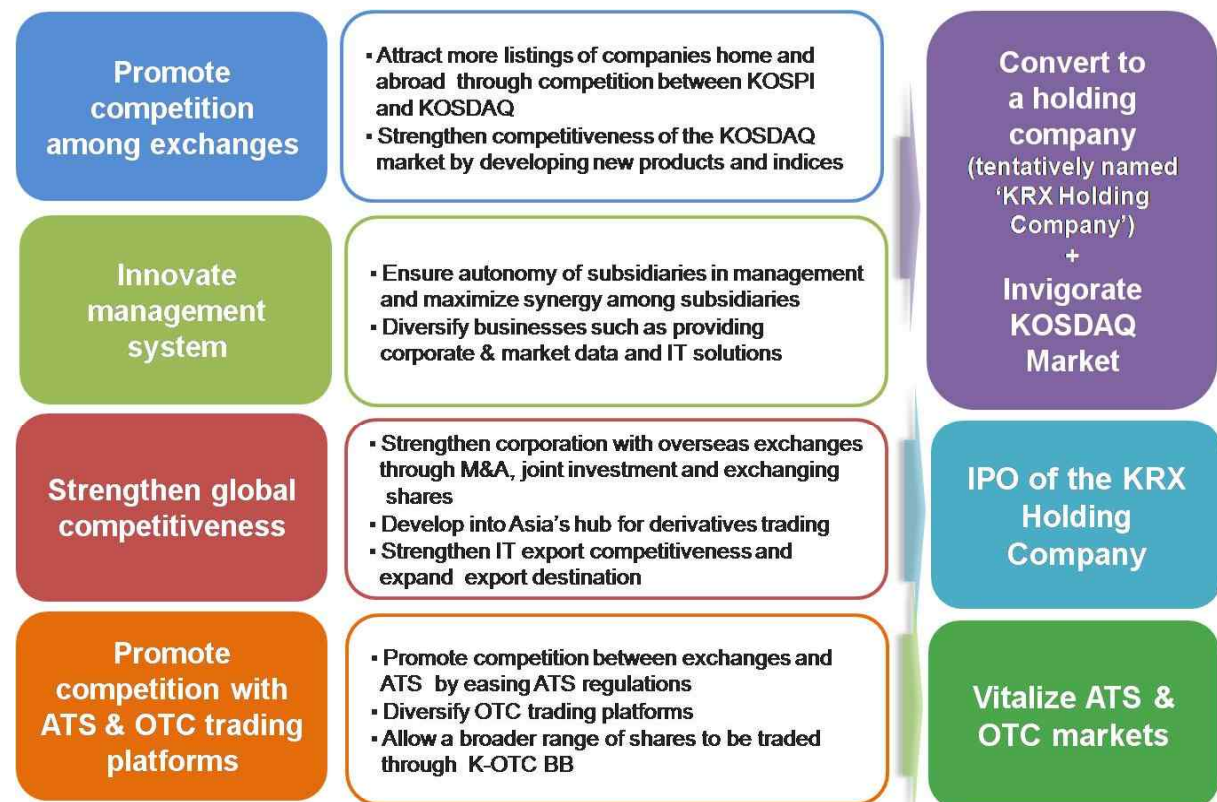
Creative Finance  
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### PLAN TO STRENGTHEN COMPETITIVENESS OF KOREA'S EXCHANGE MARKETS

The FSC outlined its plan to strengthen global competitiveness of Korea's exchange market and boost vitality in capital markets to fund innovative businesses.

#### KEY POINTS

- ✓ The structure of the Korea Exchange(KRX) will be converted into a holding company with spin-offs of KOSPI, KOSDAQ and derivatives markets.
- ✓ The spun-off KOSDAQ will be fostered to compete with KOSPI by attracting listings of innovative companies and introducing new products and services.
- ✓ The KRX holding company (tentatively named 'KRX Holding Company') will pursue its IPO.
- ✓ Relevant regulations will be eased to facilitate the establishment of alternative trading system(ATS).



## **BACKGROUND**

Free capital flows and technology innovation intensify competition among stock exchanges across the globe. The world's stock exchanges are actively seeking mergers, acquisitions and strategic alliances to expand their business scope and offer competitive services. A growing number of stock exchanges are turning themselves into a form of holding companies for organizational flexibility in response to changing market environment. Listings of stock exchanges have become increasingly common.

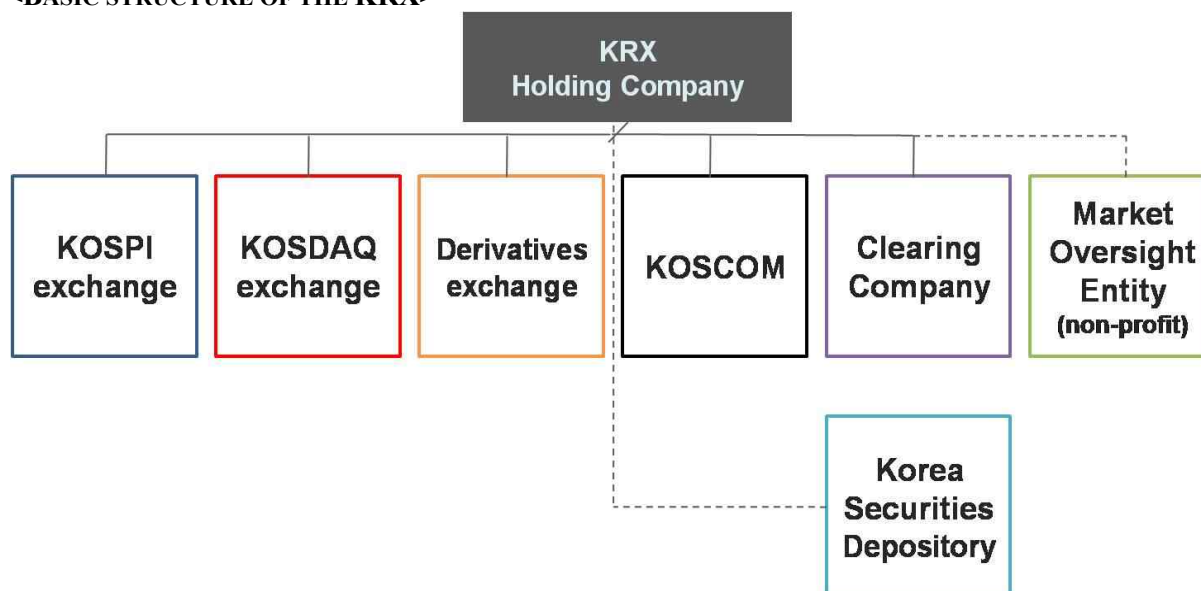
The Korea Exchange(KRX) has been isolated from such a global trend, partly due to its status of monopolistic, non-profit public institution.<sup>1</sup> The plan announced today is to reorganize the KRX's ownership and governance structure to boost competitiveness and vitality of Korean stock exchange market.

## **DETAILED PLAN**

### **1. Establish a holding company of the KRX**

The FSC will make a revision to the Financial Investment Services and Capital Markets Act(FSCMA) to establish a holding company of the KRX(tentatively named 'KRX Holding Company'). The KOSPI, KOSDAQ, and derivatives exchanges will be spun-off into subsidiaries of the KRX. Market oversight functions, currently carried out by the Market Oversight Commission under the KRX, will be transferred to a non-profit entity which will act independently from the KRX Holding Company and its subsidiaries. The Korea Securities Depository(KSD) will reorganize its governance structure to minimize a possibility of conflicting interests, given its role as public infrastructure. Clearing business, currently conducted separately by each exchange, will be carried out by a specialized clearing company. The company will also clear OTC derivative products.

#### **<BASIC STRUCTURE OF THE KRX>**



<sup>1</sup> The KRX's status of public institution was lifted by the Ministry of Strategy of Finance(MOSF) on January 29, 2015.

## **2. Strengthen competitiveness of KOSDAQ**

The KOSDAQ will be fostered to strengthen its competitiveness after its spin-off by boosting KOSDAQ listings of large blue-chip companies, introducing new products and services, and expanding its capital. KOSDAQ listing requirements will be revised to flexibly respond to growth pattern of venture companies and changes in market demand. New products such as KOSDAQ index-linked ETFs, ETNs and derivatives will be developed and listed. KOSDAQ will expand its business scope to support the issuance of CBs, BWs by KOSDAQ-listed companies. It will also expand its strategic alliance with fast-growing Asian exchange markets. Spinning off KOSDAQ, the KRX Holding Company will invest sufficient capital into the subsidiary to support its stable operation in its initial stage. Funds raised through the IPO of the KRX Holding Company will be invested mainly into KOSDAQ.

## **3. Pursue an IPO of the KRX Holding Company**

The KRX Holding Company will pursue its IPO to seek more profits, raise funds for expansion into overseas markets and new businesses, and strengthen global cooperation with overseas exchanges. The listing of the KRX Holding Company will require approval by the FSC in order to ensure a fair review of listing requirements.

The KRX Holding Company will undertake preparatory tasks prior to the IPO – for example, how to handle shareholders' profit from the IPO, how to adjust its public functions such as market oversight. A separate deliberative body will be set up to discuss how to return part of profits that the KRX has gained from its monopolistic position to the public. Market oversight functions will be transferred to a non-profit entity that acts independently from the KRX Holding Company and its subsidiaries.

## **4. Strengthen global competitiveness of KRX**

The KRX Holding Company will undertake an initiative to expand to overseas market through M&As or joint venture with global exchanges. It will also seek cross listings with global derivatives exchanges to make Korea as Asia's hub for derivatives market. The KRX will participate in the network of global exchanges through strategic alliance such as exchanging shares.

## **5. Foster competition with ATS and OTC trading platforms**

The FSC will ease ATS-related regulations and expand OTC trading platforms to promote competition among diverse players and eventually enhance quality of services.

## **SCHEDULE**

The revision to the FSCMA to convert the KRX into a holding company will be discussed at the National Assembly's regular session in the second half of this year.

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