

‘OMNIBUS ACCOUNT’ FOR FOREIGN INVESTORS TO BE INTRODUCED

The FSC announced its plan to introduce an ‘omnibus account’ in an effort to make it easier for foreign investors to trade locally-listed stocks in the Korean stock market. The newly-introduced ‘omnibus account’ system is expected to reduce transaction costs of global asset management companies and make foreign investors’ trading of locally-listed stocks through global securities firms more convenient.

BACKGROUND

There is a growing need for the current foreign investor registration system to improve in accordance with changes in investment environment and practice:

- As Korean capital markets become mature, index-tracking passive funds are taking an increasing share of the Korean stock market. Such passive funds are sensitive to transaction costs as they frequently trade in many countries.
- Global securities companies are increasingly using omnibus accounts to process multiple trading orders.
- The current foreign investor registration system needs to become less rigid as foreign investment limits in Korean companies were abolished except for some public purpose companies(PPC).

Against the backdrop, the FSC held meetings with various market participants to gather their opinions and came up with measures to make the foreign investor registration system more reasonable and flexible in accordance with global practice. The system will be improved based on the following three principles:

- enabling convenient trading of foreign investors in the Korean stock market in accordance with global investment practice,
- ensuring conformity with other relevant domestic rules such as Korean tax regime, and
- maintaining monitoring of foreign capital in Korea’s FX and stock markets, which is one of the core functions of foreign investor registration system.

CURRENT FOREIGN INVESTOR REGISTRATION SYSTEM

1. Overview

Foreign investors must register¹ their personal information with the FSS before they can invest in locally-listed stocks. Upon registration, foreign investors are issued Investor Registration Certificate(IRC) and the IRC holders can open a trading account through securities companies or banks. The main purpose of the system is to monitor foreign capital and manage foreign investment limit in certain public-purpose companies(PPC)².

2. Stock trading procedures for foreign investors

In order to trade at KRX stock markets, every foreign investor has to first contract a standing proxy³(custodian bank), register with the FSS, and open accounts⁴. Trading orders and settlements are made through the accounts.

< Trading procedures for foreign investors >



Domestic securities company receives trading orders from each foreign investor, processes stock transactions on his/her behalf, and notifies trading results to the investor.

Domestic custodian bank, or standing proxy, makes settlement after cross-checking trading orders and settlement instructions.

Special nominee account(SNA) system was introduced for the trading convenience of global asset management companies which enables placing of consolidated trading order of multiple foreign investors. However, it is inefficient in a way that processed orders have to be distributed to each foreign investor account, and settlements have to be made separately for each account.

INCONVENIENCES UNDER THE CURRENT SYSTEM

1. Foreign investors

Despite that funds are being managed by a single entity – asset management company – trading orders and settlements of each fund registered with the FSS have to be made separately, which makes the procedures inconvenient and complicated

SNA system which allows consolidated order was introduced to reduce such inconvenience, however, the effect is limited since it does not allow consolidated settlement⁵.

¹ As of end-2015, 42,000 foreign investors have registered, among which collective investment vehicles(CIV) represent 46%

² Foreign investors are subject to share ownership restrictions on certain exchange-listed companies that are designated as a PPC.

³ processes settlement and exercises shareholder rights on behalf of foreign investors

⁴ (securities company) trading account

(custodian bank) securities account, payment accounts in won and foreign currency

⁵ After placing consolidated trading orders, such orders made on the trading day(*T-day*) have to be distributed to each account by the following day(*T+1*), and give settlement instructions for each account to standing proxy.

Foreign individual and institutional investors seeking to trade KRX-listed securities are experiencing inconveniences because they cannot use the account established at a securities company of their country of origin. In order to trade exchange-listed stocks in Korea, they are required to newly open separate accounts, and make trading orders and settlements through a brokerage company and custodian bank in Korea.

2. Domestic financial companies entrusted with foreign investment

When entrusted with trading orders of KRX-listed securities from a global asset management company, a domestic financial company has to open separate accounts for each fund and place separate trade orders for each fund. When making trade orders and settlements through a SNA, the entrusted domestic financial firm has to receive distribution instructions of each fund, notify trade results of each fund, and report distribution results of each fund to the FSS before $T+1$.

Custodian banks also have to bare significant administrative burdens when processing settlements. A custodian bank has to receive separate settlement instructions for each fund from the asset management company($T+1$), and process settlements after cross-checking every trade result with the settlement instruction($T+2$).

INTRODUCTION OF ‘OMNIBUS ACCOUNT’ SYSTEM

- Omnibus account will be introduced to enable a consolidate processing of trading orders and settlements through a single account.
- Foreign investor registration system will be improved to minimize inconvenience in investment procedure, while maintaining the registration system for the purpose of monitoring foreign capital flows and managing foreign investment limit in PPC.

What is the omnibus account?

The ‘omnibus account’ is a single account established by a global asset management company or securities company for the purpose of consolidating trading orders and settlements from multiple clients. The account is held under the name of the global asset management company and securities company.

Opening the account

A qualified global asset management company and securities company have to register with the FSS in order to process trading orders and settlements on behalf of the end clients.

* An end clients are limited to a foreign national who is issued a foreign IRC with the FSS in advance.

Consolidating trading orders

The account holder receives trading orders from their end clients and places multiple orders through a single account with a Korean securities company.

Consolidating settlements

The orders are settled through the single account.

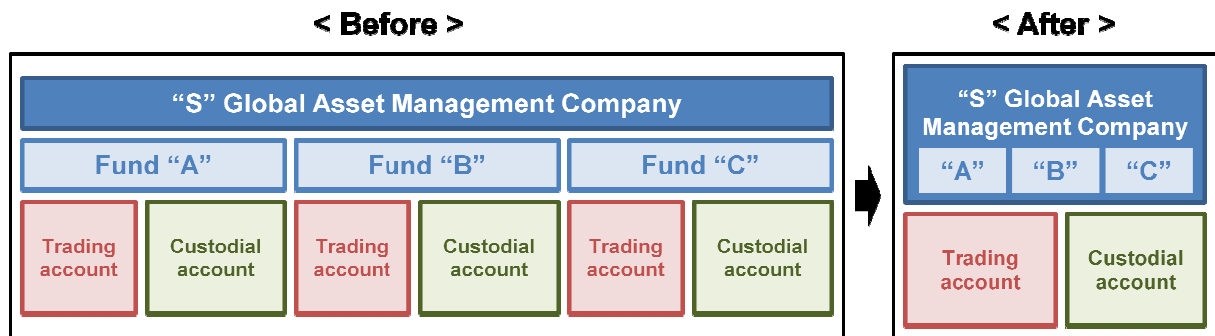
Reporting to FSS

Securities companies or custodian banks are to be required to report to the FSS($T+2$) the details of end clients’ investments that they received from the account holder.

EXPECTED CHANGES WITH THE INTRODUCTION OF OMNIBUS ACCOUNT

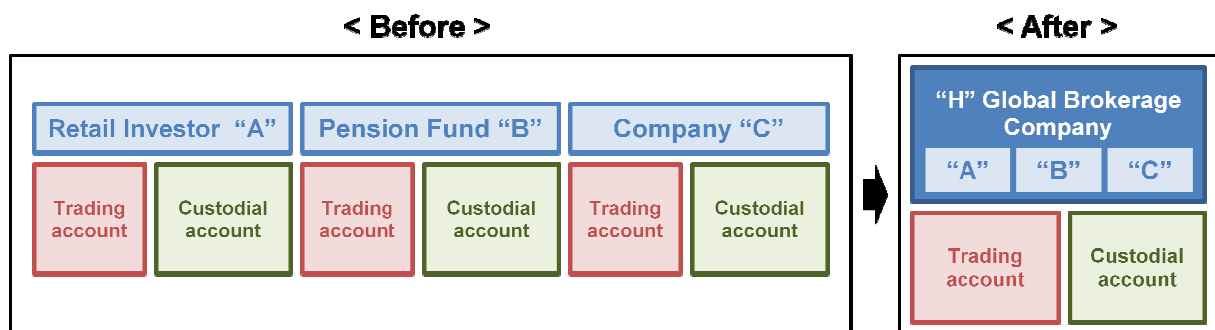
1. Account management, trading, and settlement procedures will be made more convenient for global asset management companies.

The introduction of omnibus account will greatly reduce inconvenience and transaction costs for global asset management companies as separate accounts for each of funds are integrated into a single account.

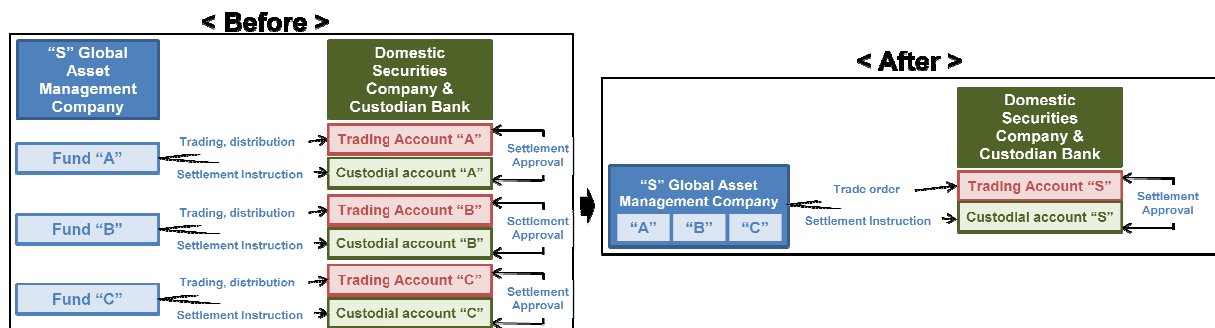


2. Foreign retail investors or small and medium-sized institutions will be able to invest in Korean stocks more easily through global brokerage companies.

They will no longer have to open separate accounts for each funds to invest in the Korean stock market.

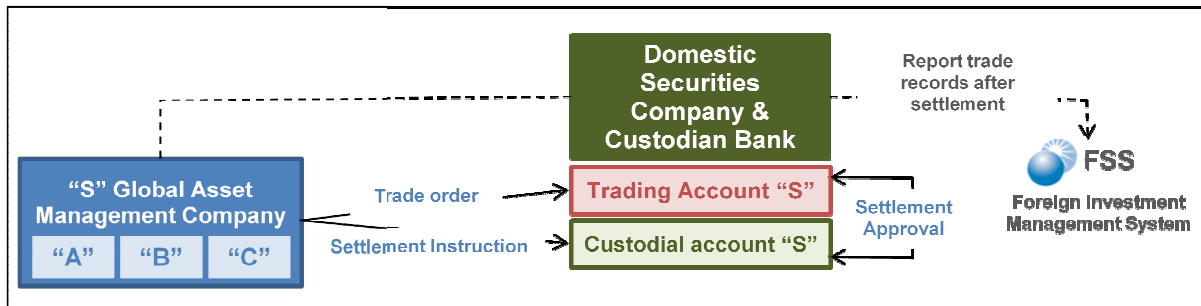


3. Administrative work burdens for domestic securities companies and custodian banks will be greatly reduced



4. Core function of foreign investor registration system will be maintained

Monitoring will be kept on foreign capital flows in Korea's FX and stock markets as investments of end clients after settlements will be reported to the FSS.



IMPLEMENTATION SCHEDULE

- The Regulation on Financial Investment Business will be amended and electronic system of Foreign Investment Management System will be reformed by April for the introduction of omnibus account system.
- The omnibus account will be fully introduced in 2017 after going through a test operation starting from May, 2016.

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For any inquiry, please contact Foreign Press & Relations Team at fsc_media@korea.kr