

## FINANCIAL POLICY PLANS TO SUPPORT INNOVATION-LED GROWTH

The FSC announced financial policy plans to support Korea's innovation-led economic growth. At a proclamation ceremony, President Moon Jae-in said further growth of innovative start-ups in Korea are held back by banks' lending practice, still centered on real estate collateral and financial records, resulting in a "financial divide" between large businesses and start-ups. That requires finance to play a more active role in funding innovation and sharing risk. FSC Chairman Choi JongKu laid out a comprehensive policy scheme to create a financial ecosystem for innovation-led growth.

### **I. Overhaul bank's corporate loan approval system**

Banks' corporate loan approval system will be overhauled to help start-ups - often with limited collateral - secure loans using their innovative ideas, technology and other various assets as collateral. Under the new loan approval system, the FSC aims to enable innovative start-ups and SMEs to secure loans worth KRW100 trillion over the next three year.

- ▶ A new collateral scheme will be introduced<sup>1</sup> in which corporate borrowers are allowed to combine various assets including patent, production equipment and inventories as a single package of collateral.
- ▶ A comprehensive evaluation model which assesses the potential value of a company's technology as well as creditworthiness will be introduced as early as 2020.

### **II. Capital market reforms**

The FSC will help innovative start-ups raise funds based on their growth potential. By easing listing requirements, the FSC aims for Kosdaq listings of 80 companies in high-growth, high-tech sectors including biotech over the next three years.

- ▶ The government aims to raise KRW15 trillion over the next five years with public and private investments to support scale-ups in new-growth sectors such as future vehicles, bio-health and fintech.
- ▶ The FSC will expand a pool of venture capital with regulatory reforms for private equity funds (PEFs), securities firms and professional investors.<sup>2</sup>

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<sup>1</sup> The Ministry of Justice will propose a revised bill on the Security Over Movable Property Act in the first half of 2019.

<sup>2</sup> 「FSC Proposes Capital Market Reform」 (Press Release, November 1, 2018)

- ▶ Kosdaq listing requirements will be tailored to sector-specific needs of new industries – e.g. biotech. New listing standards will be established, differentiated from those for the manufacturing sector, to better reflect their growth potential.<sup>3</sup>
- ▶ As an incentive to boost venture capital investments, the government will cut tax rates on securities transactions by 0.05%p for listed stocks on Kосpi and Kosaq and unlisted stocks.<sup>4</sup>

### **III. Finance industrial innovation**

The FSC will financially support business reshuffling of SME manufacturers in key industries and business innovation in the service sector.

- ▶ The government will provide KRW12 trillion over the next three years to finance SME manufacturers' business reshuffling and R&D investment.
- ▶ The government will provide KRW60 trillion over the next five years to boost growth in the service sector – e.g. tourism, health care, contents and logistics.

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<sup>3</sup> Details will be available with a revision to Kosdaq regulations by KRX in the first half of 2019.

<sup>4</sup> Further details will be finalized by the Ministry of Finance and Strategy.