

POOL OF PROFESSIONAL INVESTORS TO BE EXPANDED

Amendments to the Enforcement Decree of the Financial Investment Services and Capital Markets Act (FSCMA) were approved at a cabinet meeting on August 13, 2019.

As part of the government's capital market reform efforts, the amendments are to expand a pool of professional investors and open a new trading venue, called 'K-OTC Pro,' exclusive to professional investors to trade unlisted equity securities. The amendments are aimed at encouraging professional investors, well aware of investment-related risks and able to afford such risks, to play an active role in funding innovative start-ups and SMEs.

MAJOR CHANGES

I. POOL OF PROFESSIONAL INVESTORS TO BE EXPANDED

The FSC eased requirements for individual investors to be registered as 'professional investors' and streamlined the registration procedures.

Previously, 'professional investors' were required to satisfy two criteria at the same time: loss-absorbing ability and investment experience. The amendments divide tracks to be registered as 'professional investors' in two categories for (i) individual investors without financial expertise and (ii) individual investors with financial expertise.¹

(Track1) Individual investors without financial expertise

General investors without financial expertise are still required to meet both criteria of loss-absorbing ability and investment experience. Instead, thresholds for each criterion are eased as follows:

- ▶ **(INVESTMENT EXPERIENCE)²** Investors are required to maintain a financial investment account with a minimum balance of KRW50 million for at least one year within the most recent five years.
- ▶ **(LOSS-ABSORBING ABILITY)³** Investors are required to meet a minimum annual

¹ With eased requirements for 'professional investors,' the number of 'professional investors,' currently about 1,950 as of end-2018, is expected to increase to approximately 370,000 to 390,000.

² Previously, a minimum balance of KRW500 million was required.

³ Previously, a minimum annual income of KRW100 million or a total asset value of more than KRW1 billion were required.

income of KRW100 million for single income earners (KRW150 million in case of combined income of couples), or a minimum net asset value of KRW500 million.

(Track2) Individual investors with financial expertise

Those who have financial expertise are allowed to be registered as ‘professional investors’ if they only meet the criterion of ‘investment experience.’ Investors with financial expertise include public certificate holders (e.g. accountant, lawyer, patent attorney), financial investment business professionals, and professional financial service certificate holders (e.g. investment advisory service, investment management, investment product analysis).

Registration procedures for professional investors will become easier. They no longer have to go through the registration procedure with the Korea Financial Investment Association as they previously did. Financial investment companies are allowed to decide whether their customers qualify for ‘professional investors’ upon their application. However, inappropriate screening by financial investment companies – e.g. recognizing their customers as ‘professional investors’ against their will or recognizing unqualified investors as ‘professional investors’ – will be punished as unfair business practices.

II. 「K-OTC Pro」 FOR TRADING OF UNLISTED EQUITY SECURITIES

A new trading venue called ‘K-OTC Pro’ will be launched for professional investors to trade unlisted equity securities.⁴ Given the new market is exclusive to professional investors, issuers will be exempted from regulations on submission of securities report and public disclosures.

IMPLEMENTATION SCHEDULE

The amended rules will go into force on the day of proclamation, expected to be made within this month. However, rules regarding individual professional investors will be implemented in three months since the date of proclamation after completing establishment of necessary electronic system.

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⁴ equity securities of PEF, start-up investment association, venture investment association, and new technology business investment association