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FSC CHAIRMAN DISCUSSES IMPROVING RULES FOR RETAIL INVESTORS

FSC Chairman Eun Sung-soo met with the heads of the Korea Financial Investment Association and major securities firms on August 27 and held talks on the current market situation, temporary ban on stock short sale, improving rules for retail investors and channeling liquidity to the real economy sectors.

(CURRENT MARKET SITUATION) With the recent resurgence in COVID-19 cases, volatility has increased in stock markets. However, compared to other major economies, the stock markets in Korea have shown a tendency of faster recovery. In the recovery process, retail investors have been strong net buyers. Overseas observers attributed this rapid recovery in Korea's stock markets to successful pandemic response and market trust for the stability of the country's macroeconomic conditions and corporate performances. In this regard, the six-month short sale ban put in place from March 16 until September 15 may have contributed in maintaining the stability of investor sentiment for retail investors.

(TEMPORARY BAN ON SHORT SALE) The six-month temporary ban on stock short-selling is scheduled to expire on September 15. Public hearings and discussions on whether to extend the short sale ban revealed that the short sale system needs to be improved. In particular, there are legitimate concerns about the legality of short-selling activities involving institutional and foreign investors while the system is less accessible by retail investors. This suggests that the public demand for more transparency and fairness in opportunities also exists on the issue of stock short sale. Measures to strengthen sanctions and penalties on illegal short-selling activities are pending at the National Assembly. In addition, the government will reexamine the role of market makers while considering their side effects. The government also plans to look into ways to promote short sale for retail investors as it expands the horizon of opportunities.

(IMPROVING RULES FOR RETAIL INVESTORS) To achieve a stable development of stock markets, it was necessary for the government to focus on institutional investors. However, more weight should be given to retail investors through a balanced approach as direct investing by retail investors continues to grow. As such, the government should improve the rules to address the inequity in opportunity felt by retail investors in the field of stock short sale. Improvements are also necessary in the current credit-based loan system which allows some securities companies to maintain high interest rates while the Bank of Korea cut its base rates 75 basis points this year. The current IPO stock subscription process is also disadvantageous for retail investors and needs to be updated.

(CHANNELING LIQUIDITY TO REAL ECONOMY) The enhanced liquidity created by the government's monetary easing may lead to more volatility if liquidity is concentrated in the real estate and other asset markets. In this regard, the government has been pursuing policies to channel boosted liquidity to the real economy sectors. Stock markets can play a crucial role in this regard. If promising companies are successfully listed on stock markets with their stock prices soaring, it is a win-win for both the investor and the company. As such, the government will work to improve the IPO rules to promote more promising businesses to be listed on stock markets even when they lack favorable sales performance and are not able to generate profits immediately.

The government's new deal initiative is designed to encourage investments and participation from the private sector in order to promote a virtuous cycle of money flows in the market. Securities companies have an opportunity to diversify their sales and profit structures by participating in the new deal projects. The government will strongly support their efforts and participation.

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