

November 18, 2020

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## GOVERNMENT TO INCREASE AMOUNT OF IPO SHARES AVAILABLE FOR RETAIL INVESTORS

### **BACKGROUND**

With the recent surge in the number of retail investors in stock trading, their demand for active participation in initial public offering (IPO) has increased. In the IPO process, however, it is important to secure the active participation of institutional investors to precisely price an IPO share. Securities firms as underwriters also play an important role in allocating shares. As stock prices fluctuate widely after an IPO, the expanded participation of retail investors in IPOs could make them more vulnerable to investment risks. The measures announced today are intended to ensure active participation of institutional investors and autonomy of the underwriters in an IPO process, while allowing more participation of retail investors.

### **KEY MEASURES**

**(ALLOCATION METHOD)** Currently, shares available for retail investors, more than 20% of IPO stock, are allocated usually in proportion to the number of subscribed shares, or the amount of deposits. To give equal opportunities for all subscribers who deposited a minimum amount, more than half of shares available for retail investors will be allocated in the same amount, regardless of the amount of deposits.

**(LARGER ALLOCATION FOR RETAIL INVESTORS)** i) Retail investors will be allocated a maximum 5% of unsubscribed shares for employee ownership; ii) As the 10% rule, which allocates 10% of public shares to high-yield funds, is set to expire by the end of this year, the amount of shares allocated to high-yield funds will be reduced to 5% from next year, while the remaining 5% will be allocated to retail investors.

**(SUBSCRIPTION AND ALLOCATION PROCESS)** Multiple subscriptions by a retail investor using different underwriters in an IPO will be restricted. Securities firms will be required to inform retail investors of investment risks in subscription advertisements.

### **IMPLEMENTATION SCHEDULE**

The new rules will apply to securities registrations submitted after the revision to the Regulations on Securities Underwriting Business by the Korea Financial Investment Association (KoFIA) at the end of November 2020.

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