

FSC CHAIRMAN DISCUSSES FOSTERING STABILITY AND DEVELOPMENT IN CAPITAL MARKETS

FSC Chairman Koh Seungbeom met with relevant officials in the capital markets¹ on September 30 and held talks on ways to promote stability and development in the capital markets.

The following is a summary of Chairman Koh's remarks.

RECENT TRENDS IN CAPITAL MARKETS

(QUANTITATIVE EXPANSION) The capital markets in Korea have recently seen an unprecedented level of expansion with the market capitalization of listed stocks reaching more than KRW2.65 quadrillion as of September 29, 2021, which is about 1.3 times greater than the level of GDP (KRW1.93 quadrillion at the end of 2020). The number of retail investors also increased significantly to almost ten million individuals. As a result, many securities firms and asset management companies saw their largest gain in net profits last year.

(MAJOR CHANGES) Despite this quantitative expansion in market size, there are a few notable changes to consider. There have been cases where domestic firms chose an overseas market for their company listing and domestic investors are increasingly investing in foreign stocks. There is also a growing tendency of investors bypassing intermediaries and directly engaging in investment. The emergence of new asset class, such as virtual assets and non-fungible tokens, is often considered to be in competition with the more traditional financial investment instruments.

POLICY ISSUES

Amid rapid growth and structural changes taking place in the capital markets, it is necessary to focus more on the fundamentals. The capital markets should first and foremost help individuals with asset formation by providing steady returns over the long run. In particular, the capital markets should help divert much concentrated assets in the real estate market and introduce diverse investment instruments and services to help absorb shocks originating from demographic changes and other socioeconomic transitions taking place.

Second, the capital markets cannot turn profits without the growth of companies. In order to introduce attractive investment products, the market functions of discovering

¹ Financial Supervisory Service, Korea Exchange, Korea Securities Depository, Korea Securities Finance Corporation, Korea Financial Investment Association, Korea Capital Market Institute, securities firms and asset management companies

promising companies should work effectively. To this end, the government has worked to promote corporate financing and expand favorable listing rules for tech companies, while seeking measures to introduce business development companies and to improve rules on crowdfunding and public offering of securities. These tasks require close cooperation and coordination between the government and the industry.

These functions of the capital markets can only work well when there is stability in the financial system. The recent incidents over misselling of derivatives-linked funds have demonstrated how investor trust can crumble in a moment. With increased number of sales venues and growing complexity in investment products, investor protection is an ever more important yet complicated issue. Historically, market distortion and excessive leverage have always been problematic for maintaining stability in the markets—breaking balance between the financial sector and the real economy while creating bubbles in asset markets. Although crisis tends to come unnoticed, it is the responsibility of all of us to pay close attention to even the smallest sign of abnormalities and be prepared.

The authorities will also strictly respond to illegitimate activities that may lead to market disturbances, such as price rigging, illegal operation of online stock advisory networks and other unlicensed operations.

The government will continue to maintain close communication with market participants and experts for having discussions over diverse issues.

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