

FSC AND FSS DECIDE TO IMPLEMENT MEASURES TO MITIGATE STOCK MARKET VOLATILITY

In response to a recent increase in stock market volatility, the financial authorities held a market monitoring meeting on July 1 and decided to take measures to mitigate market volatility.

- (a) Requirement for securities firms to maintain a certain level of collateral ratio on their credit loans will be exempted for three months starting from July 4, which may be extended if needed.¹
- (b) Caps on the amount of daily buy orders for acquisition of treasury stocks by listed companies will be eased for three months starting from July 7, which may be extended if needed.²
- (c) The FSS and KRX will jointly conduct a special inspection on short-selling practices.

Financial authorities will continue to monitor financial market conditions, holding a joint market monitoring meeting on a weekly basis, and consider or implement market volatility mitigation measures, if needed, in accordance with contingency plans.

BACKGROUND

With the KOSPI falling below 2,300 points during intraday trading on July 1, Korea's stock market has shown continued and increasing volatility³ on concerns over rising interest rates, expanding inflation, possibility of a global economic recession, etc.

Although increased stock market volatility will be inevitable for a while, given macroeconomic conditions at home and abroad, it is necessary to stay alert about the spread of excessive market anxieties.

MEASURES TO MITIGATE STOCK MARKET VOLATILITY

The FSC and FSS held a joint market monitoring meeting with relevant securities institutions⁴ chaired by FSC Vice Chairman Kim So-young to examine financial

¹ The FSS has issued a no-action letter on July 1, 2022.

² The FSC will approve this measure at its regular meeting on July 6, 2022.

³ KOSPI: 2,685.90 (May 31), 2,377.99 (June 29), 2,332.64 (June 30), 2,305.42 (July 1)

KOSDAQ: 893.36 (May 31), 762.35 (June 29), 745.44 (June 30), 729.48 (July 1)

⁴ Financial Supervisory Service (FSS), Korea Exchange (KRX), Korea Securities Depository (KSD), Korea Financial Investment Association (KoFIA), Korea Securities Finance Corp.

market conditions after the market closing on July 1, and decided to implement the following measures to mitigate market volatility.

- (a) For three months from July 4 to September 30, which may be extended if needed, securities firms will be exempted from a requirement⁵ to maintain a certain level of collateral ratios on their credit loans in order to ease concerns about a surge in forced liquidation with declining stock markets. (The FSS has issued a no-action letter on July 1)⁶
- (b) For three months from July 7 to October 6, which may be extended if needed, current caps on the amount of daily buy orders for acquisition of treasury stocks by listed companies will be eased. (The FSC will approved the measure at its regular meeting on July 6)⁷

Acquisition methods	Current caps	Eased measures
Direct acquisition	The smaller amount between [the larger amount between (a) and (b)] and [1% of total issued stocks] (a) 10% of stocks reported to be acquired (b) 25% of the daily average trading volume for 30 days prior to the date of resolution by the board of directors	The entire amount of stocks reported to be acquired
Trust acquisition	1% of the total issued stocks or less	Within the amount of the entire trust asset

※ Acquisition of Treasury stocks cannot exceed the amount of profits available for dividend under the Commercial Act.

- (c) The FSS and the Korea Exchange (KRX) plan to jointly conduct a special inspection on short-selling practices to check the current state of short-selling practices and any possibility of market disruptions.

The FSC and the FSS will hold a regular market monitoring meeting on every Friday to monitor financial market conditions and consider or implement market volatility mitigation measures, if needed, according to contingency plans.

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⁵ Article 4-25(3) of the *Regulation on Financial Investment Business* requires securities firms to secure a collateral ratio of 140% or more on their credit loans and maintain a certain level of collateral ratios set by their internal standards.

⁶ With a temporary exemption taking effect from July 1, securities firms are allowed to flexibly adjust their collateral ratios on credit loans, considering borrowers and market conditions.

⁷ Article 5-6(2) (*Special Exceptions to Buy Orders for Acquisition of Treasury Stocks*) of the *Regulation of Issuance, Public Disclosure, etc. of Securities* allows the KRX to ease limitations on the amount of daily buy orders for acquisition of treasury stocks by listed companies upon obtaining approval from the FSC, for the purpose of protecting investors and maintaining market stability.