

AUTHORITIES PLAN TO SET UP TASKFORCE TO EFFECTIVELY AND FLEXIBLY RESPOND TO ELS MARKET ANXIETY

- FSC and FSS hold meeting to check sales of ELS products tracking HSCEI and potential loss to investors.
 - Authorities to set up a taskforce at FSS to adequately respond to relevant issues such as mediation of conflicts and inspection of sellers.
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The Financial Services Commission and the Financial Supervisory Service held a meeting on December 22 to check current situation regarding the sales of Hong Kong index-linked equity-linked securities (ELS) by domestic financial institutions. They have recently been a source of anxiety for investors following sharp declines in Hong Kong's Hang Seng China Enterprises Index (HSCEI). At the meeting, the authorities reviewed the status of sales of ELS products linked to HSCEI and ways to effectively handle potential loss to investors.

As of November 2023, the total volume of Hong Kong index-linked ELS products sold to investors amounted to KRW19.3 trillion. Among them, about 82.1 percent or KRW15.9 trillion were sold by banks. Most of the ELS products considered to be problematic are the ones issued after early 2021 when the HSCEI was at its peak. These ELS products are set to mature in early 2024 with the potential of inflicting loss to investors.

To prepare for this possibility of investor loss, the financial authorities have instructed the sellers of these Hong Kong index-linked ELS products to come up with response strategies. In addition, from the end of November 2023, the FSS has been conducting inspections on the twelve major banks and securities firms to closely scrutinize their marketing process, sales incentives and so on.

Moreover, to be able to effectively and flexibly deal with various situations arising from potential investor losses, the authorities will set up and operate a taskforce run by the FSS to handle consumer complaints and mediation of conflicts and to carry out inspections and take needed actions on the sellers.

At the meeting, FSC Secretary General Lee Se-Hoon said that the authorities will closely communicate with the market to ensure the availability of relevant information needed in the market, so that there is no increase in market anxiety concerning the Hong Kong index-linked ELS products. Secretary General Lee also added that based on the outcome of FSS's inspections, the authorities will strictly deal with violation of laws and quickly prepare remedies for investors, while considering additional measures for regulatory improvement if deemed necessary.

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