

# Improvement of Financial Supervision in the Korean Capital Market

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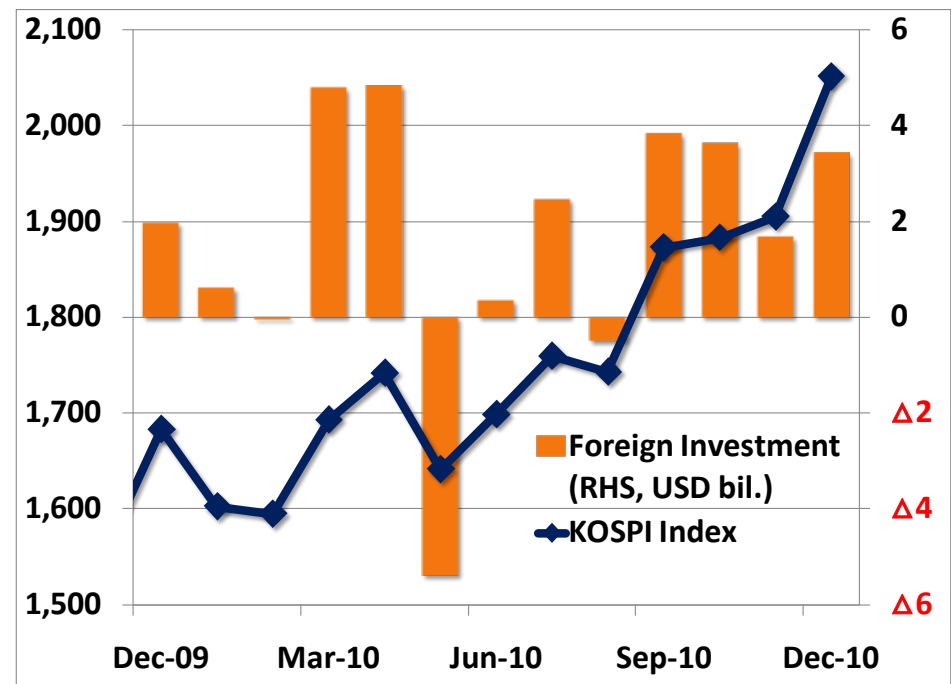
# I. Capital Market Overview

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## 1 Stock Market

**KOSPI up 21.9% in 2010 on economic recovery, corporate earnings, and foreign investors (KOSDAQ 0.6%↓ , MSCI Korea 25.3%↑ )**

	2007	2008	2009	2010
Market cap. (\$, billions)	1,124	495	835	1,093
No. of listed firms	1,769	1,803	1,798	1,806
Daily Trading volume (\$, millions)	8,171	5,943	6,206	6,748
Foreign ownership (%)	31.0	27.2	30.5	31.2



## 2 Derivatives Market

**(OTC)** Continuing growth

**(On-exchange)** Continuing growth, but Not much demand for derivatives due to the global financial crisis

		2007	2008	2009	2010
OTC derivatives (KRW, trillions)		8,622	12,512	13,133	9,983 <sup>1)</sup>
Exchange-traded derivatives (# of contracts, in 10,000)	KOSPI200 futures	4,776	6,643	8,312	8,676
	KOSPI200 option	270,984	276,647	292,099	352,590
	3 yr Korean Treasury futures	1,356	1,592	2,005	2,786
	US dollar futures <sup>2)</sup>	575	666	4,116	6,569

1) As of September 30, 2010;

2) Contract size changed from USD50,000 to USD10,000 on April 27, 2009;

## 3

### Overview of Financial Investment firms

- **62 Securities firms** (domestic: 42, foreign: 20 – 8 locally incorporated & 12 branches),  
**9 Futures companies**
- **80 Asset management companies, 239 Investment advisory companies**  
– continuing growth

	Total	Sec.	Futures	Assert Ma.	Inve. Adv.	Trust <sup>1)</sup>	Other <sup>2)</sup>
<b>Total</b>	<b>415</b>	<b>62</b>	<b>9</b>	<b>80</b>	<b>239</b>	<b>11</b>	<b>14</b>
<b>Domestic</b>	<b>267</b>	42	8	57	135	11	14
<b>Foreign - Locally incorp.</b>	<b>31</b>	8	-	23	-	-	-
<b>Foreign - Branch</b>	<b>117</b>	12	1	-	104 <sup>3)</sup>	-	-

1) Trust company not providing any financial business other than trust service

2) 4 credit rating agencies, 1 merchant bank, 3 fund brokerage companies, 6 companies for brokerage of foreign exchange

3) Off-shore investment advisory companies registered in Korea after being established in foreign jurisdictions

## **II. Improvement of Financial Supervision in the Korean Capital Market**

## II. Improvement of Financial Supervision in the Korean Capital Market

Enhance Transparency,  
Investor Confidence, and Efficiency



Investor  
Protection

- Improving business practice for selling financial products
- Expanding information support
- Increasing investors' benefits

Market Risk

- Enhancing risk management of financial firms
- Timely adequate response on market fluctuation

Operation  
System

- Improving market operation system
- Increasing fairness of credit rating
- Amending reg. for implement. of K-IFRS

Supervision for  
Orderly Market

- Strengthening surveillance of excessive competition
- Strengthening surveillance of unfair trade and illegal practice



## II. Improvement of Financial Supervision in the Korean Capital Market

### 1 Investor Protection

#### Improving business practice for selling financial products

- Mystery shopping on sales of funds (June 2010)
- Amended 'working rules on investment recommendations' to strengthen investor protection (Aug. 2010)

#### Expanding information support

- Expanded the scope of information disclosure on funds operation (July 2010)
- Provided the guide book for preparing plain and useful report on management results for investors (Nov. 2010)

#### Increasing investors' benefits

- Introduced investor account transfer scheme, and lowered fund commission and fee (Jan. 2010)
- Provided the guideline for the designation of order agent (Oct. 2010)

## II. Improvement of Financial Supervision in the Korean Capital Market

### 2 Market Risk

#### Enhancing risk management of financial firms

- Management Standard for Liquidity Risk,  
i.e. max. daily balance of call-money (Aug. 2010)
- Improvement of Net Capital Ratio(NCR),  
i.e. computing risk capital charge for loan(Dec. 2010)

#### Timely adequate response on market fluctuation

- Improvement for transactions of futures·options  
i.e. reducing scope of futures·options trans.  
subject to margin (Dec. 2010)
- Introduction of Evaluation Standard for Excessive  
Credit Loan and Countermeasures per Each Stage  
(Oct. 2010)

## II. Improvement of Financial Supervision in the Korean Capital Market

### 3 Operation System

#### Improving market operation system

- Exclusive trading system for bonds ('FreeBond') to promote OTC market for bonds (Apr. 2010)
- Monitoring system for private funds(hedge fund) i.e. reporting establishment & operation information of private fund (Dec. 2010)

#### Increasing fairness of credit rating

- Internal Control Standard setting up duties of officers & employees of credit rating agencies (Jan. 2010)
- Comparative Disclosure System to compare outcomes of credit rating from different agencies (Nov. 2010)

#### Amending reg. for implementation of K-IFRS (Apr. 2011)

- Amendments of Standards for computing NCR, evaluating allowance for credit losses, and classifying asset quality (Dec. 2010)
- Amendments of Management Status Evaluation, and Business report form (Dec. 2010)

## II. Improvement of Financial Supervision in the Korean Capital Market

### 4 Supervision for Orderly Market

#### Strengthening surveillance of excessive competition

- Strengthening supervision over the advisory wrap accounts (Aug. 2010)  
i.e. ban on the investment solicitation by guaranteeing high-profit
- Strengthening risk management for overly high-interests products to prevent failure of pension companies (Apr. 2010)

#### Strengthening surveillance of unfair trade and illegal practice

- Notified authorities of illegal practices of financial firms found during examinations (Oct. 2010)  
i.e. OTC stock brokerage without license
- Special Examination on unsound business practices (June 2010)  
i.e. window dressing of asset management company effecting on the closing price

# Q & A

