



MARKET REPORT - KOREA



OCTOBER 2023

Contents

- I. Korea Financial Investment Association
- II. Overview of the Korean Capital Market
- III. Equity Market
- IV. Bond Market
- V. Derivatives Market
- VI. Current Market and Regulatory Issues

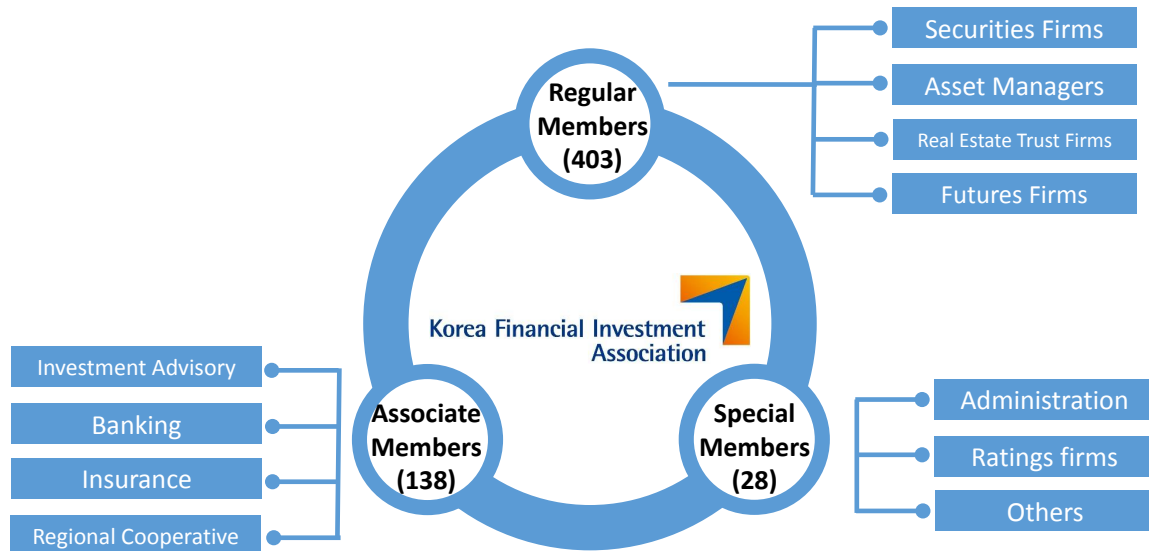
I. Korea Financial Investment Association (KOFIA)

- Trade association & SRO(self regulatory organization) established in Feb. 2009, through merger of 3 associations, Korea Securities Dealers Association (est. 1953), Asset Management Association of Korea (est. 1996) and Korea Futures Association(est. 1996)
- Membership comprised of 569 financial institutions including 61 securities firms, 325 asset managers, 14 real estate trust firms and 3 futures firms

Financial Investment Services and Capital Market Act

Article 283 of Chapter I of PART VI

“The Korea Financial Investment Association shall be established for the purposes of maintaining business practices between members, ensuring fair trade, protecting investors, and promoting the sound development of financial investment services”



Policy Advocacy

- Works closely with lawmakers and supervisory authorities to ensure legislation of policies conducive to investors and improve government regulations.
- Interacts with business leaders, scholars and researchers from the financial investment industry to study and analyze latest issues in the industry and ensure government policy to reflect the needs of the private sector.

Recent Efforts



Supported the reduction of the securities transaction tax rate on listed securities by 0.05 %p



Proposed ways to improve the retirement pension scheme, such as introduction of default options



Fostered global business environment by improving credit regulation on overseas branches



Strengthened the capital market's role of providing capital to early stage companies

- As a self-regulatory organization of the Korean financial investment industry, the KOFIA pursues a responsive, flexible and market-friendly self-regulation
- The KOFIA operates the Self-Regulation Committee which makes decisions on regulatory enactments and revisions and mandates member firms and individuals' compliance with regulations

Areas of Self-Regulation

1 Enacting regulations and codes of best practices

Establishes business conduct regulations for member firms on sales and other common business activities, as well as various guidelines

2 Reviewing standard agreements and ads

Conducts preliminary reviews on ads of financial investment products and business activities of member firms to ensure investor protection

3 Conducting member inspections

Conducts member inspections and imposes sanctions on regulatory violations

4 Registering and administering qualification exams

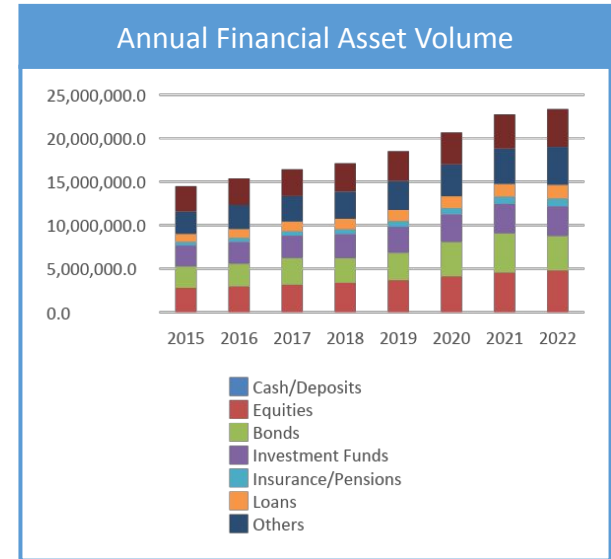
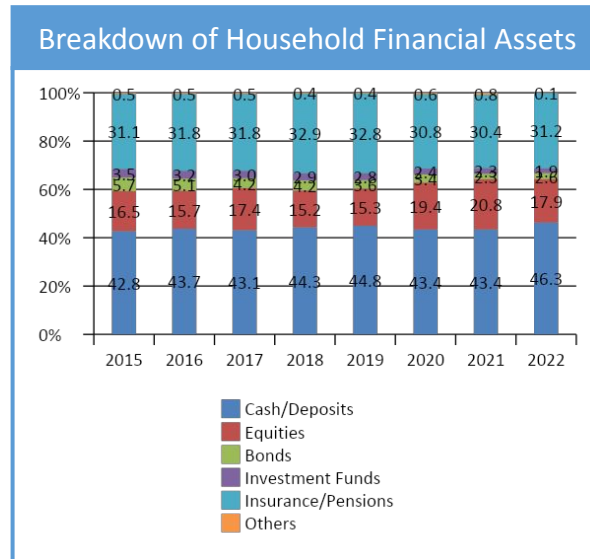
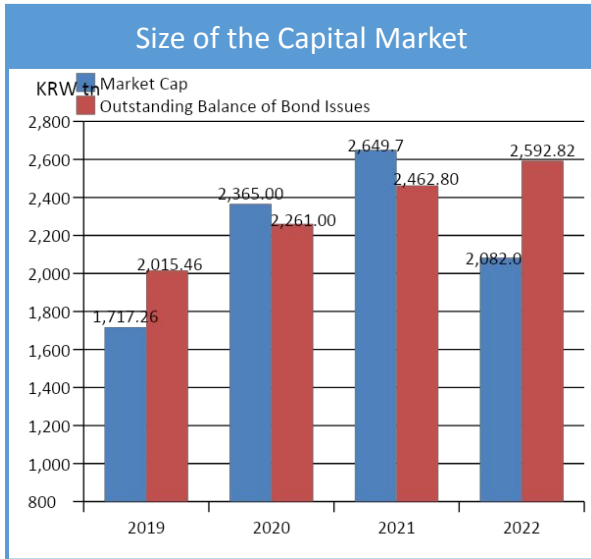
Grants accreditations to financial professionals who pass qualification exams, complete training, and register through the KOFIA

5 Mediating disputes

Runs an investor protection center with an in-house attorney to arbitrate disputes between member firms and their customers too safeguard investors' interests

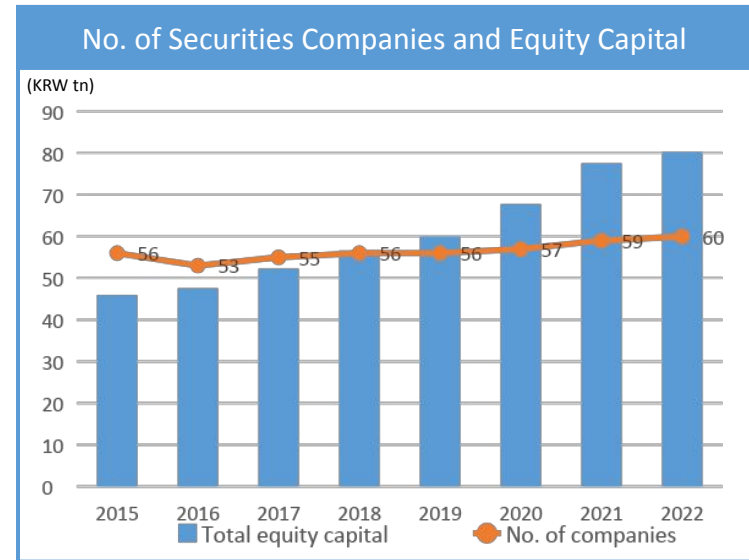
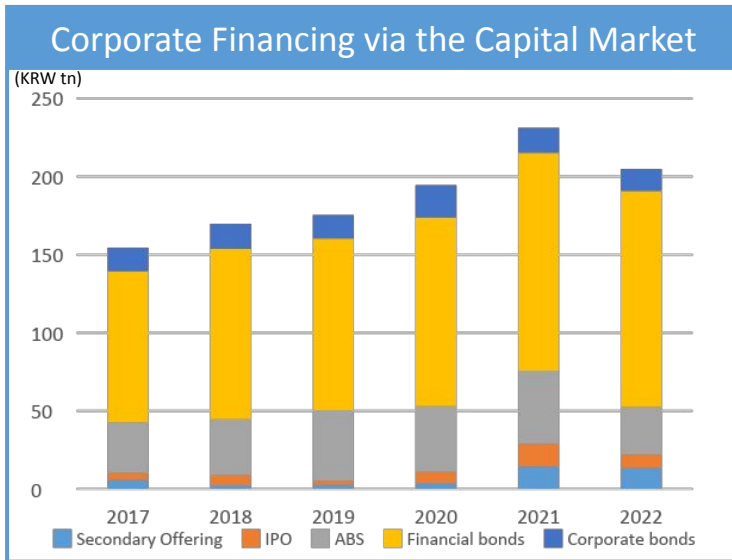
II. Overview of the Korean Capital Market

- As of the end of 2022, the stock market cap. reached KRW 2,082tn (USD 1.6tn), 21.4% lower than the previous year
 - Financial investment instruments (equity, bond, fund) account for 22.4% of all financial assets of the household (2022)
 - Korea's total financial assets steadily increased to KRW 23,410tn (USD 17.4tn), with growth rate of 2.4% YoY (2022)
- ⇒ In 2023, the Korean stock market has fluctuated due to the US interest rate hikes, and the market cap. has been on the rise in the first half, but on the decline in the second half of 2023



II. Overview of the Korean Capital Market

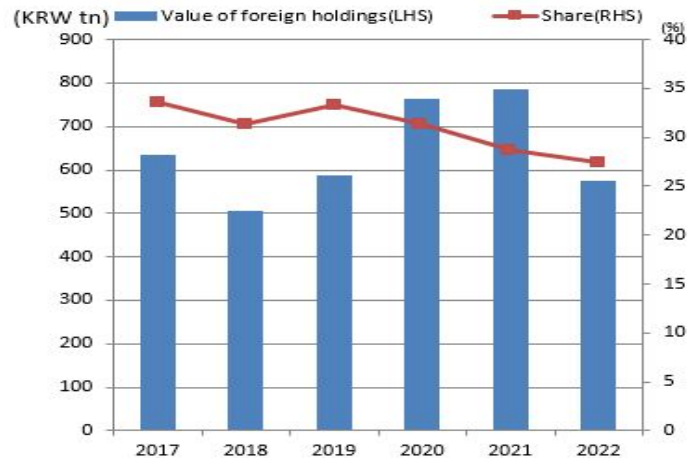
- As of the end of 2022, corporate financing through the capital market (equity, bond) decreased 11.6% to KRW 204.6tn (USD 151.3bn) compared to the previous year
- As of the end of 2022, the number of securities firms has increased by one to a total of 60 securities firms and the equity capital remained on an upward trajectory



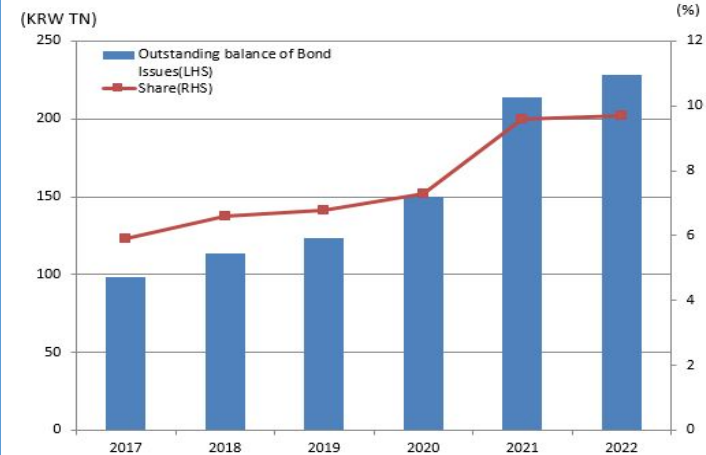
II. Overview of the Korean Capital Market

- As of the end of 2022, foreign holdings of listed stocks were worth KRW 573.8tn (USD 454bn), which is 31.4% of the total market cap.
- As of the end of 2022, foreign holdings of listed bonds were valued KRW 228.6tn (USD 181bn), which is 9.7% of the total outstanding balance of listed bond issues

Foreign Investment Trend in Stock Market



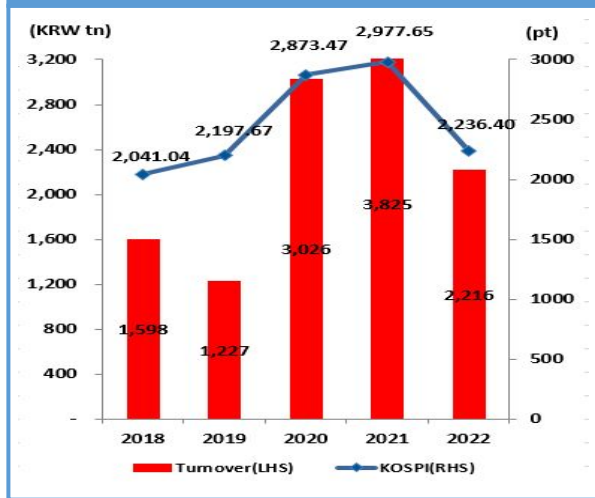
Foreign Investment Trend in Bond Market



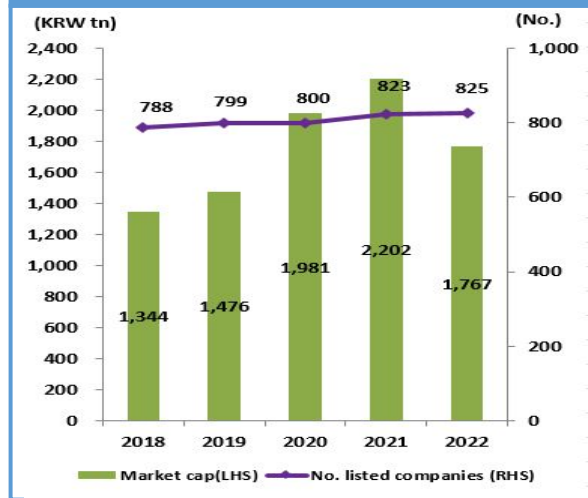
III. Equity Market

- The 2022 KOSPI closed at 2,235pts, indicating a steep decline from that of 2021 (2,977pts, all-time high for the year end)
 - The market cap. of listed companies decreased to KRW 1,767tn (USD 1.3tn)
 - The proportion of individuals' transactions reached 2/3 of all transactions due to their active participation
- ⇒ Although the KOSPI has been on the rise in the first half and on the decline in the second half of 2023, it has rose by 14.4% YoY to 2,465pts, with the market cap. increasing by 15.2% to KRW 1,956tn (USD 1.4tn) as of the end of Sep. 2023

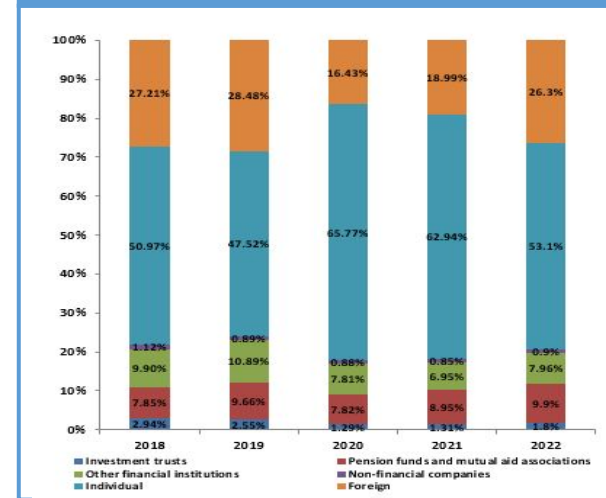
Stock Market Trend



Listed Companies and Market Cap.



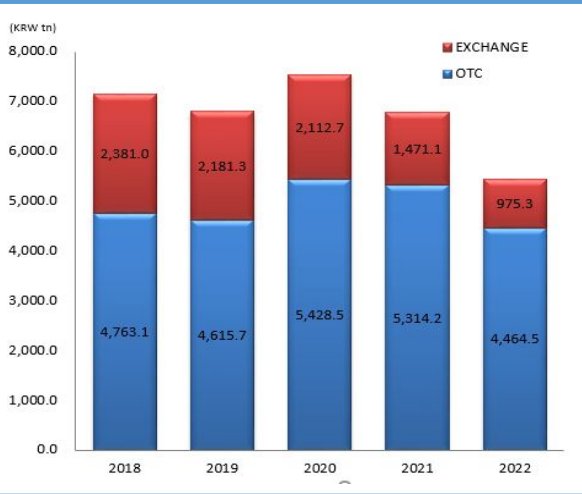
Stock Market Breakdown by Investor Type



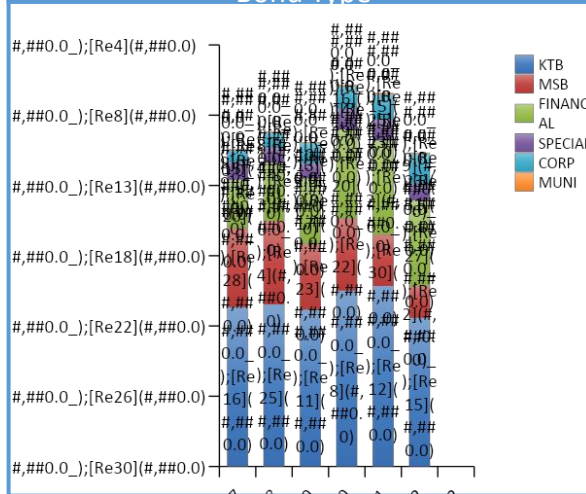
IV. Bond Market

- In 2022, bond trading in both the exchange and OTC markets declined significantly to KRW 5,439.8tn (USD 4tn), decreasing 19.8% YoY, owing to rapid market rate hikes and reduced bond issuance
 - While the trading volume of the KTBs is the largest in both markets, financial bonds and MSBs take up the second largest trading volume in the exchange and OTC markets, respectively
- ⇒ The bond market has also been experiencing a decline in trading volume this year following last year, but the average daily trading value has increased 7% YoY to KRW 23tn (USD 17bn) as of the end of September 2023

Annual OTC and Exchange Trading Volume



Annual OTC Trading Volume(notional) by Bond Type

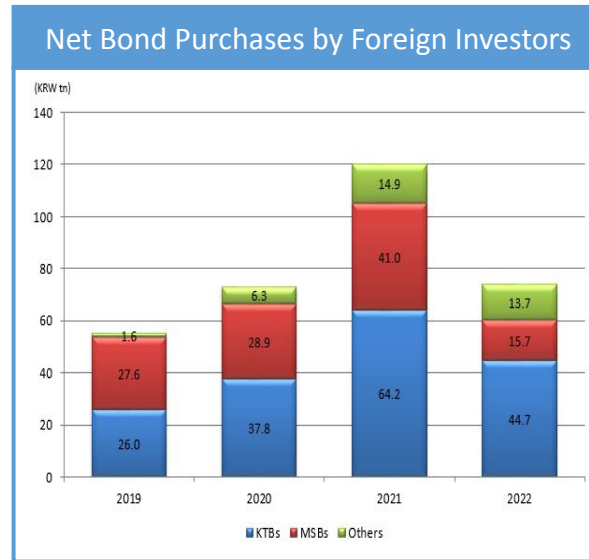
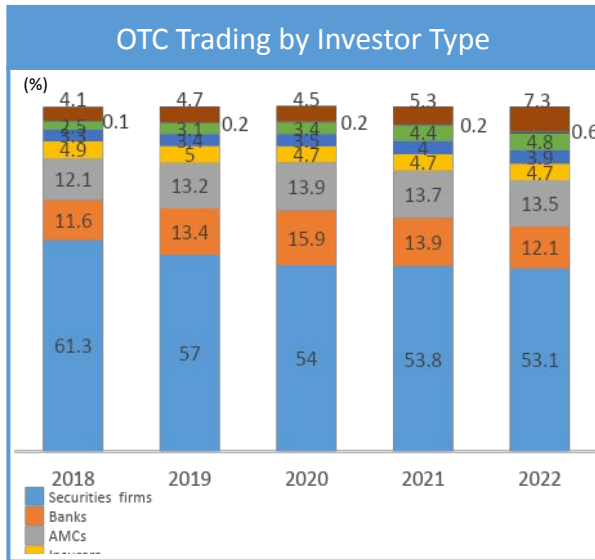


Annual Exchange Trading Volume(notional) by Bond Type



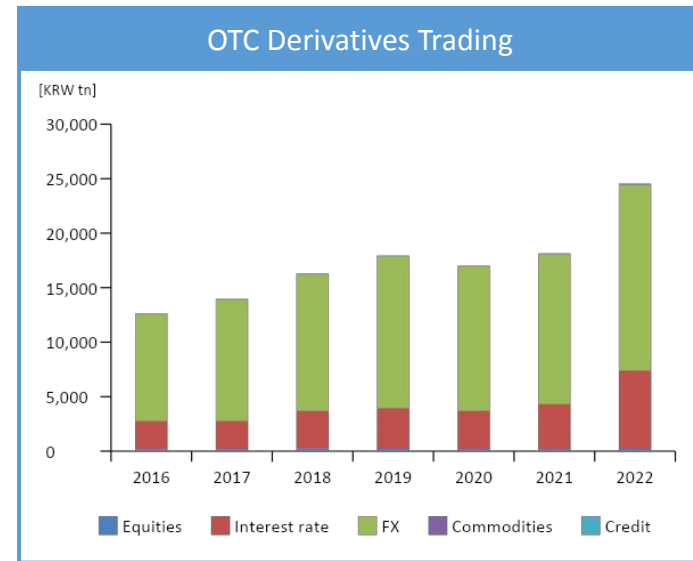
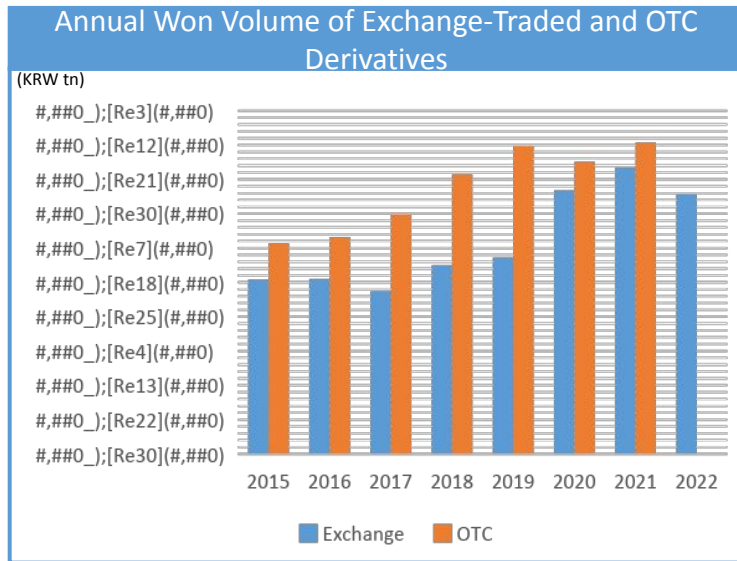
IV. Bond Market

- Korean financial companies including securities firms and banks take up the largest portion of bond trading in the OTC market, standing at around 87.3%
- Korean bond is an attractive asset for foreign investors, with their net bond purchase volume in 2022 amounting to KRW 74.2tn (USD 23bn) and bond holdings standing at KRW 228.6tn (USD 135bn) as of the end of 2022



V. Derivative Market

- In 2022, approximately 2,058.22mn contracts were traded, a slight decrease (9.8%) compared to 2021
- Derivatives based on FX and interest rate account for the largest ratio in derivative trading, standing at around 98.6%
⇒ The trading volume of FX, the largest segment of the OTC derivative market, has fluctuated but declined to 19,658 contracts as of the end of September 2023, halving YoY



- ❖ Meeting the global standard
 - Abolishing the foreign investor registration system and strengthening disclosure obligations of listed companies in English
- ❖ Establishing a regulatory framework for the digital asset market
 - Overhauling regulations on fractional investment and issuance and distribution of tokenized securities
- ❖ Increasing incentives for the private sector to invest in innovative start-ups
 - Adopting the BDC system, converging the merits of both public offering funds and private equity funds (underway)
- ❖ Fostering ESG-related and green companies
 - Strengthening the ESG-related disclosure system and expanding financial support of the government
- ❖ Following up the progress of introducing the ATS in Korea, Nextrade (The licensing process is underway after the completion of the incorporation process)

Thank You

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