

行政院及所屬各機關出國報告

(出國類別：考察)

赴韓國洽談簽署中韓資訊交換瞭解備忘錄事宜
暨考察韓國金融監理制度及外資管理制度報告

出國人員：財政部證券暨期貨管理委員會

劉副組長科、劉科長建中

出國地點：韓國漢城

出國日期：九十年十一月五日至十一月九日

報告日期：九十一年二月七日

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行政院及所屬各機關出國報告提要 識別號：C09100067

出國報告名稱：赴韓國洽談簽署中韓資訊交換瞭解備忘錄
事宜暨考察韓國金融監理制度及外資管理
制度報告

頁數 25 含附件： 是 ☒ 否

出國計畫主辦機關/聯絡人/電話
財政部證期會/李小萍 /27747202

出國人員姓名/服務機關/單位/職稱/電話
劉 科/財政部證期會/第八組/副組長/27747116
劉建中/財政部證期會/第八組/科 長/27747265

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關鍵詞： 資訊交換瞭解備忘錄、韓國金融監理制度、韓國
外資管理制度

內容摘要：

近年來中、韓兩國股市蓬勃發展，由於兩國股市發展同質性高，如能藉由簽署中韓資訊交換瞭解備忘錄，交流彼此之管理經驗，對提升中、韓兩國股市在亞太地區之地位，以及吸引外資之投資，有絕對之助益。

另我國刻正推動金融檢查體制之改革，籌劃成立「金融監督委員會」，而韓國自一九九七年十一月便已著手進行金融改革，雖然其金融改革的路途並非完全順遂，但其推動改革的作法、決心與經驗卻值得我國借鏡參考。

為奉行 陳總統宣示「全面招商、吸引投資、活絡經濟、創造就業」以振興國內經濟，本會刻正積極蒐集及參考各國外資管理制度，全面檢討現行外國專業投資機構制度，以引進更多機構投資者投資國內股市。

赴韓國洽談簽署中韓資訊交換瞭解備忘錄事宜暨 考察韓國金融監理制度及外資管理制度報告

壹、緣起

近年來中、韓兩國股市蓬勃發展，其規模和重要性不僅在新興市場（Emerging Markets）中名列前矛，甚或超前部分已開發國市場（Developed Markets）之地區如新加坡等。由於兩國股市發展同質性高，雙方刻正推動證券市場國際化和自由化之際，如能交流彼此之管理經驗，參考雙方之制度與規範，對提升中、韓兩國股市在亞太地區之地位，以及吸引外資之投資，有絕對之助益。是以本會如能與韓國證券期貨主管機關建立良好合作關係，對中、韓雙方之市場發展將具實質利益。爰本會曾於二〇〇〇年四月去函韓國金融監理局表達本會欲與韓方簽訂資訊交換瞭解備忘錄（MOU）之意願，嗣韓方表示因本項議題涉及授權政府與外國交換非公開資訊等敏感問題，相關法律尚未獲國會通過，執行上仍有其困難，惟仍願與本會就外資管理心得及雙邊合作等問題，進一步洽商並交換意見。去（二〇〇一）年十月再次電洽韓方仍獲相同回復。緣此，職奉派率劉科長建中赴韓國金融監理局洽談相關事宜。

另我國刻正推動金融檢查體制之改革，籌劃成立「金

融監督委員會」，以建置更有效率之市場管理機制。而自一九九七年七月爆發亞洲金融危機以來，韓國金融產業即遭受嚴重衝擊而面臨瓦解，在接受國際貨幣基金（International Monetary Fund, 簡稱 I M F）紓困之前提下，自一九九七年十一月便已著手進行金融改革，雖然其金融改革的路途並非完全順遂，有待克服的困難尚多，但其推動改革的作法、決心與經驗卻值得我國借鏡參考。尤其中韓兩國所面臨許多金融問題上有其相類似之處，如能藉其經驗作為我國改革之參考，將有助於我建置完善之金檢體制，爰本次赴韓亦順道考察韓國之金融監理組織架構。

再者，陳總統日前曾宣示「全面招商、吸引投資、活絡經濟、創造就業」以振興國內經濟，顯示積極吸引外資來台投資已係我國既定之政策。而本部更於九十年六月二十五日至七月二日由顏前部長率團赴歐洲舉辦「台灣投資論壇」海外招商活動，以招募外資投資國內股市，擴展上市（櫃）公司籌募資金之來源，進一步說明引進優良外資之重要性。惟隨著國際資金快速流動之趨勢，以及國內政經情勢之變化，多數外資表達盼我國能取消外國專業投資機構制度，以利其投資我國股市，緣此顏前部長並指示全面檢討現行外國專業投資機構制度，以引進更多機構投資者投資國內股市，活絡國內資

本市場。

據瞭解目前外資至韓國投資證券，仍須向該國證券監理機關辦理登記後，始得從事投資。而韓國之證券市場與我國較具競爭力，兩國股市在摩根史坦利（M S C I）新興市場指數所占權重亦在伯仲之間，故如能參考其外資管理制度，汲取其優點，同時瞭解開放前後該國證券市場所遭受之衝擊影響，及其證券周邊單位之反應，對本會制定未來外資管理架構頗有助益。故本次赴韓亦順道考察韓國外資管理制度。

貳、洽商簽署中韓資訊交換瞭解備忘錄事宜

一、我方談話重點摘要：

（一）回顧過去我國證券主管機關致力於擴大市場規模、提升企業募集資金的效率、發展新金融商品、推動股票跨國上市並積極參與國際證券組織等各項措施，皆使我國證券市場更加自由化、紀律化及國際化。惟在邁向國際化的同時，更須汲取各國經驗，以強化我國證券市場體質。

（二）截至二〇〇一年十月止，我國已與包括美國、英國、日本等十九個國家及地區簽署資訊交換瞭解備忘錄，藉以推展與各國之證券監理合作。例如我國與香港地區證券主管機關不

定期派員至對方瞭解所屬證券商分支機構在當地國之經營概況，以防堵不當資金流動及炒作股市；協助泰國證券主管機關查核相關資料；其他諸如與各國之意見交換等。

(三) 近年來中、韓雙方股市蓬勃發展，臺灣證券交易所和韓國證券交易所已於二〇〇〇年簽訂合作備忘錄，據以交流雙方證券市場之相關資訊。我國企盼能提高兩國合作之層次，雙方證券主管機關能進一步簽署備忘錄，藉由參考雙方之管理制度，以及交流彼此推動市場國際化和自由化之經驗，以提升兩國在國際股市之地位。

二、韓方談話重點摘要：

此次會議韓方表達其無法簽訂 MOU 之真意為中、韓兩國無正式外交關係，且此亦涉及外交部權責，一旦正式請教該部意見，必定會因政治因素而不予同意，故建議雙方證券主管機關可透過類似本次考察之方式，及中、韓交易所間之合作方式，進行交流。

參、韓國金融監理之組織架構

一、韓國金融監理委員會

韓國金融改革首要工作即是將金融管理機構予以整

合，其目標則在移除以往政府的嚴重干預，轉而為促使市場機能的積極發揮。規劃工作始自一九九七年，由直屬總統的金融改革小組負責推動，其結果設立了一專司金融事務之金融監理委員會（Financial Supervisory Commission—FSC），於一九九八年四月一日開始運作，總承後續一切金融改革事項。該委員會成立同時，既有之銀行、證券、保險及非銀行之金融管理機構等四個單位併入該委員會監理架構之下，但證券管理委員會（Securities Supervisory Board）因所掌管之業務有其特殊性，因此繼續在 FSC 下單獨以委員會形式出現外（名稱為 Securities and Futures Commission—證券暨期貨管理委員會，一九九八年四月一日成立），其餘均以功能為取向，整併為「組」（office）或「處」（bureau）運作。

由於 FSC 之功能重在政策之形成、法律之釐訂（事實上金融法律案之提案權在財經部—Ministry of Finance and Economy，但依法均應徵詢金融監理委員會意見後方稱適法），至於實際之執行，則交由金融監理服務公司（Financial Supervisory Service—FSS）負責，並於一九九九年一月一日開始運作。

此一「政策」與「執行」分立的兩段式架構，除在運作上有上下的監督關係外，尚且透過人員之兼任達到相互了解以利溝通之目的。以金融監理委員會為例，該委員會

設於總理之下，置委員九人，該等委員均由總統任命，任期三年，其中主任委員係由內閣建議，再由總統派任，該主任委員同時兼任金融監理服務公司之總裁。至於副主任委員則依財經部建議由總統派任。而副主任委員同時兼任證券暨期貨管理委員會之主任委員（至於證期會其他常任及非常任委員則由 FSC 之主任委員推薦，經總統任命總計五席，任期三年），又 FSC 委員中有三席為常任，經主任委員推薦而任命，六席為非常任，而其中三席為依職務擔任，包括財經部之副部長、韓國央行副總裁、韓國存保公司總裁；剩下其他之三席，分別為經財經部長推薦之會計專家、經法務部長推薦之法律專家，及韓國工商協會總裁推薦之產業代表擔任之。金融監理委員會職掌範圍大體上可分為三部分：

- （一）與金融監理有關問題之解決
- （二）對下級金融監理單位所為之指導
- （三）金融重建計劃之推動。

二、韓國金融監理服務公司

金融監理服務公司係一無資本之特殊公司，其經費來源為：（一）政府撥付（二）韓國央行撥付（三）相關金融事業及發行人之繳付，至於各機構或事業撥繳之比例上限及其他相關事宜，則由總統以命令另訂之。此外 FSS 在財務上亦可借款、保留盈餘等。在組織架構上，FSS 之總

裁來自 FSC 主任委員之兼任已如上述，至於其他高階人員則有副總裁四位，助理總裁九位，均係由總裁建議後，經 FSC 任命。另置總稽核一名，由 FSC 主任委員建議經總統任命以示慎重；另有首席會計師一名逕由總裁指派。有關內部單位之編制架構於二〇〇〇年計有三十二個部門（department），六室（office），三個海外辦公室及四個地方性辦公室。於二〇〇一年經整編減縮為二十四個部門、五室、三個海外辦公室（紐約、倫敦、東京）及四個地方性辦公室（如圖二）。

金融監理服務公司之職掌範圍為：

- （一）對各種金融公司的監督
- （二）對不公平金融交易行為及其他違法行為之調查
- （三）對金融公司之一般性查核
- （四）會計及審計制度之研究與相關資料之審查
- （五）消費者保護
- （六）金融公司與一般大眾間爭議之仲裁。

三、韓國金融監理組織之評析

- （一）韓國金融監理兩階段之建制，將政策與執行相互分開，在執行部分，則以公司組織方式運作不仰賴政府預算，透過對被監理事業收取管理服務費用之方式，達到一定程度獨立運作目的，避免掉不必要的掣肘，應屬其金融改革中最重要部分之一。

- (二) 金融監理委員會之建制係將原銀行、證券、保險及非銀行之其他金融監理等四大監理機構合而為一，以達到金融監理一元化目的，惟組織架構中獨對證券、期貨業務部分，以其市場管理之特殊性，另於委員會中設立證券暨期貨管理委員會，專責證券期貨業務之處理，並且所聘之委員，除主任委員係 FSC 副主任委員兼任外，其他四位，依規定均必須是對證券與期貨業務具有豐富經驗之行政管理或學界、業界人士擔任。此種以專業為標準另立特別資格條件之作法，與一般學者認為直接金融遠較間接金融，無論在制度規劃及實際運作管理上更為複雜，因此須網羅較為熟練 (sophisticated) 之專才參與，否則難克有成之認知不謀而合。
- (三) 韓國為使政策與執行不致脫節，透過彼此兼任參與之方式，達到一定程度之溝通協調目的，而金融監理體系以外其他政府單位之聯繫，例如與財經部 (負責金融法案之提出需會請 FSC 表示意見)、與韓國央行 (負責對銀行資金之融通有查核銀行之權)、與存保公司 (負責存款保險之理賠，亦可單獨或會同 FSC 及 FSS 查核金融單位)、與資產管理公司 (在 FSS、FSC 及財經部之管理下執行業務) 等，亦係依循一定之制度管道進行資訊之交換與合作事宜。

肆、韓國外資管理制度

韓國證券市場於一九五六年成立，直至一九八一年年初宣布資本市場國際化計劃，開放外國人間接投資；後續於九〇年代初期為因應加入經濟合作發展組織（Organization of Economic cooperation and Development，簡稱 OECD），逐步開放外國人直接投資證券市場；於一九九七年金融風暴後，將吸引外資視為重要之金融重建政策；並於一九九八年五月全面取消外資投資上限。以下謹就中、韓兩國外資投資之申請程序作比較，同時就韓方外資之結構、資金來源及投資股市概況予以摘要分析。

一、韓國外資申請投資之程序

外資如擬投資韓國股市，其程序與我國相似，須先向主管機關提出申請獲准後，始得依據所取得之身分編號辦理開戶事宜。惟中、韓兩國最大差異，在於我國給予外資身分編號係用於管理（諸如投資額度控管）和統計資料，而韓國僅係單純用於統計資料（此係韓方官方資料所述，惟就實務而言，亦係控管外資投資法定比例上限產業之機制，仍具管理性質）。有關外資申請投資韓國股市之程序如次：

- 向金融監理服務公司申請投資登記卡（Investment Registration Certificate，簡稱 IRC）
- 指定外匯銀行

- 指定保管機構
- 指定代理人
- 在指定銀行及證券商開設帳戶
- 透過指定之銀行匯入投資之資金
- 透過證券商下單買賣
- 交易確認
- 透過指定之銀行匯出資金

二、中、韓外資管理之比較

	韓國	我國
資格規定	1.持外國籍護照之個人 2.依外國法律成立之法人 3.持外國永久居留證之韓國人 4.依條約成立之國際金融組織 5.外國之政府、地區政府及公營事業 6.依外國法律成立之基金或單位信託 ：韓國境內外國人毋須申請 IRC	1.外國專業投資機構： 符合本會規定條件之銀行、保險公司、基金管理公司、證券商、外國政府投資機構、退休基金、共同基金、單位信託、投資信託等。 2.一般外國法人 境內：外國人經認許在中華民國境內設立分公司，取得我國登記證照者。 境外：外國人於中國大陸以外地區，依當

		<p>地政府法令設立登記者。</p> <p>3.一般自然人：</p> <p>境內：華僑及外國人年滿二十歲，在中華民國境內領有外僑居留證者。</p> <p>境外：華僑及外國人設籍於中國大陸以外地區，年滿二十歲，持有身分證明者。</p>
受理申請單位	韓國金融監理服務公司	<p>1.外國專業投資機構：財政部證期會</p> <p>2.一般外國法人自然人：臺灣證券交易所</p>
申請所需文件	<p>1.IRC 申請書</p> <p>2.公司證照（護照）影本</p> <p>3.持續有效之委任合約或限制授權合約</p>	<p>1.外國專業投資機構：</p> <p>● 首次申請</p> <p>a.申請書</p> <p>b.代理人授權書或代表人指派書</p> <p>c.外國專業投資機構申請投資國內證券審查表</p> <p>d.資格證明文件之驗證</p> <p>e.保管契約副本</p>

		<p>f.保管機構於台灣證券集中保管公司完成保管機構開戶之資料，或其向台灣證券集中保管公司申請開設帳戶之申請書影本</p> <p>g.各項聲明書</p> <p>● 再次申請</p> <p>a.申請書</p> <p>b.外國專業投資機構申請投資國內證券審查表</p> <p>2.一般外國法人自然人：</p> <p>● 境內</p> <p>a.申請書</p> <p>b.符合本會規定之資格證明文件(自然人為外僑居留證，法人為我國登記證照)</p> <p>● 境外</p> <p>a.申請書</p> <p>b.符合本會規定之資格證明文件</p>
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		c. 國內代理人授權書或代表人指派書 d. 國內代理人或代表人之國民身分證、居留證或公司執照影本 e. 保管契約副本 f. 各項聲明書
指定代表人	韓國相關法律並未規範外國投資人須指派代表人，惟對於非居住韓國境內之外國人，實務作業上均會指定代表人，以確保其投資之相關事宜。證券商、期貨商、外匯銀行和證券存託機構均為合格之代表人。	我國法律規定外資應指定國內代理人或代表人，辦理國內證券買賣之開戶、國內轉換公司債轉換申請、買入證券之權利行使、結匯之申請及繳納稅捐等各項手續。在我國設有代表人辦事處代表人或分支機構之負責人，均得擔任外資之代表人。
投資額度	無限制	1. 外國專業投資機構： 三十億美元 2. 一般外國法人： 五千萬美元 3. 一般外國自然人： 五百萬美元
投資標的	1.KSE 和 KOSDAQ 掛	1. 上市、上櫃公司股票

	牌之股票 2.KSE 掛牌之債券 3.KSE 之股價指數期貨 及選擇權 4.股票型或債券型之受 益憑証 5.短期之貨幣市場有價 證券，如商業本票	及債券換股權利證書 2. 上市、上櫃受益憑證 3. 政府債券、金融債 券、普通公司債及轉 換公司債 4.台灣存託憑證 5. 開放型受益憑證 6. 公開招募承銷之上市 公司之股票 7. 初次上市前承銷及現 金增資承銷股票 8. 初次上櫃前承銷及現 金增資承銷股票 9. 初次上市前受益憑證 10. 以現金結算方式發 行之認購(售)權證 11. 國際金融組織來台 發行之新台幣債券 12. 上市、櫃公司發行 之特別股 13. 於櫃檯買賣中心掛 牌之第二類股票 14. 於櫃檯買賣中心掛 牌之興櫃股票
投資比例	除部分公營事業如電 力、通訊、廣播和航空	除部分產業如電信、郵 政、航空運輸、銀行、

	等事業尚有投資上限外，已取消外資持股比例上限。	信託、廣播等尚有投資上限外，已取消外資持股比例上限之規定。
資金匯入 期限	無限制	1.外國專業投資機構： 核准日起二年內須匯入資金，過期或額度用盡，則須提出再次申請。 2.一般外國法人和自然人：無限制
信用交易	准許	禁止

三、韓國開放外資之時程

(一) 股票

個別及全體外資持股（KSE 掛牌股票）上限，於一九九七年十二月大幅提高，分別由原七％和二六％調整為五〇％和五五％，KOSDAQ 掛牌股票亦開始准許外資投資；一九九八年五月完全取消上述比例限制。相關開放時程如次：

（單位：％）

日期	KSE				KOSDAQ	
	一般企業		公營企業			
	個別	全體	個別	全體	個別	全體
1992/1 月	3	10	1	8	---	---
1994/12 月	3	12	1	8	---	---
1995/7 月	3	15	1	10	---	---

1996/4 月	4	18	1	12	---	---
1996/10 月	5	20	1	15	---	---
1997/5 月	6	23	1	18	---	---
1997/11 月	7	26	1	21	---	---
1997/12 月	50	55	1	25	5	15
1998/4 月	50	55	1	25	50	55
1998/5 月	100	100	3	30	100	100
2000/11 月	100	100	3	40	100	100

(二) 期貨及選擇權

自一九九五年五月開放外資投資 KOSPI 200 期貨，一九九七年七月開放 KOSPI 200 選擇權契約，一九九八年五月則完全取消外資投資期貨及選擇權契約之上限規定，相關之開放時程如下：

(單位：%)

日期	期貨契約		選擇權契約	
	個別	全體	個別	全體
1995/5 月	3	15	---	---
1996/11 月	5	30	---	---
1997/7 月	5	100	5	100
1998/5 月	100	100	100	100

四、韓國外資之結構

(一) 以投資身分區分

截至二〇〇〇年底，外國投資人共計一一、七四八人，其中機構法人計七、二一三人占六一%，自然人計四、五三五人占三九%，顯示外資仍以機構法

人為主；就機構法人而言，二〇〇〇年較一九九九
年增加約一、二〇〇人，均較歷年增加之人數為多，
是否說明外資看好韓股，尚須蒐集較多資料始能研
判。相關資料請參閱下表：

(年終累計資料)

日期	機構法人	自然人	合計
1992	895	677	1,572
1993	1,685	1,092	2,745
1994	2,111	1,316	3,427
1995	2,766	1,520	4,286
1996	3,511	1,783	5,294
1997	4,519	1,995	6,514
1998	5,329	3,151	8,480
1999	6,084	3,870	9,954
2000	7,213	4,535	11,748

(二) 以機構投資人區分

投資韓國股市之外國機構投資人中，仍以投資公司
為主，退休基金次之，二〇〇〇年分別占機構投資
人之五八%和八%，其概況與我國類同。有關各類
機構投資人赴韓投資概況，請參閱下表：

(年終累計資料)

日期	投資 公司	退休 基金	銀行	證券商	保險 公司	其他
1992	574	102	75	80	31	33
1993	1,070	240	114	96	56	77
1994	1,377	282	154	128	67	103

1995	1,864	351	181	153	85	132
1996	2,412	432	205	191	112	160
1997	3,198	476	243	250	144	208
1998	3,763	522	282	285	159	318
1999	4,239	598	322	310	180	436
2000	4,966	686	357	336	207	661

(三) 以國家別區分

韓國之外資仍以來自美國和英國地區居前二名，分別占二〇〇〇年外國投資人總數之三九％和九％。歷年台灣赴韓國投資之人數（包括法人和自然人）均微幅增加，二〇〇〇年達五六六人，占全年外國投資人總數之五％

（年終累計資料）

日期	美國	英國	日本	台灣	加拿大	馬來西亞	愛爾蘭	其他
1992	502	314	110	266	24	8	14	344
1993	983	478	237	353	71	38	33	552
1994	1,228	565	293	400	111	55	76	699
1995	1,553	682	365	442	155	92	119	878
1996	1,930	719	451	492	197	183	155	1,167
1997	2,369	806	528	504	246	310	178	1,573
1998	3,225	859	677	514	308	360	251	2,286
1999	3,900	963	803	534	403	403	285	2,663

2000	4,602	1,057	942	566	529	476	332	3,244
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五、韓國外資資金之結構

(一) 資金匯出入狀況

韓國自一九九二年開放外資投資股市以來，截至二〇〇一年九月底，累計外資淨匯入金額達四三二億美元，相較我國之三八二億美元，高出約五〇億美元，顯示韓國在吸引外資投資方面較我國為優。如就近年資料分析，韓國除於一九九七年受金融風暴影響下，外資淨匯入金額僅一一億美元外，一九九八年及一九九九年之淨匯入金額均大幅增加，約達五〇億美元，二〇〇〇年更高達一一六億美元，顯示外資看好韓股之發展。

(單位：百萬美元)

日期	匯入金額	匯出金額	淨匯入金額
1992	2,735	662	2,073
1993	7,635	1,936	5,699
1994	8,637	6,695	1,942
1995	10,216	7,766	2,450
1996	12,570	8,004	4,566
1997	13,201	12,120	1,081
1998	16,480	11,698	4,782
1999	41,458	36,265	5,193
2000	60,059	48,450	11,609

總計	172,527	133,173	39,354
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(二) 資金之來源

就二〇〇〇年外資資金來源分析，仍以美國和歐洲地區為主，其中美國淨匯入八、四兆韓元（占全體淨匯入金額之七三%）和英國淨匯入九、四九八億韓元（占全體淨匯入金額之八%）分屬前二名，其他如盧森堡淨匯入五、二五七億韓元，荷蘭淨匯入二、五六〇億韓元等；此外亞洲之日本亦淨匯入一、二九三億韓元（占全體淨匯入金額之一%）。相關數據請參閱下表：

（單位：十億韓元）

地區	匯入金額	匯出金額	淨匯入金額
美國	27,154.2	17,758.9	8,395.3
英國	10,459.2	9,509.4	949.8
紐西蘭	134.3	134.8	-0.5
愛爾蘭	1,759.7	1,977.9	-218.2
馬來西亞	1,938.4	2,143.5	-205.1
盧森堡	3,507.3	2,981.6	525.7
荷蘭	1,750.7	1,494.7	256.0
日本	512.5	383.2	129.3
其他	15,963.3	14,284.6	1,678.7
總計	63,179.3	51,668.6	11,511.0

六、韓國外資投資股市概況

(一) 上市股票（KSE-listed Stocks）

自一九九二年開放外資投資股市以來，歷年來均呈

買超，尤其二〇〇〇年買超高達一一・五兆韓元，較一九九九年買超二・二三兆韓元，成長幅度達四倍。就外資持股市值而言，截至二〇〇〇年底外資持股市值達五六・五兆韓元，約占市場市值之三〇・一％（一九九九年為二一・九％）。

（單位：十億韓元）

日期	買入金額	賣出金額	淨買入金額
1992	2,385.7	877.4	1,508.3
1993	6,418.6	2,098.2	4,320.4
1994	6,098.6	5,168.2	930.4
1995	7,538.7	6,177.4	1,361.3
1996	10,162.8	7,001.3	3,161.5
1997	11,072.0	10,511.1	560.9
1998	17,243.6	11,323.0	5,920.6
1999	45,440.9	43,165.0	2,275.9
2000	63,179.6	51,668.6	11,511.0
總計	169,540.5	137,981.2	31,559.3

（二）上櫃股票（KOSDAQ-listed Stocks）

韓國自一九九七年十二月始開放外資投資上櫃股票，初期外資對此類股票並不熱衷，直至二〇〇〇年科技類股之興起，受全球投資者之青睞，外資投資上櫃股票之交易量乃逐漸放大。二〇〇〇年外資淨買入上櫃股票達一・六兆韓元，較一九九九年之

二、四〇二億韓元，增幅達六・八倍。惟二〇〇〇年外資持股市值占全體上櫃股票市值之比例，則降為七％（一九九九年為七・四九％）。

七、其他韓國外資管理之相關問題

（一）據韓國外資（Morgan Stanley）表示，近年來韓國外資管理有顯著改進，特別是從一九九七年底今融危機以後。惟渠等認為下列外資管理事項有改進空間：

- 1。外國投資人仍須申請取得投資身分後，始得從事證券投資。
- 2。部分產業外資持股仍有限制。
- 3。外資僅得向韓國當地機構或個人借貸十億韓元。

（二）據上開外資告以，衍生性商品市場外資所占比例如下：

- | | |
|-------------------------------|------|
| ● 股票期貨（Equity Future） | 八％ |
| ● 選擇權（Option） | 四—五％ |
| ● 貨幣期貨（Currency Future） | 二％ |
| ● 固定收益期貨（Fixed Income Future） | 五％ |

（三）關於證券商為外資代墊款券之問題，韓國證券交易所人員表示，韓國政府雖明令禁止，惟實務上係存在已久之商業行為，此與我國情形雷同。

伍、檢討與建議

- 一、有關推動中、韓雙方證券主管機關簽署資訊交換瞭解備忘錄乙案，由於韓方表示簽署備忘錄可能涉及外交層面，故未來推動上困難度頗高。惟據瞭解，馬來西亞和泰國證券主管機關擬於國際證券管理機構組織（IOSCO）中倡議簽署亞太地區多邊跨境監理合作備忘錄，如能順利達成，本會將可同時與多國證券主管機關簽訂備忘錄，擴展監理合作事宜，嗣後似可朝此方向推動。
- 二、韓國金融改革雖非完全順遂，有待克服的困難尚多，但其推動改革的作法、決心與經驗卻值得我國借鏡參考。尤其在全球經濟不景氣的籠罩下，其二〇〇一年國內生產毛額（GDP）成長率仍維持二％之正數成長，相較於亞洲其他三小龍新加坡負二・七％、香港負〇・三％及我國負二・一％之表現，顯示韓國金融改革已具成效。我國金融檢監理制度之改革已係既定政策，如能藉韓國改革之經驗，汲取其制度之精髓，將有助於我國建立完善之金融監理體制。
- 三、就中、韓兩國股市外資實際投資金額作比較，一九九八年到一九九九年間外資對韓國股市投資僅增加五十億美元左右，同期間我國股市外資投資增加額度則達一百多億美元；惟一九九九年到二

000年間情勢逆轉，韓國增加一一九億美元，我國則僅六十四億美元左右，顯示韓國實施金融改革並放寬相關外資管理措施之後，外資已填補其長期市場資金之缺口部位，使得股價逐步上揚，市場趨於穩定；相對的上市、櫃公司籌得所需資金，致力於產業發展，進而帶動整體經濟情勢，韓國二00一年 GDP 成長率仍維持二％之正成長，即是最佳例證。而韓國當初取消外資投資限制，所擔心外資資金之匯出入恐造成股（匯）市較大之波動，實証結果並未有具體發生，反而積極開放後，對整體經濟之發展產生良性影響，故大體而言放寬外資管理應有其正面效應。而我國刻正參考各國外資管理制度，研議取消外國專業制度，如能參考其外資管理制度，汲取其優點，將可提升我國競爭之優勢。

- 四、本次拜會韓國金融監理局，由於職等事前已先行電傳訪談重點予韓方，故除由其國際組組長 Mr. Yoo, Jae-hoon 負責接見外，相關業務單位亦派員列席作說明。據渠等表示，本次訪問係雙方近十年來首次之官方接觸，深具意義，不僅是雙方交流之開始，更為日後建立溝通之管道。另據 Mr. Yoo 組長告以，該局接見外賓層級如為組長，相

關人員得自行接見安排；如擬拜會組長以上層級人員，則須專案簽報，如涉及政治敏感性，尚須循外交途徑。據瞭解，鍾前政務委員琴擬於職等訪韓之後拜會韓國金融監理局，即面臨上開問題。

- 五、為期本次赴韓考察之順利，職等特於行前至韓國金融監理局網站查詢相關資訊，發現其主要法規和重要措施均英譯登載於網站，便於外國人查詢，對吸引外資之投資有相當助益。是以，本會網站可參採韓國方式，加強英文說明資料之，俾便外資得以快速瞭解我國證券市場概況、管理制度及投資申請程序，以吸引外資投資。

附件

與本會簽署資訊交換瞭解備忘錄國家(地區)證券主管機關暨合作項目執行現況一覽表

國家	簽署(代表該國證券主管機關簽署)單位中外文名稱	簽署日期及地點	合作範圍及性質	資訊使用限制	執行現況	備註
1 美國	美國在台協會 AIT(代表美國 期管會 CFTC) & 北美事務協 調會 CCNAA(代表本會)	一九九三年元月 十一日於美國維 吉尼亞州阿靈頓	期貨及選擇權市場 之監督、監視及調查 資訊之交換	未載有使用 之限制	1、美方每年出版 品有介紹我 證券暨期貨 市場; 2、雙方迄無重要 之資訊交換 合作,美盼望 簽較完整之 新備忘錄。	
2 新加坡	新加坡金融總局 Monetary Authority of Singapore	一九九三年二月 八日於新加坡	期貨及選擇權市場 之監督、監視及調查 資訊之交換	除對政府檢 調機關外,交 換之資訊不 得對其他人 揭露	1、星國不定期主 動提供一般 執法資訊予 我方; 2、雙方迄無重要 之資訊交換 合作	
3 英國	證券暨投資局 Securities and Investment Board	一九九三年六月 十六日於倫敦	期貨及選擇權市場 之監督、監視及調查 資訊之交換	未載有使用 之限制	雙方迄無重要之 資訊交換合作	

4	法國	證券管理委員會 Commission des Operations de Bourse	一九九四年六月二十日於巴黎	證券、期貨及任何金融商品管理所需之資訊交換及相互協助	交換資訊均應保密。如欲轉供他用，需獲原提供機關之同意	雙方迄無重要之資訊交換合作	
5	日本	財團法人交流協會(代表日本財政部證券局)及亞東關係協會(代表本會)	一九九五年四月二十四日於台北及東京分別簽署	以商品、金融及證券為標的之期貨交易資訊之交換	交換之資訊不得用於非原交換之用途，且不得對其他機關公開	雙方迄無重要之資訊交換合作	
6	阿根廷	國家證券管理委員會 Comision Nacional de Valores of Argentina	一九九五年十一月二日於布宜諾斯艾利斯	資本市場及衍生性商品市場之監督、監視及調查資訊之交換	未載有使用之限制	雙方迄無重要之資訊交換合作	
7	澳洲	澳洲證券管理委員會 Australian Securities Commission	一九九五年十一月二日以換文方式完成	期貨市場之管理、監視及調查資訊之交換	取得之非公開資訊應視為機密，應予保密，且未獲他方同意，不得向第三人揭露	1、曾邀本會參加該會主辦之夏令研習班； 2、雙方迄無重要之資訊交換合作	

8	香港	香港證券及期貨事務監察委員會 Hong Kong Securities and Futures Commission	一九九六年二月七日於東京	證券、期貨市場及其他金融工具管理執掌之相互協助及資訊交換	取得之資訊，應予保密，且未獲他方同意，不得向第三人揭露	<p>1、香港平時即三動提供其管理資訊予本會，並不定期向本會索取我業者基本資料；</p> <p>2、該會每年均辦理訓練課程，並邀本會派員參加；</p> <p>3、該會請本會協助安排共同檢查港券商在華分公司並訪問在港設有子公司之我國券商，雙方合作緊密</p>	
9	南非	金融服務局 Financial Services Board of the RSA	一九九六年四月一日於普利托里亞	證券、期貨及其他相關市場之監督、監視及調查資訊之交換	未載有使用之限制	雙方迄無重要之資訊交換合作	

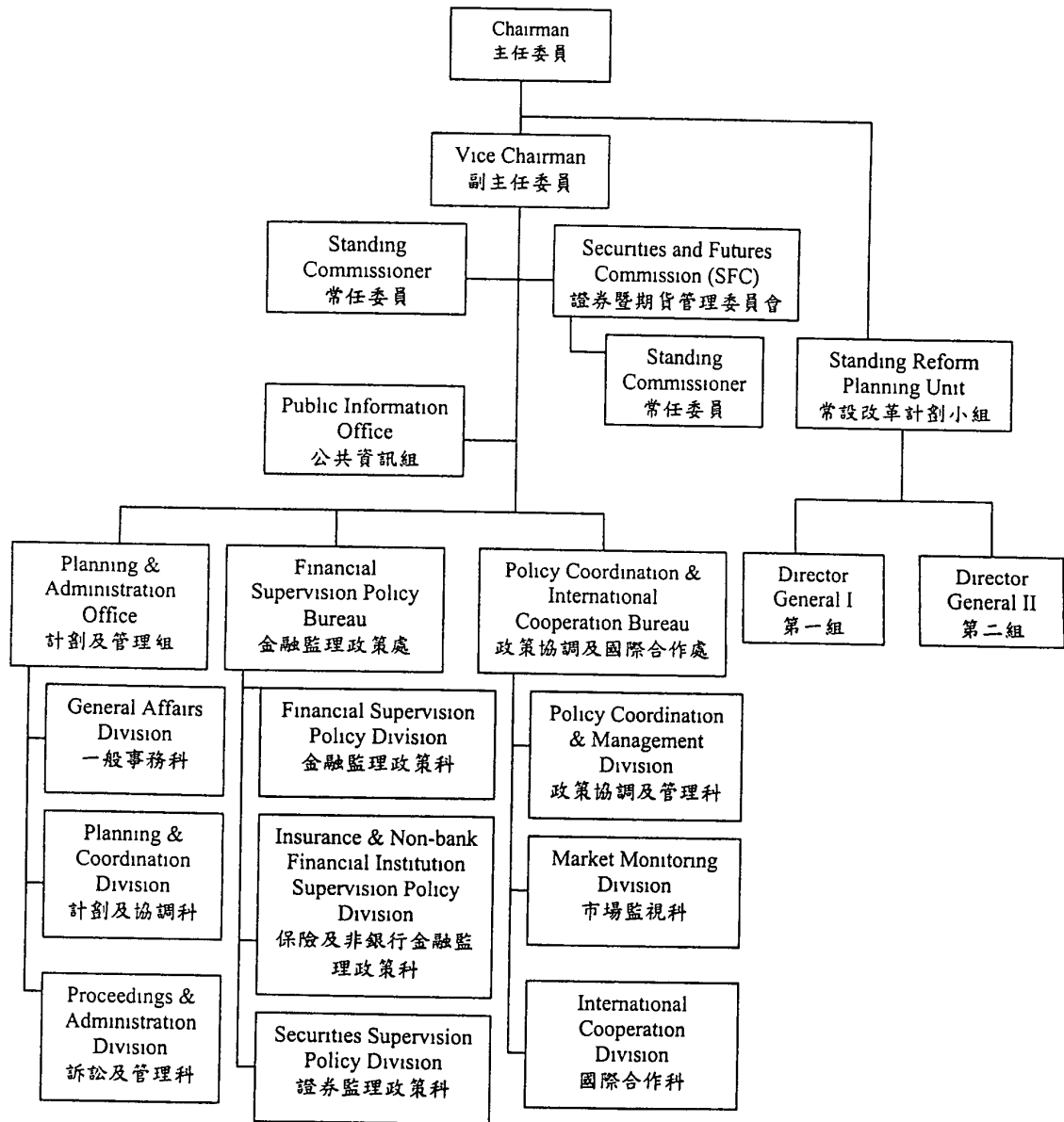
10	泰國	證券管理委員會 Securities and Exchange Commission	一九九六年六月十八日於台北	證券、期貨市場及其他金融工具管理執事之相互協助及資訊交換	取得之資訊，應予保密，且未獲他方同意，不得向第三人揭露	1、泰方均不定期主動提供其執事資訊予本會， 2、另曾請求本會提供我券商資訊，本會均予配合，雙方合作良好	
11	肯亞	資本市場管理局 Capital Markets Authority	一九九六年九月十七日於蒙特婁	證券、期貨市場之監督、監視及調查資訊之交換	取得之資訊及諮商過程應予保密。資訊未經雙方諮商，不得揭露	雙方迄無重要之資訊交換合作	
12	紐西蘭	證券管理委員會	一九九六年十二月四日於雪梨	證券、期貨市場之監督、監視及調查資訊之交換	未載有使用之限制	雙方迄無重要之資訊交換合作	
13	義大利	公司及證券交易所管理委員會 Commissione Nazionale per le Società e la Borsa	一九九七年十一月五日於台北	證券、期貨及選擇權市場之監督、監視資訊之交換及相互協助	在雙方國內法所准許範圍內進行資訊交換	雙方迄無重要之資訊交換合作	

14	德國	證券管理委員會 Bundesaufsichtsamt für de Wertpapierhandel	一九九七年十一月 月七日於台北	證券、期貨市場之監 督、監視及調查資訊 之交換	在雙方國內 法所准許範 圍內進行資 訊交換	雙方迄無重要之 資訊交換合作	
15	馬來西亞	證券管理委員會 Securities Commission	一九九七年十一月 月七日於台北	證券、期貨市場之監 督、監視及調查資訊 之交換	在雙方國內 法所准許範 圍內進行資 訊交換	雙方迄無重要之 資訊交換合作	
16	西班牙	證券市場管理委員會 Comisio'n Nacional del Mercado de Valores	一九九七年十一月 月七日於台北	證券、期貨市場監督 資訊之交換	在彼此檔案 或其他資料 之可公開範 圍內進行資 訊交換	雙方迄無重要之 資訊交換合作	
17	巴西	證券管理委員會 Comissa'o de Valores Mobilia'rios	一九九七年十一月 月七日於台北	證券、期貨市場及其 他投資工具之監 督、監視資訊之交換 及合作	取得之資 訊，應予保 密，且未獲他 方同意，不得 向第三人揭 露	雙方迄無重要之 資訊交換合作	
18	瑞典	證券管理委員會 Finansinspektionen	一九九七年十一月 月七日於台北	證券、期貨市場之監 督、監視及調查資訊 之交換	未載有使用 之限制	雙方迄無重要之 資訊交換合作	

19	智利	證券暨保險管理委員會 Superintendencia de Valores y Seguros	一九九八年五月 二十六日於巴黎	證券及衍生性商品 市場之監督、監視及 調查資訊之交換	未載有使用 之限制	雙方迄無重要之 資訊交換合作	
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附件二.

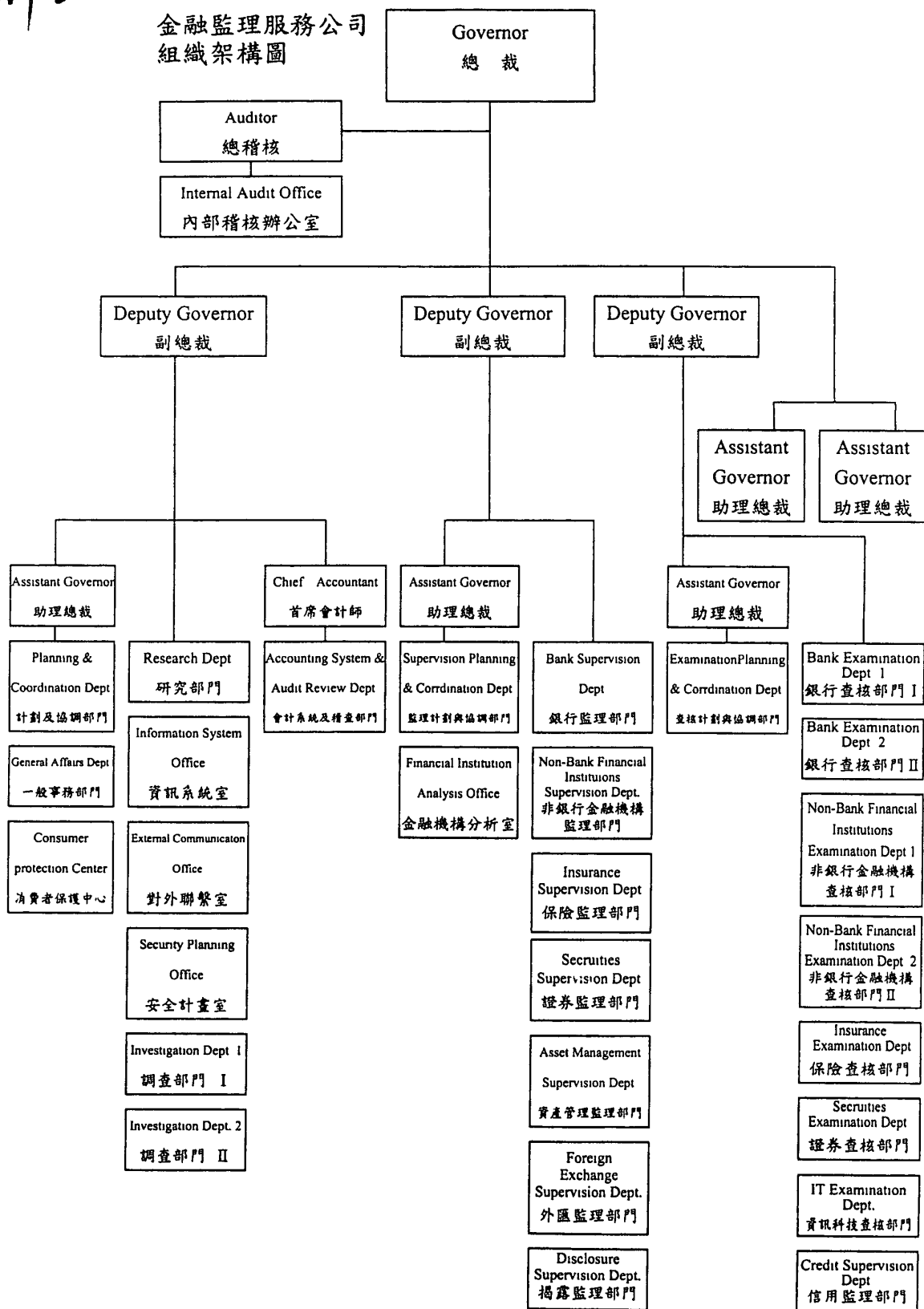
金融監理委員會組織架構圖



資料來源：Financial Reform & Supervision in Korea, 2001

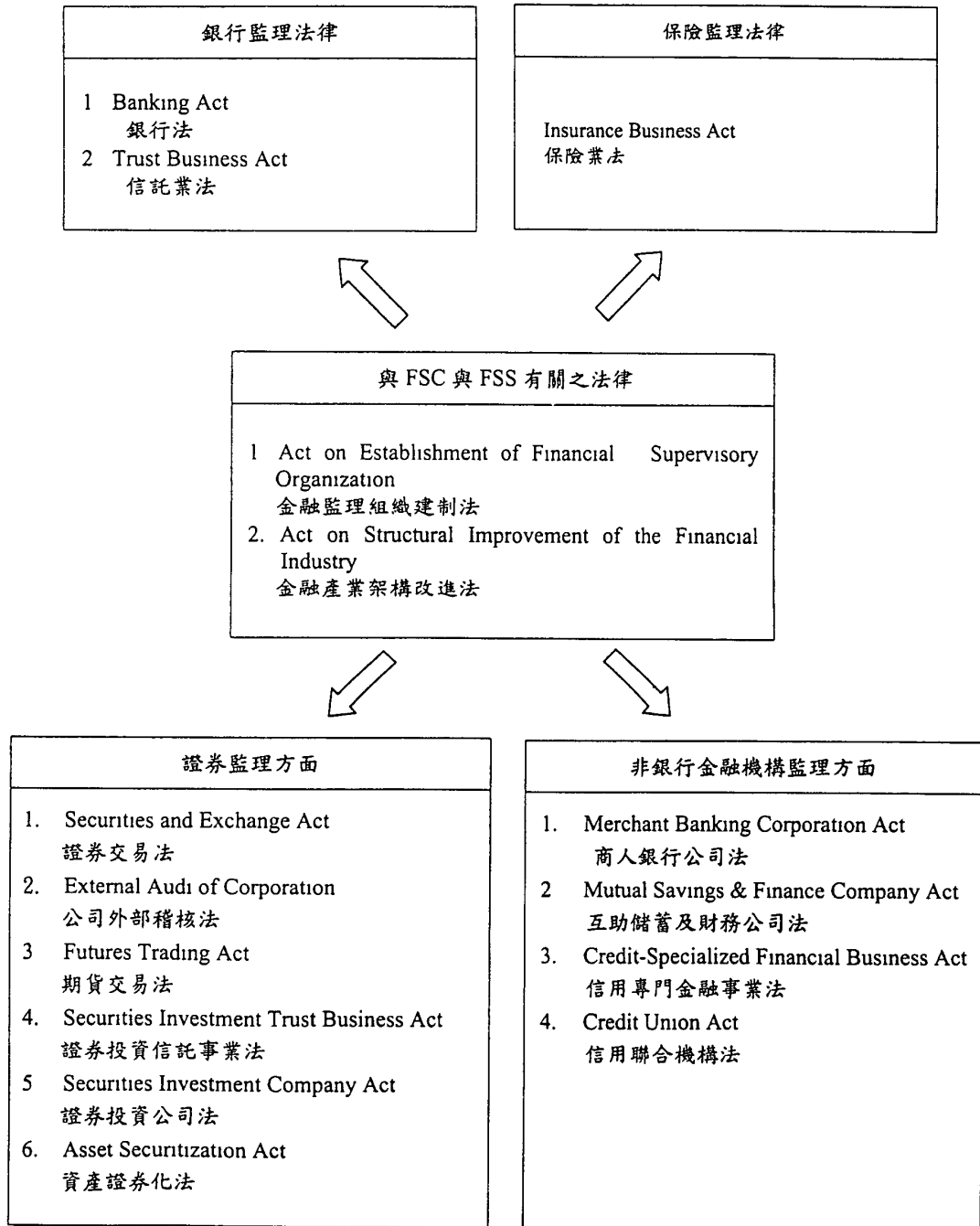
附件三

金融監理服務公司
組織架構圖



附件四

韓國金融監理相關法律架構圖



資料來源：Financial Supervisory System in Korea, 2000

KOREA STOCK EXCHANGE AND MANAGEMENT OF PROGRAM TRADING

NOVEMBER 8, 2001

Korea Stock Exchange

BRIEF HISTORY OF THE KOREA STOCK EXCHANGE

- Established in 1956
- Changed to Government-run Corporation in 1963
- Introduced Continuous Trading in 1975
- Computerized Order-Routing in 1983
- Changed to Membership Organization in 1988
- Introduced Computerized Trading System in 1988
- Allowed Foreign Membership in 1991

Korea Stock Exchange

BRIEF HISTORY OF THE KOREA STOCK EXCHANGE

- Launched Surveillance System (COSIS) in 1994
- Introduced After-hour Trading in 1996
- Opened the KOSPI 200 Stock Index Futures Market in 1996 and Options Market in 1997
- Fully computerized Trading System in 1997
- Introduced Warrants Trading in 2000
- Launched Upgraded Surveillance System (COSMOS) in 2001

Korea Stock Exchange

ORGANIZATIONAL STRUCTURE

- Non-profit Membership Organization
 - o 51 Member Firms (Local : 37, Foreign : 14)
 - o Regular Member 32, Special Member 19
- Subsidiaries
 - o Korea Securities Depository (70%)
 - o Korea Securities Computer Corporation (77%)

TRADED PRODUCTS

- Equity Securities
- Mutual Funds
- Debt Securities
- Equity-linked Debt Securities
- Stock Index Futures
- Stock Index Options
- Warrants

Korea Stock Exchange

NEW PRODUCTS TO BE INTRODUCED

- Stock options
 - o scheduled to open on Jan. 28, 2002
 - o Start with 7 individual stocks: Samsung Electronics, SK Telecom, Korea Telecom, Kepco, Posco, Kookmin Bank, Hyundai Motor
- REITs (later this year)
- ETF (first quarter of 2002)
- Repo trading (Feb., 2002)

Korea Stock Exchange

TRADING SCHEME

- Trading Session and Hours
 - o Monday ~ Friday, 09:00 ~ 15:00
 - o After-hour Session: 15:10 ~ 15:40
- Order-driven and Continuous Market
 - o Call Trading : Opening & Closing Prices
- Fully Computerized Trading
 - o Capacity
 - # of orders : 4 mil. orders
- Daily Price Change Limit (Flat 15%)
- ✧ Circuit Breaker System
 - o more than 10% for one minute drop from the previous day's close : halted for 30 minutes

Korea Stock Exchange

STOCK MARKET ACTIVITIES

	1999	2000	Oct. 2001
Market Capitalization (M US\$)	306,128	149,275	152,601
# of Listed Companies	725	704	690
Trading Value (M US\$)	733,423	497,843	294,727
Index Return (%)	83	-51	6
PER (KOSPI 200)	-	15.5	12.2
Dividend Yield(%)	1.7	0.7	2.2

Korea Stock Exchange

BOND MARKET

General Bond Market

- o retail market
- o trade all fixed income securities
(government bonds, municipals, corporate bonds)
- o screen-based trading
- Inter-dealer market
 - o opened in April 1999
 - o wholesale market - limited to government bond dealers
 - o trade government bonds
 - o screen based

Korea Stock Exchange

BOND MARKET IN KOREA

	No. of Listed issues		Amount Listed(bil. won)	
	Public	Corporate	Public	Corporate
1991	2,831	5,527	32,250	29,241
1995	4,671	8,050	69,542	56,456
1998	7,090	6,500	214,600	119,435
1999	5,701	4,054	253,298	111,121
2000	5,030	2,436	296,806	127,878
Sep. 2001	5,307	2,274	348,480	135,276

Korea Stock Exchange

ON-LINE TRADING IN KOREA

(Unit: 1000 accounts, bil won)

	No. of Accounts			Stock Trading Value		
	Cyber (A)	Total (B)	Ratio (A/B, %)	Cyber (A)	Total (B)	Ratio (A/B, %)
Jan. '98	78	3,825	2.0	485	38,189	1.3
Jun. '98	126	3,620	3.5	507	16,915	3.0
Dec. '98	227	3,792	6.0	3,267	87,979	3.7
Jun. '99	788	5,344	14.8	24,843	158,668	15.7
Dec. '99	1,887	7,573	24.9	107,763	267,937	40.2
Jun. '00	3,244	8,769	37.0	164,030	277,874	59.0
Dec. '00	3,849	8,668	44.4	57,532	93,525	61.5
Aug. '01	4,371	8,294	52.7	76,462	115,688	66.4

(Source: KSDA)

Korea Stock Exchange

MARKET SURVEILLANCE

- COSMOS: Consolidate Securities Market Monitoring & Surveillance System (Launched in July 2001)
 - a. Market Monitoring and Alert System
 - o Track down unusual trading
 - o Automatically warn abnormal trading
 - b. Market Surveillance and Information System
 - o Integrate all surveillance-related data
 - o Provide in-depth information
- Suspicious trading further investigated
- Criminal cases reported to the FSC
- Disciplinary measures

Korea Stock Exchange

DISPUTE MEDIATION COMMITTEE

- Established in May 2001
 - for the fast resolution of disputes
 - o between a member and its customer
 - or between members
- A 3 to 5 member committee assigned to each case
 - o Pool of experts: legal/academic/securities circles & consumer associations
- Recommendations accepted by all parties
 - o same effect as the reconciliation contract under the civil law

Korea Stock Exchange



GLOBALIZATION OF THE KOREA STOCK EXCHANGE

- Allowed indirect portfolio investment in early 1981
- Permitted foreigners' direct access to the Korean stock market in 1992
- Opened bond market on a limited basis in 1994
- Korean companies listed on the overseas market in 1994
- Lifted all restrictions in the bond market in 1997
- Opened the money market in Feb. 1998
- Eliminated foreigners' investment ceiling in the stock market in May 1998

Korea Stock Exchange

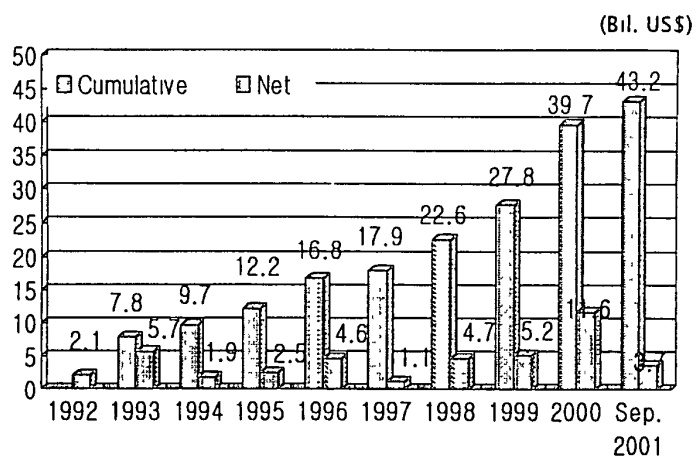


FOREIGN INVESTMENT IN KOREAN STOCKS

- Foreign Investment Limit Per Company
 - o For listed companies: No limits
 - o For public companies <KEPCO>
 - * aggregate ceiling: 40% * individual ceiling: 3%
- # of Foreign Investors: 12,573 (Sep. 2001)
 - o Institutional : 62%, Individual : 38%
 - o USA: 39.0%, UK: 8.9%, Japan: 8.3%, Others: 43.8%
- Net Capital inflow : US\$ -460 mil. (Sep. 2001)
 - o Total: US\$ 43.2 bil. o 2001: US\$ 3.7 bil.
- Foreign Ownership
 - o 59.4 Tril. Won (33.7% of market cap., Sep. 2001)
 - o Portfolio Investment: 30.2%,
 - o Direct Investment: 3.5%

Korea Stock Exchange

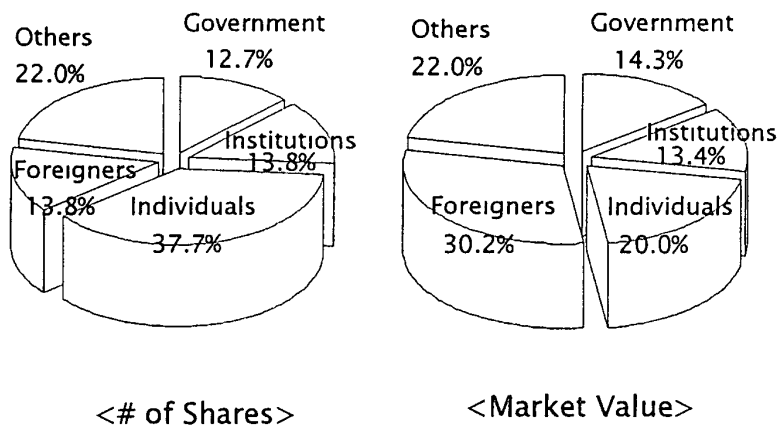
FOREIGN PORTFOLIO INVESTMENT



Korea Stock Exchange

SHAREOWNERSHIP PROFILE

(End of 2000)



Korea Stock Exchange



MANAGEMENT OF PROGRAM TRADING

Korea Stock Exchange



DEFINITION OF PROGRAM TRADING

- i) Index Arbitrage Trading
 - exploit the divergence in price between basket of KOSPI 200 component stocks and futures contracts.
- ii) Non-Arbitrage Trading
 - trade 15 issues or more at one time
 - differences (U.S., Tokyo)
 - ex: index trading, portfolio insurance

Korea Stock Exchange

PROGRAM TRADING ACTIVITIES

Unit: %

	1996	1997	1998	1999	2000	01.1~9
Ratio of PT	0.1	0.4	1.1	1.2	1.4	1.1
Arbitrage	56.5	71.3	62.9	56.4	56.2	47.4
Non-arbitrage	43.5	29.7	37.1	43.6	43.8	52.6

* Trend: Arbitrage → Non-arbitrage

Korea Stock Exchange

PT IN OTHER MARKET (NYSE)

Unit: %

	1996	1997	1998	1999	2000	01.7~10
Ratio of PT	6.5	8.4	8.7	9.9	11.0	13.6
Arbitrage	-	23.8	-	13.2	9.7	9.3
Non-arbitrage	-	-	-	86.8	90.3	90.7

Korea Stock Exchange

PT IN OTHER MARKET (TOKYO)

Unit: %

	1996	1997	1998	1999	2000	'01.8
Ratio of PT	16.2	16.4	10.6	9.4	8.7	6.3
Arbitrage	35.9	36.3	46.3	43.3	45.3	36.1
Non-arbitrage	64.2	63.7	53.7	56.7	54.7	63.9

Korea Stock Exchange

MANAGEMENT OF PROGRAM TRADING

- Indication of 'program trading'
 - o indicate program trading when submitting orders
- Suspension of validity of PT quotations (Side Car)
 - o 5% or more change of futures price for 1 minute
 - suspend execution of PT for 5 minutes
- Disclosure of PT status
 - o weekly, daily report
 - o report at final trading day (2:45 p.m)

Korea Stock Exchange

SIDE CAR

- Purpose of side car
 - o alleviate impact of sharp futures price change on underlying cash market
- Why 5% change? 5 minutes?
 - o in the beginning, 3% for 5 minutes, suspend until meeting certain criteria
 - '97.10~'98.3, side car triggered for 90 days (60%), 87 minutes in average, 2.1 times a day
 - o 5% for 1 minute, suspend for 5 minutes, only one time a day

Korea Stock Exchange

CIRCUIT BREAKER

- In Futures(options) Market
 - o When the futures price changes by 5% or more and deviates by 3% or more from the theoretical price for 1 minute, the futures and options trading is halted for 5 minutes.
- In Cash Market
 - o When the KOSPI drops by 10% or more for 1 minute or longer, all stock trading is halted for 20 minutes.

Korea Stock Exchange



KAMSA HAMNIDA

KOREA STOCK EXCHANGE

Korea Stock Exchange

<http://www.kse.or.kr>

2001 Korea Stock Exchange



KOREA STOCK EXCHANGE

I. DEVELOPMENT OF THE KOREAN SECURITIES MARKET

A. Establishment of the Stock Exchange

The Daehan Stock Exchange, a predecessor of the Korea Stock Exchange, was established on February 11, 1956, with joint contributions from banks, insurance companies, and securities firms. In its beginning, the Exchange commenced trading with only 12 listed companies. Trading in shares was inactive, leaving the majority of the trading activities on government bonds.

In January 1962, the government enacted the Securities and Exchange Act (SEA), the basic law governing the securities market. Under the SEA, the Exchange was reorganized into a joint stock corporation. The SEA was amended in April 1963 to impose stricter regulatory measures on the operation of the securities market. With the revision, the Exchange was again reorganized into a nonprofit, government-owned corporation and renamed as the Korea Stock Exchange (KSE). The KSE was finally reorganized into a nonprofit, membership organization in 1988.

B. Growth of the Securities Market

Implementing various policies to develop the economy, the government took comprehensive measures to foster the securities market. The most important policy measure was the enactment of the Law on Fostering the Capital Market in November 1968. The main aim of the legislation was to increase the number of listed companies, thereby stimulating wide spread of shares. This law encouraged firms to go public by authorizing tax advantages and other benefits.

The government continued to induce closely-held corporations to go public by giving listed companies incentives on bank loans and taxation, and even forced eligible corporations to go public. Throughout the latter half of the 1970s, the securities market experienced an unprecedented rush of public offerings. The number of listed corporations, which stood at only 66 in 1972, jumped to 356 by the end of 1978.

C. Improvements in the Market Infrastructure

During the 1970s, considerable improvements were made in the trading and settlement systems to accommodate increasing trading volume and listed companies. Introduced on a limited basis in October 1971, the continuous trading completely replaced the inefficient call trading system in 1975. With introduction of the book-entry clearing in 1974, the KSE set up the Korea Securities Depository (KSD) as a clearing agent and central depository for its market. In addition, to provide computerized services for the securities market, the KSE set up the Korea Securities Computer Corporation (KOSCOM) in 1977. Moreover, for the first time, a collective investment company named the Korea Investment Trust Company was established in 1974.

With the expanding securities market, the SEA was amended in 1976 to ensure more effective supervision of the securities industry and to reinforce investor protection. Under the revised Act, the Securities and Exchange Commission and its executing body, the Securities Supervisory Board, were established in February 1977.

Order-routing process was computerized in 1983 enabling member firms to transmit orders directly to the trading floor. To cope with increasing trading volume, the KSE introduced a computerized trading system called Stock Market Automated Trading System in March 1988.

D. Internationalization of the Securities Market

In 1981, the government announced a long-term plan to open the securities market to foreigners. In accordance with the plan, international investment trusts and Korean country funds were established, providing foreign investors with investment vehicles in Korean securities market. Along with the plan's gradual approach, overseas issuance of convertible bonds, bonds with warrants, and depositary receipts by domestic corporations has been permitted since 1985. In November 1990, the government allowed foreign securities companies to set up branch offices or joint venture securities companies in Korea. The KSE membership was opened to foreign securities companies as well.

On January 3, 1992, the Korean stock market was opened to foreign investors under certain ceilings. The restrictions on foreign shareownership had since been gradually eased until the full liberalization in May 1998. Partly opened in July 1994 for convertible bonds issued by small companies, the bond market further permitted trading of Korean won-denominated bonds issued by international organizations in 1995. The limits on foreign investment in Korean securities market were completely lifted in May 1998.

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Apart from the liberalization of foreign investors' inbound securities investment, local investors were allowed to invest directly in foreign securities. The ceilings on outbound investment were also abolished with the reformation of the financial market following 1997's financial crisis.

It was in May 1996 that foreign corporations were allowed to list their shares on the KSE. In the meantime, stock index futures and options were introduced in May 1996 and July 1997, respectively.

E. Major Reforms after the 1997 Crisis

The securities market regulation experienced an overhaul after the financial crisis in 1997. The major reform measures include the reform of the financial supervision system, opening of the capital market, strengthening of shareholders' rights, improvement of M&A procedures, enhancement of corporate management transparency, etc.

● Reform of Financial Supervision System

The Financial Supervisory Commission (FSC) was established in April 1998. The commission, as a consolidated supervisory organization that encompasses the formerly existed securities, banking, and insurance watchdogs, assumes the responsibility of supervising the entire financial sectors. This is to enhance the effectiveness of regulating and supervising the financial market and industry.

● Abolishment of Foreign Investment Limits

The government abolished all restrictions on foreign portfolio investment in May 1998. Previously, the aggregate foreign investment was limited to 55% of the outstanding shares of a company. The government also lifted all restrictions on bond investment by foreigners and allowed foreigners to invest in money market instruments such as CPs and CDs.

● Reinforcement of Minority Shareholders' Rights

To strengthen minority shareholders' rights and promote transparency of management, the previous requirement of 1% ownership to bring a representative suit was eased to 0.01%, and 1% ownership to request the dismissal of a director or an auditor for an illegal act was relaxed to 0.5%.

Furthermore, the minimum share ownership required to examine corporate books has been reduced from 3% to 1%. In addition, the shareholder proposal scheme was introduced in April 1998. This

scheme indicates that a shareholder of a listed company with a 1% stake or more of total voting shares is entitled to exercise the shareholder proposal right.

o Combined financial statements

Business groups now have to prepare certified financial statements, which cover all the affiliate companies on a combined basis from 1999. It aims at improving the transparency of business management of large conglomerates.

o Streamlining of M&A Procedures

Previously, anyone who intended to acquire more than 25% of total shares of a company had to make a tender offer to purchase more than 50% of the total outstanding shares. However, this provision was abolished in February 1998 aiming at promoting corporate restructuring and stimulating foreigners' acquisition of Korean companies. Currently, anyone who intends to acquire 5% or more of total outstanding shares of a company outside the marketplace of the KSE or KOSDAQ must make a tender offer.

o Lifting of Restrictions on Corporations' Buybacks

As the requirements of mandatory tender offers were abolished, listed companies needed an equal opportunity to protect their management control against hostile takeover attempts. As a solution, the limit on corporations' share repurchase was raised from 10% to one-third of total outstanding shares in February 1998. This restriction, however, was finally eliminated in May 1998.

o Exercise of Voting Rights by Institutional Investors

Until recently, institutional investors including securities investment trust funds had been prohibited from exercising voting rights. They had been allowed to exercise their voting rights only through shadow voting except for mergers and business assignments. As a part of a measure to encourage institutional investors to play an active role of monitoring corporate management, limitations or obstacles in exercising voting rights by institutional investors were completely removed in September 1998. Thus, institutional investors are now able to freely exercise their voting rights as shareholders.

o Strengthening of Disclosure Requirements

Starting from 2000 business year, in addition to annual and semi-annual reports, corporations are required to submit their quarterly reports within 45 days after the end of each quarter. In addition,

the Financial Supervisory Service (FSS) plans to impose stricter sanctions on incorrect data and facts, or significant errors in corporate disclosures such as registration statements, prospectuses, annual and semi-annual reports, quarterly reports, tender offer statements, etc. The FSS introduced a regulation to fine corporations up to 500 million won for their unfaithful disclosures in April 1999.

○ Introduction of Forecast Information Disclosure

In the past, corporations have been unwilling to disclose information on their future financial prospects such as sales and profits, because they could fall under legal responsibility if the information proved later to be false or incorrect. Beginning from April 1999, however, issuers are exempted from fines for false or incorrect information in disclosure of forecast financial information if they have made it clear that the disclosed information was based on their forecasting.

○ Lowering of the Entry Barrier in the Brokerage Business

In May 1999, the minimum capital requirement for a brokerage house was significantly lowered. Anyone can engage in the securities business as a 'brokerage-specialized securities company' with only 3 billion won of capital stock. Along with this, the capital requirement for securities investment advisory business was also lowered to 500 million won from 1 billion won.

● Introduction of Mutual Funds

The Korean government introduced closed-end type mutual funds in September 1998. Unlike other funds, mutual funds do not stand ready for issuance and redemption of shares on a continuous basis. Instead, the mutual funds may be listed on the KSE and/or the KOSDAQ and are exempted from taxation on capital gains.

● Launch of Inter-Dealer Bond Market

The KSE opened the Inter-Dealer Market (IDM) for government bonds in March 1999. The IDM is a wholesale market where government bonds dealers including primary dealers trade government securities. The IDM is expected to contribute to the development of the Korean bond market by providing benchmark yields and underlying products for government bond futures trading.

● Mandatory Appointment of Outside Directors

According to the revised listing regulation, at least 25% of appointed board members of all listed companies must be outside directors. In addition, for listed companies and financial institutions with 2 trillion won or more of total assets, the number of outside directors must account for 50% or more of

the total number of board members. Any listed company that does not meet this requirement will fall under the delisting criteria. Listed companies are also recommended to appoint outside auditors.

○ Protection of Customers' Deposits

From April 1999, securities companies are required to re-deposit the customer deposits with the Korea Securities Finance Corporation. This aims at protecting the customers' deposits by segregating customers' assets from brokers'.

○ Introduction of Circuit-Breakers

Along with the expanded daily price change limit, the KSE instituted the circuit-breakers in order to prevent a market free-fall. If the KOSPI plunges 10% or more from the previous day's closing price for as long as one minute, trading is automatically suspended for 20 minutes. The circuit-breaker system was designed to give brokers and investors time to calmly reassess the market situation during an extreme volatility period.

F. Recent Developments of the Securities Market

○ Abolishment of Lunchtime Breaks

The KSE abolished its lunchtime break on May 22, 2000. The KSE introduced the change to promote seamless continuous trading and to draw more trading volume from office workers who are free during lunchtime. The KSE has no longer traded on Saturdays since December 7, 1998.

○ Prevalence of On-line Trading

During the year of 2000, Korean securities market witnessed an explosive increase in on-line stock trading. In terms of trading value, on-line trading showed more than two-fold increase during year. The value of stock trading conducted via on-line accounted for 61.0 percent in the total stock trading value in the Korean securities market. Most securities companies are providing on-line trading facilities to expand their business scope and customer base while cutting operating costs.

○ Revision of Listing Requirements

The KSE substantially changed its listing requirements, effective on July 1, 2000. An alternative listing standard was introduced mainly to give fast-growing small companies an easy access to the capital market if they can demonstrate their growth potential. The KSE also amended its de-listing

procedure, focusing on the speed of the withdrawal of troubled companies from the market.

- **Launch of an Electronic Disclosure System**

On August 1, 2000, the KSE introduced KIND (Korea Investors Network for Disclosure), an English electronic disclosure system, to help international investors understand and gain access to corporate disclosures. Listed companies are encouraged to provide their public announcements in English within 24 hours after making disclosures in Korean. Investors can get the disclosed corporate information on the Internet; <http://www.kse.or.kr>

- **Signing of MOUs with Overseas Markets**

The KSE signed MOUs with the Sydney Futures Exchange in November 1999, the Tokyo Stock Exchange in March 2000, the Singapore Exchange in October 2000, and the Taiwan Stock Exchange in November 2000. Under the agreements, each exchange is endeavoring to share any information that would foster mutual development in various fields including investor protection, market operations, and market surveillance.

- **International Road-show**

The KSE held a Joint-IR (Investor Relations) sessions with its seven leading listed companies in New York, London and Hong Kong in late October 2000. IR representatives from these companies met with foreign investors, fund managers and analysts specializing in the Korean securities market and explained their progress in corporate restructuring, financial positions and prospects.

- **Finalization of Vietnam Project**

Along with the official opening of the Ho Chi Minh City Securities Trading Center (HCMC STC) in July 2000, the KSE has successfully completed its "Technical Assistance Project for the Establishment of a Stock Exchange in Vietnam," which started in November 1996, under the sponsorship of the Korea International Cooperation Agency (KOICA). The HCMC STC commenced its trading of shares of two listed companies on July 28, 2000. Six securities companies joined as members and foreign investors were allowed to invest in Vietnamese stocks with a restriction of 20 percent ceiling.

II. STRUCTURE OF THE KOREAN SECURITIES MARKET

A. Securities-related Legislation

1. Commercial Code

The Commercial Code, which was enacted in 1962, is the basic law governing establishments and business activities of corporations in Korea. Its legal scope covers all the necessary procedures and methods in the life cycle of a company from incorporation to dissolution or liquidation. Not only the articles of incorporation but also the business activities of a corporation should be in compliance with the corresponding requirements set forth in the Commercial Code.

According to the Commercial Code, all corporations must have at minimum 50 million won as the amount of capital. The total number of shares authorized and the number of shares to be issued at the time of incorporation must be specified in the company's articles of incorporation. Furthermore, at least 25% of the authorized shares must be issued and paid in full at the time of incorporation. These requirements are all set forth to make sure that a company, which raises funds from the public, has a sound and stable financial structure as a going concern at its initial stage.

In Korea, most securities are issued in registered forms. The shares of bearer forms can be issued only if so stated in the articles of incorporation. A corporation can issue non-voting or preferred shares, up to an amount equivalent to a quarter of the total outstanding capital amount.

The Commercial Code stipulates that the total amount of bonds issued by a corporation cannot exceed the smaller of either twice the sum of capital and reserves, or twice the sum of net assets on the latest balance sheet. As far as dividend is concerned, the amount of stock dividend cannot be more than 50% of the total dividend amount.

The Commercial Code also articulates the extent to which a board of directors can exercise its

decision-making authority in the following matters: such as determining the offering of convertible bonds, transference of legal reserves to paid-in capital and so on. As for a subsidiary (a company having at least 40% of its stock held directly or indirectly by the parent company), it is prohibited from acquiring shares of the parent company.

As of December 2000, a draft of the Commercial Code revision was submitted to the National Assembly for approval. This draft includes many changes to accurately reflect reality and conditions of the rapidly changing market. Chosen from the draft, the following key notes are therefore expected to create more market-oriented corporate governance system, and sustain growth of Korean capital market by facilitating more user-based market environment;

- The range of items that can be resolved at shareholders' meeting to be widened

Retirement of stocks that were re-acquired can be authorized with the extraordinary resolution at shareholders' meetings, within the range of the total profit amount for dividends distribution. This change is expected to give corporations more flexibility and discretion in managing their financial structures.

The extraordinary resolution at shareholders' meeting is also needed not only to assign important businesses to other corporations but also to assume the business in part from other corporations, the business that can possibly influence the current business activities. With this initiative, shareholders' rights to monitor important management affairs will be further strengthened.

- Shareholders' preemptive rights to be strengthened

Allotment of newly issued shares to a person other than the existing shareholders is allowed only when it is deemed necessary for the business goal of the corporation such as introduction of new technology and improvement of financial structures.

- A financial holding company to be introduced

In order to facilitate corporate restructuring, a financial holding company is to be established by allowing the company to own outstanding shares in full or in part in other companies.

2. Securities and Exchange Act

While the Commercial Code stipulates all types of companies and their business activities, the Securities and Exchange Act (SEA) mainly covers securities issuance, securities trading and

business activities of the listed companies. Enacted in 1962, the SEA was substantially amended in 1976 after the Korean securities market had experienced rapid growth during the early 1970's.

With the amendment, the SEA incorporated new regulatory fields such as takeover activities, corporate registration system, regulation on insider trading, and the establishment of the Securities & Exchange Commission (currently Financial Supervisory Commission) and the Securities Supervisory Board (currently Financial Supervisory Service).

In 1980s and 1990s, the SEA was amended several times to reflect changes in the capital market environments and to respond more efficiently to the worldwide competitive challenges. Some items newly incorporated are as follows; introducing dissenting shareholders' rights to request the company to purchase their shares, transforming KSE's ownership structure from a state-owned to a mutualized one, allowing listed companies to acquire treasury stocks, stipulating a legal basis for introducing a Stock Index Futures Market, etc. As the Korean securities market faces new challenge of the globalization, the SEA keeps seeking more efficient ways to meet the needs of market users and to attract more investors.

B. Securities Organizations

1. Financial Supervisory Commission and Financial Supervisory Service

In April 1998, three different bodies that respectively regulated banks, securities firms and insurers under the former regime of financial regulations were integrated into a single regulator named the Financial Supervisory Commission (FSC).

The most conspicuous change was that the newly incorporated FSC has taken over almost all the powers from the hands of the former financial supervisor, the Ministry of Finance and Economy (MOFE). The major functions assigned to the FSC include: promulgation and amendment of supervisory rules, authorization of the operations of financial institutions, inspection and sanctioning of all financial institutions, supervision and surveillance of securities and derivatives markets, etc. The FSC also regulates issuing and trading of securities as well as activities of securities market participants such as listed companies, investment banks, and institutional/individual investors.

In order to maximize the supervisory role of the FSC, the Financial Supervisory Service (FSS) was established in the FSC's jurisdiction as an executing body. The FSS performs inspection and examination of financial institutions, focusing on investor protection and market supervision.

If there are any unfair practices such as insider trading, price manipulation, or any disputes among market participants, the FSC regulates or entrusts its authority to the FSS in the course of settling the problems to keep the market fair and sound.

2. Korea Stock Exchange (KSE)

Established as a governmental organization in 1956, the KSE was restructured in 1988 and has since operated as a membership organization. As of December 2000, the KSE had 51 members (including 14 foreign brokerage firms) and 2 subsidiaries: the Korea Securities Depository (KSD) and the Korea Securities Computer Corporation (KOSCOM). The main function of the KSE is to provide and maintain a fair and orderly market for trading cash and derivatives securities and to regulate and supervise its member firms.

The board of directors of the KSE is empowered to establish major administrative policies such as management objectives, budget, and the promulgation and amendment of market operation rules and regulations. The board may entrust some of its authority to the Chairman & CEO. The board comprises 11 members, including a Chairman & CEO, a senior executive director, four executive directors, two member directors, and three public directors.

The Chairman & CEO of the KSE is elected at the general meeting of member firms, and the election is subject to approval by the Minister of Finance and Economy. The senior executive director and four executive directors are appointed by the Chairman & CEO with the consent from the general meeting of members.

The public directors are also appointed by the Chairman & CEO with the approval of the Minister of Finance and Economy, whereas the member directors are elected by the members' general meeting. All members of the board, including the Chairman & CEO, serve three-year terms of office. The KSE has one standing auditor and one member auditor.

In an effort to efficiently serve and meet the increasing needs of the market participants, the KSE introduced the Index Futures Market in 1996 and the Index Options Market in 1997. More recently,

the KSE also opened a new bond market named Inter-dealer Broker Market to facilitate transactions of the government bonds.

3. Korea Securities Dealers Association (KSDA) & KOSDAQ

The KSDA was formed in 1953 to promote coordination, mediate conflicts among its members, and foster the securities market through self-regulation. Moreover, the KSDA conducts training programs for employees of the securities-related organizations. In addition to its regular members, other securities-related firms such as banks and investment trust companies hold associate membership.

The most remarkable change in the recent history of the KSDA is the reorganization of its over-the-counter (OTC) market to a more systematic market called KOSDAQ. Incorporated in July 1996 for the purpose of developing the existing OTC market, the KOSDAQ places its top priority on providing the small-and medium-sized enterprises (SMEs) and fast-growing high-tech start-ups, mainly ones that cannot meet the KSE listing requirements, with easy access to long-term stable funds and also providing investors with high risk and high return investment vehicles.

4. Korea Securities Depository (KSD)

Previously known as the Korea Securities Settlement Corporation, the KSD was transformed to a public entity from a commercial entity in 1994. It was established in 1974 to ensure fast and accurate settlement of securities transactions under the book-entry transfer system. As a central depository, the KSD provides book-entry delivery, safe deposit, receipt and payment of dividends on stock and of principal and interest on bonds, and other clearing-related services. The KSD also acts as a transfer agent.

5. Korea Securities Finance Corporation (KSFC)

The KSFC was established in 1955 to facilitate financing in the securities market. It is the only institution specializing in securities financing in Korea. The KSFC provides securities institutions with loans for margin transaction, including securities underwriting loans and working capital loans and also provides securities companies with securities collateral loans and stock purchase loans.

6. Investment Trust Companies

The securities investment trust industry in Korea began with the establishment of Korea Investment

Corporation (KIC) in 1969. Until 1995, 7 more investment trust companies (ITC) including 5 regional ones were established.

In accordance with the Long-term Development Plan for the Investment Trust Industry, which was introduced in December 1995, every ITC was required to separate its sales and management functions and to form two companies, namely an investment trust securities company (ITSC) and an investment trust management company (ITMC). The ITSC provides all services related to fund business and the ITMC manages the trusted assets and entrusts all sales-related activities to distributors such as securities companies. As of November 2000, 5 ITSCs and 27 ITMCs were in operation.

There are two types of investment funds in Korea; corporate-type investment fund that was introduced in December 1998 and contractual-type investment fund with a long history of more than 30 years. Currently, corporate-type investment funds account for approximately 98% of the total outstanding amount of investment funds despite their short history.

7. Korea Futures Exchange (KOFEX)

The KOFEX was incorporated as a membership organization in Pusan on February 6, 1999, in accordance with the Futures Trading Act (FTA). After completing several tests of mock trading, the KOFEX officially opened its market on April 23, 1999, launching four products of US Dollar Futures, US Dollar Options, CD (Certificate Depository) Interest Rate Futures, and Gold Futures. On September 29, 2000, the KOFEX listed the Korea Treasury Bond (KTB) Futures, adding up its listed products to five. As of November 2000, the KOFEX membership covered 10 full members and 2 special members.

8. Korea Securities Computer Corporation (KOSCOM)

Established in 1977 as a subsidiary of the KSE, the KOSCOM provides both market operators and participants with vital computerized services including order-routing, order-matching, trade report, and dissemination of market and corporate information.

III. ISSUANCE OF SECURITIES

The securities primary market in Korea is regulated by such laws as the Commercial Code, the Securities and Exchange Act (SEA), and the Regulation on the Securities Underwriting Business of the FSC. The whole process related to the issuance of corporate securities is regulated by the Commercial Code. On the other hand, the registration of the issuer in connection with a public offering is regulated by the SEA. The Regulation on the Securities Underwriting Business of the FSC governs the process of underwriting, securities analysis, allotment, and pricing of the offered securities.

The securities issued in Korea include shares, warrants, beneficiary certificates, government bonds, municipal bonds, corporate bonds, etc. In addition, the stock index futures and options contracts are also defined as securities pursuant to the stipulation in the SEA.

A. Corporate Registration

The corporate registration system came into operation under the SEA in 1976 to ensure the fairness of securities issuance and corporate disclosure. Under this system, all issuers are required to register with the FSC when they intend to make public offerings or list their securities on the KSE or KOSDAQ market. Any unlisted corporation must, when it intends to merge with a listed corporation, register in advance with the FSC. The central and local governments, corporations incorporated by special laws, trust companies, and securities investment trust companies are exempted from registration with the FSC.

A registered corporation must submit its financial statements to the FSC for public perusal within three months after the end of each business year. Also, the corporation concerned must make a declaration to the FSC when significant changes occur to the contents of the statements.

B. Securities Registration

In order to provide investors with information concerning securities, a corporation that is going to

make a public offering is required to file a registration statement with the FSC. The FSC may delay the public offering if it deems the filed statement incorrect or incomplete. The registration statement should include all financial and operational information of the corporation concerned and the terms of offering as well. Any public offerings or sales of securities are prohibited until the registration statement passes the FSC's examination. Upon getting an approval from the FSC, the corporation must disclose its prospectus to investors prior to the sale or delivery of the securities. Pursuant to the Enforcement Regulation of the SEA, registration statements take effect after a certain period of time from the day they were received by the FSC. As of December 2000, periods of time for a registration statement to become effective after its receipt are as follows

- 15 days for shares;
- 7 days for corporate bonds,
- 5 days for secured bonds and guaranteed bonds; and corporate bonds with shelf-registration statements.

The shelf-registration system was designed to provide a simplified process for listed companies that plan to issue bonds throughout the year. Under this system, listed companies are allowed to register in advance the total amount of bonds to be issued in a year, and issue them in whole or in part whenever they want by simply updating statements that are filed regularly.

C. Initial Public Offerings

A closely-held corporation may go public through an initial public offering (IPO) of outstanding shares, new shares, or mixture of both, and subsequently list its shares on the KSE or the KOSDAQ market.

An IPO begins with the decision of the board of directors. After the decision is made, the corporation designates a securities company as a lead manager who will organize a group of underwriters.

To list its shares on the KSE, the corporation must have its financial statements for the last three business years audited by external auditors and receive an unqualified or qualified opinion. The financial statements of the latest business year must also be audited by the external auditors designated by the Securities and Futures Commission (SFC) in accordance with the Act on the External Audit of the Joint Stock Corporations. However, if the corporation was audited in one

business year prior to listing by one of the external auditors previously designated by the SFC, the company is considered to have met the requirements prescribed in the Act.

The offering price used to be set either at par value in most cases or at a small premium plus par value by the early 1980s. Since then, it had been determined at the level of market value in consideration of the issuer's financial status, competitive prospects and the share price of its competitors. Since the 2nd half of 1990s, it has been determined at the price that the lead manager and the issuer agree with each other considering the results of the forecasted demand

D. Shares Issuance

1. New Shares with Consideration

The most common method used by corporations to raise additional capital is to have investors make required payments for new subscription. Generally, there are three ways to offer new shares

a. Rights Offerings

According to the Commercial Code, shareholders have the preemptive right to purchase the new shares. If shareholders do not subscribe to all the new shares during the designated period, the company may complete the offering of shares by allotting the rest to third parties.

b. Allotment to Third Parties

In accordance with the provision of the SEA, the articles of incorporation of an issuing corporation, or a special resolution of a shareholders' meeting, subscription rights of new shares can be granted to third parties who have special relationships with the issuing corporation such as employees, business partners, suppliers, and major shareholders. Since this preferential allotment is closely related to the existing shareholders' interests, strict rules are applied to the number and type of shares, and the prices.

c. Public Offerings

A corporation that goes public must sell at least 30% of its outstanding shares through IPOs. Also an IPO is used to distribute new shares of a listed company that have not been subscribed by existing shareholders under the board of directors' decision. Some of the issuers use this method combined with warrants when their stock price is below the par value.

2. New Shares without Consideration

The issuance of new shares without consideration increases the total number of outstanding shares of a corporation. However, there is no change in the shareholders' equity or the aggregate market value of the issuing companies at the time of the issuance

a. Transfer of Reserves

New shares are issued without cash inflow from the outside when capital surplus, retained earnings, or revaluation surplus is/are transferred to capital stock. In such cases, the additional shares are distributed to the existing shareholders in proportion to the number of shares they own.

b. Stock Dividend

Stock dividend is the payment of dividend in the form of stocks rather than cash. Notwithstanding the provision of the Commercial Code, which limits stock dividend to 50% of the total dividend, a listed company may, under special circumstances, distribute profits only in the form of new shares up to the amount equivalent to the total dividend.

E. Bonds Issuance

Korean debt securities are classified into five major categories according to the type of issuers: government bonds, municipal bonds, financial bonds, special bonds, and corporate bonds. Fixed income securities are issued through public offering, private placement, or auctions.

According to the Government Bonds Act, the Ministry of Finance and Economy (MOFE) may issue government bonds with the consent of the Korean National Assembly based on the national account, the national fund, or other special accounts specified in the related ordinance. The MOFE is the main regulatory body for the issuance of government securities while the Bank of Korea (BOK) manages the issuing process.

The financial crisis that hit the Korean economy in late 1997 has brought about drastic structural changes in the Korean bond market. Before the crisis, a majority of corporate bonds had been fixed-rate coupon bonds guaranteed by financial institutions. However, in the wake of restructuring in the financial sector, the financial institutions could not accommodate the demands from the corporate sector for bond guarantee. As a result, non-guaranteed corporate bonds are now dominating the bond market in Korea.

F. Underwriting

Underwriting is a process in which underwriters burden the risks of buying new issues of securities from issuers and reselling them to the public. Currently, securities firms and banks are allowed to engage in the underwriting business with licenses from the FSC. To assume the manager's role of an underwriting syndicate, the institution must be duly designated by the FSC. However, the FSC's designation of a bank as a lead manager is limited to the public offering of public bonds.

In general, three groups of financial institutions - the management group, the underwriting syndicate and the subscription agent - participate in underwriting process, performing different roles. The management group analyzes and determines the price of the securities, takes over unsold securities, and may perform price stabilization activities after the newly issued securities are listed on the markets. The lead manager of an underwriting syndicate is required to submit the underwriting plan to the FSC. The underwriting syndicate is composed of the management group and companies designated by the lead manager. The subscription agent group is composed of those designated by the lead manager and its function is to distribute the securities.

Although three types of underwriting activities such as firm commitment, stand-by commitment and best effort arrangements are used in Korea, the firm commitment is the most common practice. Members of an underwriting syndicate receive underwriting commissions, instead of making profits from the spread between the price paid to the issuer and the public offering price.

IV. LISTING OF SECURITIES

The listing and administration of securities is performed in accordance with the Securities and Exchange Act (SEA) and the Listing Regulation of the KSE. The KSE currently permits the listing of stocks, depositary receipts, bonds, warrants, unit investment trusts, and beneficiary certificates.

A. Listing of Stocks

1. Application for Preliminary Review

A company intending to list its stocks on the KSE must submit a preliminary review application along with other related documents. The application should contain information on nature of business, financial status, organizational structure, corporate governance and securities to be offered. Documents that must be appended to the application are the certificate of corporate registration, the articles of incorporation, financial statements, audit reports for the last three fiscal years audited by a certified public accountant (CPA), and a securities analysis report.

Upon receiving the preliminary review application, the KSE reviews it to determine whether the applicant's stocks are eligible for listing. The examination process may include on-site inspection if the KSE deems it necessary.

Major listing requirements of the KSE are as follows:

- years elapsed since incorporation must be three years or more;
- the amount of capital stock and shareholders' equity must be equal to or more than five billion won and ten billion won, respectively, and the number of total shares to be listed must be 300,000 or more;
- 30% or more of total issued stocks with voting rights must be publicly offered and the number of minority shareholders with voting rights must be 1,000 or more;
- the debt ratio as end of the preceding business year must be less than 1.5 times the average of

- other listed companies in the industry to which the applicant belongs;
- the applicant must post operating, ordinary and net income for each of the last three business years, and the return on shareholders' equity for the last business year must be 5% or more while the sum of the return on shareholders' equity for each of the last three business years must be 10% or more;
- the asset and earning value per share must exceed double of the par value; and
- the average sales for the last three business years must be 15 billion won or more and the sales of the last business year must be 20 billion won or more.

In addition to the foregoing requirements, for the sake of the public interest and investor protection, the KSE also reviews such non-quantitative areas as the applicant's business conditions as a going-concern, transparency in business management, matters on corporate disclosure and protection of shareholders' interest.

Once the applicant satisfies the listing requirements, the KSE refers the case to its Listing Committee. The Listing Committee, composed of experienced specialists from financial industries, academics and the KSE, reviews again the applicant's eligibility for listing. The KSE notifies the FSC and the applicant of the review result within two months upon receipt of the application. After the approval is granted, the applicant should make a public offering to meet the stock distribution requirements. If an applicant has already satisfied distribution criteria through trading on the KOSDAQ market at the time of preliminary review application, it may not make a public offering.

Notwithstanding the listing requirements above, the KSE may, when recognizing the profitability and growth potential of the applicant, apply the following alternative requirements. These alternative listing standards were introduced in June 2000 to accommodate fast-growing small companies.

- the capital stock and shareholders' equity must be equal to or more than two billion won and five billion won, respectively, and the number of shares to be listed must be 300,000 or greater;
- the operating, ordinary, and net income for the latest business year must be posted, and return on shareholders' equity for the latest business year must be equal to or more than 5% or the smallest of the operating, ordinary, and net income for such period must be equal to or more than one billion won, and cash flow from operating activities for the latest business year must be positive;
- the asset value per share must exceed double of the par value, and the earning value per share must exceed triple of the par value; and
- the sales for the latest business year must have increased by 20% or more compared to those of

the preceding year, and the sales volume for the latest business year must be equal to or more than six billion won and the average sales for two business years before the latest business year must be equal to or more than five billion won.

In addition, the growth companies must satisfy the foregoing standards such as the time elapsed since incorporation, debt ratio, amount of stocks publicly offered, number of minority shareholders, etc.

2. Listing Application

A corporation must submit a listing application within one week once the publicly offered stocks are paid. In case of an applicant's failure to submit a listing application within six months upon receipt of the eligibility for listing or occurrence of any material events which may negatively influence the result of the preliminary review during the period between the approval of eligibility and listing application, the KSE may implement the preliminary review again. Listing examination is focused on stock distribution criteria and takes one week.

B. Listing of Stocks Issued by Investment Companies

A securities investment company should consult with the KSE for the listing procedure, time, and other necessary matters prior to submitting a listing application. Major listing requirements are as follows.

- the applicant, pursuant to the Law on Securities Investment Company, must register with the FSC;
- the capital stock must be 80 billion won or more;
- 30% or more of the total issued stocks must be publicly offered and the number of shareholders must be 1,000 or more;
- there should be no pending lawsuits that may affect business management at the time of application; and
- there should be no restriction on transfer of shares.

C. Listing of Foreign Stocks

A foreign corporation planning to issue securities in the Korean securities market must register with the FSC prior to the issuance. A foreign corporation is allowed to issue original stocks or depositary

receipts (DRs) based on underlying stocks. The KSE permits both original stocks and DRs to be listed on its market. A foreign applicant must consult with the KSE prior to the application regarding listing procedures, time, and other necessary matters. The KSE examines the applicant's business conditions as a going-concern, management, corporate disclosure, and investor protection. Major listing requirements for foreign stocks and DRs are as follows:

- the stocks or underlying securities of DRs must be listed on an exchange of home country,
- the applicant must be incorporated at least three years prior to the application and has continuously operated its major business;
- shareholders' equity must be 10 billion won or more,
- net income of the latest business year and the last three business years must be equal to or more than 2.5 billion won and five billion won, respectively;
- the number of stocks or DRs must be 300,000 or more;
- auditors' opinion on the financial statements for the last three business years must be unqualified;
- there should be no disputes including pending lawsuits which may materially affect the management of the company; and
- there should be no restriction on transfer of shares.

D. Listing of Bonds

1. Application for Listing

An applicant intending to list its bonds must submit to the KSE a listing application including information on the bond, the issuer and the underwriter. The KSE also permits eligible foreign bonds to be listed on its market.

2. Listing Examination

Major listing requirements are as follows:

- the capital stock of the issuer must be 500 million won or more;
- the bonds concerned must have been issued through a public offering;
- the total face value of the bonds must be 300 million won or more; and
- the total par value unredeemed must be 300 million won or more.

E. Listing Fees and Annual Dues

An applicant must pay listing fees for the listing of securities and an issuer of listed securities must pay annual dues for the duration of the listing

1. Listing Fees

a Stocks

The KSE levies listing fees for initial and additional listing, and listing change of stocks. The initial and additional listing fees are based on the capital stock to be listed as in the table below. Minimum fees are 100,000 won

Capital Stock	Fees
3 billion won or less	0.06% of the capital stock to be listed
10 billion won or less	1,800,000 won + 0.05% (capital stock - 3 billion won)
20 billion won or less	5,300,000 won + 0.04% (capital stock - 10 billion won)
50 billion won or less	9,300,000 won + 0.03% (capital stock - 20 billion won)
100 billion won or less	18,300,000 won + 0.02% (capital stock - 50 billion won)
500 billion won or less	28,300,000 won + 0.01% (capital stock - 100 billion won)
1 trillion won or less	68,300,000 won + 0.005% (capital stock - 500 billion won)
Over 1 trillion won	93,300,000 won + 0.001% (capital stock - 1 trillion won)

- Fees for listing change: one million won per case
- Fees for the stocks issued by securities investment company: a third of regular amount based on the table above and fees for listing change

b. Foreign Stocks and DRs

The listing fees for foreign stocks and DRs are levied based on the number of stocks and DRs as in the table below. However, in the case of initial listing of foreign stocks, the fees are based on the number of stocks that were offered publicly in Korea for the listing.

Number of stocks/DRs	Fees
60 thousand or less	300,000 won
More than 60 thousand	300,000 won + 30,000 won per 10,000 shares exceeding 60,000

c. Bonds, Unit Investment Trusts and Warrants

The listing fees for bonds and warrants are based on the table below. Fees for unit investment trust are a third of the fees for bonds. Fees for listing change of bonds and investment trust are 300,000 won and 100,000 won per case, respectively.

Amounts	Fees
Less than 1 billion won	100,000 won
Less than 2 billion won	150,000 won
Less than 5 billion won	300,000 won
Less than 10 billion won	700,000 won
Less than 15 billion won	1,000,000 won
Less than 25 billion won	1,200,000 won
Less than 50 billion won	1,300,000 won
Less than 100 billion won	1,400,000 won
Less than 200 billion won	1,500,000 won
Less than 500 billion won	1,600,000 won
500 billion won or more	1,700,000 won

2. Annual Dues

a. Stocks

Annual dues for stocks are based on the listed capital stocks as end of the calendar year.

Capital Stock	Annual Dues
3 billion won or less	11,000 won per 100 million of capital stock
10 billion won or less	330,000 won + 8,000 won per 100 million exceeding 3 billion of capital stock
20 billion won or less	890,000 won + 7,000 won per 100 million exceeding 10 billion of capital stock
50 billion won or less	1,590,000 won + 6,000 won per 100 million exceeding 20 billion of capital stock
100 billion won or less	3,390,000 won + 4,000 won per 100 million exceeding 50 billion of capital stock
500 billion won or less	5,390,000 won + 2,000 won per 100 million exceeding 100 billion of capital stock
1 trillion won or less	13,390,000 won + 1,000 won per 100 million exceeding 500 million of capital stock
Over 1 trillion won	18,390,000 won + 500 won per 100 million exceeding 1 trillion of capital stock

- Annual dues for stocks issued by securities investment company: a third of the regular amount based on the table above

- Annual dues for newly listed stocks: discounted in proportion to the listing period

b. Foreign Stocks and DRs

Annual dues for foreign stocks and DRs are based on the number of listed stocks and DRs as of the end of the calendar year.

Number of stocks/DRs	Annual Dues
300,000 or less	350,000 won
1 million or less	350,000 won + 5,000 won per 10 thousand exceeding 300,000 stocks/DRs
2 million or less	700,000 won + 3,000 won per 10 thousand exceeding 1 million stocks/DRs
More than 2 million	1,000,000 won + 1,000 won per 10 thousand exceeding 2 million stocks/DRs

c. Bonds, Unit Investment Trusts and Warrants

Annual dues for a bond issue are 100,000 won times the number of years to maturity from listing date. Annual dues for unit investment trusts and warrants are based on the number of issues listed by the same issuer as in the table below.

Number of issue	Amount
One	300,000 won
More than one	300,000 won + 100,000 won per additional issue

V. CORPORATE DISCLOSURE

The corporate disclosure is a system by which securities issuers are obligated to timely inform investors of important corporate information so that the investors can make informed investment decisions. As such, an efficient corporate disclosure system plays a critical role in ensuring a fair pricing, and protecting the interests of investing public by contributing to resolution of information asymmetry and promoting informed investments in the securities markets.

In Korea, matters concerning corporate disclosure are stipulated in the provisions of the Securities and Exchange Act (SEA) and the Disclosure Regulation of the KSE. The SEA governs the disclosure in the primary market, while the Disclosure Regulation of the KSE stipulates matters related to the disclosure in the secondary market.

Corporations who intend to issue securities are required to submit registration statements and prospectuses to the FSC. In the secondary market, listed corporations of the KSE are obligated to submit financial statements to the FSC and/or the KSE on a periodic basis, and to make timely disclosures.

Corporate disclosures had been made in hard copies until the FSC and the KSE developed electronic disclosure systems in March 2000. Under the Electronic Disclosure System, corporations submit disclosure documents via Internet to the FSC and/or the KSE so that the investors can easily access them.

A. Disclosure in the Primary Market

One of the primary objectives of the disclosure in the primary market is to ensure that the investing public is properly informed of details regarding the securities to be issued and the issuer. Registration statements and prospectuses are the principal sources of information in the primary market.

1. Registration Statement

Any corporation wishing to make a public offering of more than one billion won in worth should file a registration statement with the FSC. The registration statement contains a wide range of material information, such as: the issuer's background, an outline of the company, a description of the public offering, the use of proceeds, the business and financial conditions, the shareownership structure, auditor's opinions on financial statements, etc. The registration statement submitted should be kept for public perusal at such places as the issuing corporation, the FSS, the KSE and the subscription site

2. Prospectus

Prospectus is a booklet or pamphlet document prepared for the prospective purchasers' perusal at the time of public offerings. A prospectus should include such facts as the effective date of the registration statement, the offering price, the subscription period, public references, matters on market making or price stabilization plans, etc. The information presented in the prospectus must be consistent with the information contained in the registration statement

B. Disclosure in the Secondary Market

Listed corporations are obligated to make full and prompt disclosures of important corporate developments. They can also disclose other price-sensitive information on a voluntary basis.

1. Periodic Disclosure

Pursuant to the SEA, a listed corporation must file annual, semi-annual, and quarterly reports with the FSC and the KSE within a specific period after the end of respective fiscal year. A disclosure should be made within 90 days after the end of a fiscal year for annual reports, 45 days after the end of a semi-fiscal year for semi-annual reports, and 45 days after the end of a quarter for quarterly reports

Every corporation is required to submit consolidated financial statements when owning 50 percent or more of stakes in another corporation; or when owning 30 percent or more of stakes in another corporation and becoming a controlling shareholder. Moreover, beginning from 1999, the largest 30 conglomerates in terms of total assets should submit combined financial statements. Therefore, a

listed corporation who is an affiliate of any of the biggest 30 business groups is required to file combined financial statements within six months after the end of a fiscal year

2. Timely Disclosure

Listed corporations should report the KSE of any material information without delay so that the KSE may release the information to the public through its electronic disclosure system named KIND (Korean Investors' Network for Disclosure). Timely disclosure of material events is made either on the day of occurrence, or within one day after the occurrence, depending on the nature of the event to be disclosed. Listed corporations also make disclosures of material information on a voluntary or involuntary basis.

For an effective operation of the corporate disclosure system, the KSE mandates a listed corporation to designate one of the directors as the disclosure officer who is responsible for the disclosure of the corporation.

a. Events to be disclosed on the day of occurrence

When any of the material events as the followings occurs to a listed corporation, the corporation concerned should disclose the fact on the day it occurred:

- when a note and/or a check issued by the corporation is dishonored, or when a bank account of the corporation is suspended or frozen,
- when a business equivalent to 10 percent or more of sales amount, or a part or all of the main business line is suspended, or when a license for the main line of business is revoked or withdrawn;
- when an application for the commencement or the completion of corporate reorganization is filed by the corporation, and when the commencement or the completion of corporate reorganization is informed by court;
- when a loss equivalent to 5 percent or more of total asset results from an accident such as a fire or natural disaster;
- when a lawsuit is filed with respect to the effects of issuance, change of rights, or forgery or alteration of its securities;
- when bankruptcy or expiration of the duration of corporation, or other reasons for dissolution as stipulated in the articles of incorporation occurs;
- when the board of directors resolves to increase or decrease paid-in capital;

- when 10 percent or more of production activities is discontinued, or when the discontinued production activities are restored to normal conditions;
- when a bank enters a contract with the corporation to take over the management;
- when the board of directors makes a resolution concerning acquisition of its own shares and/or disposition of the acquired treasury shares,
- when the board of directors passes a resolution with respect to stock dividends; or
- when the board of directors passes a resolution with respect to the transfer or acquisition of businesses, merger or consolidation

b. Events to be disclosed within one day after the occurrence

When any of the events as the followings occurs to a listed corporation, the corporation concerned should disclosure the fact within the next day of the occurrence

- when the board of directors makes a resolution on a change of business objectives;
- when a lawsuit claiming damages equivalent to 20 percent or more of the paid-in capital is filed against the listed company with respect to patent rights infringement, environmental pollution, property restoration, etc.;
- when the corporation is notified of investigations by tax authority for an alleged violation of tax laws;
- when the board of directors passes a resolution with respect to equipment investment, facilities expansion, or construction of a new factory equivalent to 20 percent or more of the paid-in capital;
- when the board of directors passes a resolution with respect to equity investment or disposition of equity investment in other companies equivalent to 10 percent or more of the paid-in capital;
- when the board of directors passes a resolution regarding a contract for an introduction of technology, transfer of technology or technical cooperation that may have a significant influence on the business, property of the corporation or on the investment decision of investors,
- when a contract for acquisition or disposition of a fixed asset equivalent to 10 percent or more of the paid-in capital has been made;
- when the board of directors passes a resolution with respect to asset revaluation;
- when the board of directors passes a resolution with respect to stock splits or reverse stock splits; or
- when the corporation obtains an inventive patent on new materials or technologies which may have a significant influence on the management and asset of the corporation, or when the corporation enters a contract to acquire or transfer a patent.

c. Voluntary Disclosure

Listed corporations can disclose any price-sensitive information besides the material information that should be released according to relevant rules and regulations. Listed corporations should provide the KSE with the information within one day after the day of occurrence if they want to disclose voluntarily any information that they deem as price-sensitive.

d. Disclosure upon Inquiries

When a rumor or news that may significantly influence the stock price of a listed corporation is observed, the KSE requests the corporation to confirm whether the rumor or news is true or not. In addition, the KSE may request a listed corporation to disclose any corporate information publicly unknown when the price or the trading volume changes drastically without reasonable causes. Upon receiving the request from the KSE, the corporation should respond to it without delay.

C. Unfaithful Disclosure

The Disclosure Regulation of the KSE categorizes unfaithful disclosures into three types: non-compliance, disclosure reversal, and significant changes in the contents disclosed. In the case where a listed corporation is proved to have violated the Disclosure Regulation, the KSE publicizes the facts in its Daily Official List and takes disciplinary measures such as trading suspension, surveillance on the issue concerned, and/or notification of the case to the FSC.

Upon receiving the notification from the KSE, the FSC, if necessary, may take actions such as restrictions on issuance of securities for a certain period of time, or recommendation for the dismissal of the responsible officers against the corporation itself or the person involved.

D. Electronic Disclosure Systems

The FSC and the KSE developed their own independent systems for electronic disclosure, called DART (Data Analysis, Retrieval & Transfer) and KIND, respectively, and put them into operation in March 2000. Previously, disclosure documents were submitted to the FSC and the KSE separately. With advent of the new systems that are inter-connected, all disclosure documents input to the FSC's DART system are automatically transferred to the KSE's KIND system. All corporate information delivered to the KIND is disseminated on the KSE website (<http://www.kse.or.kr>) on a real time basis and available to the public.

VI. TRADING SCHEME

A. Overview

1. Features of the Market

The KSE market is a typical order-driven one where buy and sell orders compete for the best price. Throughout the trading hours, customer orders are continuously matched at a price satisfactory to both parties according to price and time priorities. The opening and closing prices, however, are determined by call auction. At market opening (9:00 a.m.) and closing (3:00 p.m.), orders placed at a certain period of time are pooled over and matched at a single price that minimizes the imbalance between the buying and selling parties. The KSE handles the whole trading procedures with an electronic trading platform, called KSE Automated Trading System (KATS).

2. Products

The KSE is one of the few exchanges in the world that successfully trade both cash and derivatives products under one roof. The wide spectrum of products includes stocks, bonds, stock index futures and options, warrants, investment funds, and beneficiary certificates.

3. Trading Hours

a. Regular Session

The KSE market is open from 9:00 a.m. to 3:00 p.m. during weekdays. Investors can submit their orders from 8:00 a.m., one hour before the market opening. Orders delivered to the market during the period from 8:00 a.m. to 9:00 a.m. are pooled over and matched by call auction at 9:00 a.m. to determine opening prices. After opening prices are determined, trades are conducted by continuous auction until 2:50 p.m., 10 minutes before the market closing. During these 10 minutes, orders are pooled again and executed by call auction to determine closing prices of the day. The KSE has no

longer traded on Saturdays since December 1998. Lunchtime breaks of the KSE market between 12:00~13.00 p.m. were abolished in May 2000. The derivatives market closes 15 minutes after the cash market closing.

b. After-hour Session

Besides the regular session, the KSE operates an after-hour session for 30 minutes from 3:10 to 3:40 p.m. During the after-hour session, investors trade securities at the closing prices of the day.

Block orders and basket orders are also traded during the after-hour session. A block order refers to an order of which size is more than 50 thousand shares or one billion won. A basket order combines 5 issues or more with total amount of one billion won or more. The prices of block orders and basket orders should be between the highest and the lowest prices of the day, and cannot be deviated from the closing prices by more than 5 percent.

< Trading Hours >

Days	Regular Session	After-hour Session
Monday - Friday	09.00 - 15.00	15.10 - 15.40

4. Order Lots and Tick Sizes

The order lots are 10 shares for stocks and 100,000 won in par value for bonds. Orders with sizes less than the order lots are handled by securities firms on the OTC market.

The tick sizes for stocks vary according to the price level as shown below. Bonds are quoted in yields, and the tick size is one basis point. The tick size for convertible bonds and bonds with warrant is one won.

< Tick Sizes >

Stock Price Levels	Tick Sizes
Less than 5,000 won	5 won
5,000 won or more to less than 10,000 won	10 won
10,000 won or more to less than 50,000 won	50 won
50,000 won or more to less than 100,000 won	100 won
100,000 won or more to less than 500,000 won	500 won
Over 500,000 won	1,000 won

B. Trading Procedure

1. Order Placement

To place an order to the KSE market, investors should have accounts at KSE member securities firms. In case of foreign investors, they must register with the Financial Supervisory Service (FSS) under their real names before opening accounts.

When placing orders, investors are required to pay good faith deposits to their securities firms. The deposits are to be paid by either cash or substitute securities. Since each brokerage firm can determine its own rate of good faith deposits to be levied on its customers, the rates may differ from company to company. The brokerage firms are required to inform the KSE of the fact whenever they change the rates. The average rate was around 40% of the order amount as of December 2000.

2. Order Routing

All orders are transmitted directly to the KATS of the KSE via the computerized order-routing system. Upon receiving an order from its customer, the securities firm automatically checks if the customer meets the requirement of the good faith deposit via its own computer system. For orders placed by foreign investors, the KSE and FSS systems automatically check foreign investment ceilings, if any.

3. Order Matching

a. Auction Principles

All orders are executed on a basis of individual auction. The individual auctions are classified into a single price auction used for call trading and a multi-prices auction used for continuous trading. The auction principles applied to securities transactions are as follows:

● Price Priority

The highest bid or the lowest offer takes precedence over all others.

● Time Priority

For bids or offers received at the same price, the earliest one takes priority over those delivered later.

However, at the call auctions (9:00 a.m. and 3:00 p.m), all bids and offers submitted during a certain period of time (during an hour prior to the opening and 10 minutes prior to the closing) before each auction are considered to be delivered simultaneously

o Customer Priority

When orders with a same price arrive simultaneously, customers' orders have priority over members' proprietary orders.

o Size Priority

Among simultaneous bids and offers at a same price, precedence is given to the order with larger volume. This principle is applied in call auctions.

b. Auction by a Single Price (Call Trading)

Auction by a single price refers to a transaction method by which all bids and offers submitted to the KSE during a certain period of time are regarded as having been received at the same time, and are matched at a single price. All orders submitted during the after-hour session are matched at the closing price of the day under the time priority rule.

A single price is determined at a level at which all bids with prices higher than the price and all offers with prices lower than the price are filled. If the order amounts on both sides do not balance, those on one side are fully filled, while those on the other side are partly filled. This method is used in determining opening and closing prices.

c. Auction by Multi-Prices (Continuous Trading)

Auction by multi-prices is a transaction method in which a bid and an offer are bilaterally matched. It is used in continuous trading after opening prices are determined. Under this method, when a new bid or offer enters into the system, it is matched with any of the existing offers or bids compiled on the order book.

4. Margin Transaction

A margin transaction refers to a purchase or a sale of securities with only part of the money or securities, the balance being borrowed from securities companies. That is, securities companies extend credit to customers, thereby enabling them to settle their trades. There are two categories in margin transactions: margin buying and short selling. Securities companies may extend credit to their customers by using their own money or stocks, or by borrowing cash from the Korea

Securities Finance Corporation (KSFC), and securities from the KSD that acts as an intermediary for securities lending.

Securities companies collect cash from short sales or securities from margin buying as collateral. The collateral is marked to market on a daily basis. If the value of the collateral drops below a certain level set by the brokerage firm, the customer must make up the margin and the margin can be paid by substitute securities. Brokerage firms determine the terms of margin transactions at their discretion. However, brokerage firms must inform the FSS of any changes in their margin requirements such as rates and collecting methods.

With the exception of securities issued by securities companies, only the KSE listed stocks are eligible for margin transactions. Margin transaction provides liquidity to the market, but its use is limited. The FSC limits margin buying and short selling not only to prevent excessive volatility of the market but also to avoid excessive speculation of a specific stock.

C. Dissemination of Market Information

Efficient dissemination of market information is one of the pivotal factors in ensuring the efficiency of a market. It enables investing public to promptly respond to changing market conditions. To this end, the KSE provides various means to make investors' access to market information convenient. Most market information on price and trading volume is electronically provided on a real time basis through commercial telecommunications networks, brokers' websites, and information terminals distributed by the Korea Securities Computer Corporation (KOSCOM), a subsidiary of the KSE.

Any changes in the KOSPI, last sale prices, current prices, and the 5 best offer and bid prices are immediately shown on the securities information system provided by the KOSCOM under the contractual agreement with customers. This information system also provides financial news, corporate information and economic indicators. The comprehensive market information is also made public by the Daily Official List published by the KSE.

D. Devices for Keeping an Orderly Market

1. Daily Price Range Limits

An excessive fluctuation in stock price is not desirable for keeping investors' confidence in the

market. To avoid abnormal price fluctuation and keep an orderly market, the KSE sets limits on the range that the prices of individual stocks can change during a day. As of December 2000, it was set at 15%, which meant that the price of each stock could neither fall nor rise by more than 15% from the previous day's closing price.

2. Trading Halt

When the price and/or trading activities of an issue is expected to show an abnormal movement in response to unidentified rumor or news, or when an abnormal movement is observed in the market, the KSE may halt the trading of the issue to protect the investing public against the possible fraudulent trading activities. In such cases, the KSE requests the company concerned to make a disclosure regarding the matter.

Once the company makes an official announcement on the matter, the trading can be resumed within an hour. However, if it is deemed that the situation was not resolved by the disclosure, trading resumption may be delayed.

3. Circuit Breakers

To minimize the impact of any temporary imbalance in order flow on the market and to provide investing public with a cool-down period, the KSE introduced the Circuit Breakers in December 1998. The trading in the equity and futures/options markets is halted for 20 minutes, when the KOSPI falls by 10% or more from the previous day's closing price and the situation lasts for one minute or longer. The trading resumes by call auction where the orders submitted during 10 minutes after the trading halt ended are matched at a single price.

4. Administrative and Surveillance Issues

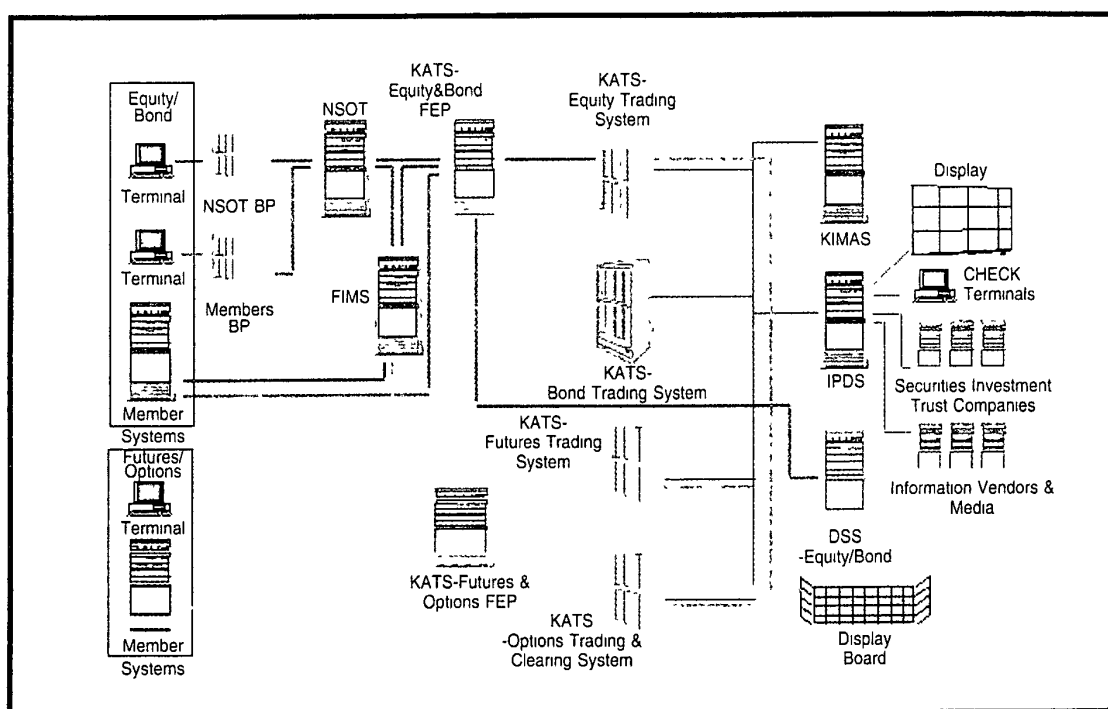
When an issue falls under any of the delisting criteria stipulated in the Listing Regulation of the KSE, the KSE may designate the issue as an Administrative Issue, in order to warn the investing public of possible exposure to risk. Once issues are designated as administrative issues, they cannot be used as substitute securities in paying margins and brokerage firms cannot extend credits for margin transaction on those issues. When an issue shows unusual price fluctuations, the KSE may designate the issue as a Surveillance Issue.

E. Electronic Trading Systems

In terms of computer system, the KSE market consists of 3 parts: order-routing system, trading system and information system. Order-routing system manages the accounts of brokers' clients and transmits orders to the trading system. Trading system comprises four sub-systems based on products; equity, bond, index futures and options. Trading systems match buy and sell orders according to auction principles, keeping the confidentiality of trades. The Information system receives raw data from trading systems, and after processing those data, it disseminates them to investors. System capacity in terms of number of orders per day reaches 2.5 million for equity and 200 thousands for index futures and options. The capacity will be expanded to 4 million orders for equity, and 400 thousands for index futures and options in the first quarter of 2001.

The system layout of the KSE market is illustrated in the diagram below.

< System Configuration of the KSE Market >



NSOT: New Stock Turn Around System
FIMS: Foreign Investment Management System
IPDS: Information Processing & Dissemination System
DSS: Depository & Settlement System

F. Market Surveillance

In order to prevent malpractices such as price manipulation and insider trading, the KSE closely monitors trading activities in the market, using its fully automated surveillance system called the Comprehensive Surveillance and Information System (COSIS). The COSIS consists of two sub-systems, the Stock Watch System (SWAS) and the Computer-Assisted Surveillance System (CASS). Stock watchers detect unusual trading activities such as sudden increase or decrease in prices and/or trading volume, assisted by the SWAS. When they detect anything unusual, their first course of action is to find the factors involved. If a case is proved to have a high likelihood of a suspicious trading, the KSE refers the case to the CASS for in-depth investigation.

For the purpose of such investigation, the KSE may order members involved to submit reports, documents, or any other materials relevant to the investigation. When, as a result of the investigation, a member is found to have violated any laws or regulations, the KSE may suspend transactions of all or part of the issues concerned. The KSE may also issue a public warning to the members concerned and request them to take disciplinary actions against the culpable individuals. In more serious cases, the KSE may cancel the membership of the members concerned. Any case of alleged insider trading is referred to the FSC for further investigation and prosecution.

G. On-line Trading

On-line trading was legally approved in January 1997 when the Securities and Exchange Act (SEA) allowed securities companies to receive customers' orders by electronic communications such as the Internet, mobile phones, etc. Thanks to the fast development of the Internet, on-line trading has become very popular in Korea. The number of accounts for on-line trading has grown at exponential rate from 0.08 million in January 1998 to 3.65 million in October 2000. The ratio of on-line accounts compared to the total accounts has increased from 2.0 percent in January 1998 to 41.5 percent in October 2000. This brought about a sharp increase in short-term investment, i.e. day trading. Owing to convenience of on-line trading and lowered commissions, the ratio of the on-line stock trading value which was not more than 1.3 percent in January 1998, drastically increase to 64.1 percent in October 2000.

< On-line Stock Trading in Korea >

	No. of Account (in millions)			Stock Trading Value (in trillion won)		
	Online (A)	Total (B)	Ratio (A/B, %)	Online (A)	Total (B)	Ratio (A/B, %)
Jan 1998	0.08	3.83	2.0	0.49	38.19	1.3
Dec 1998	0.23	3.79	6.0	3.27	87.98	3.7
Dec 1999	1.90	7.57	24.9	107.76	267.94	40.2
Oct 2000	3.65	8.79	41.5	87.61	136.74	64.1

* Source Korea Securities Dealers Association

VII. CLEARING AND SETTLEMENT

A. Overview

According to the Securities and Exchange Act (SEA) and the KSE Constitution, the KSE is responsible for clearing and settlement of the trades concluded on its market. To this end, the KSE is empowered to regulate the structure and process of clearing and settlement.

In practice, the Korea Securities Depository (KSD) acts as a settlement agent of the KSE and provides daily settlement services for stocks and bonds based on the service contract with the KSE. However, the KSE works as clearing and settlement organization for derivatives products such as the KOSPI 200 futures and options

B. Settlement of Trades

1. Trade Data Comparison

The KSE fully automated its trading process on September 1, 1997. On a trade day, transactions between KSE members are compared bilaterally and locked-in when they are matched. As soon as the KSE notifies its members of the trade results through its order routing system, the trades are deemed to be compared.

2. Clearing

The KSE produces clearing data automatically through its computer system, which include the number of shares to be delivered and the amount of funds to be paid among its members by netting out on a multilateral basis for compared trades. The KSE then instructs the KSD to settle the trades by providing the clearing data called Securities Settlement Statement in the form of on-line data transmission.

3. Settlement

Securities trades are settled on T+2 basis. On receiving clearing data from the KSE, the KSD checks the balance of deposited securities of each selling member and receives additional securities to make up for any shortage. The KSD then completes the delivery of securities through book entry by debiting from a net-selling member's account and crediting to a net-buying member's account.

The settlement of payment side is made on a net balance by the same day fund basis through commercial banks. After transactions have been netted, KSE members must deposit cash or cashier's checks to the KSE's settlement accounts in the designated bank by 4:00 p.m. on T+2. According to the KSE instruction, the KSD transfers the payment into accounts of selling KSE members. The settlement deadline for regular-way transactions is 4:00 p.m. on the second business day following the day of contract while cash transactions must be settled by 4:00 p.m. on the day of contract. Currently, cash transactions are available only for bond transactions.

In the settlement of regular-way transactions, if a selling member is unable to make delivery of the securities by the settlement deadline, the selling member may, with the consent of the purchasing member, deliver instead a Securities Delivery Bill issued by the KSE. Any member who has delivered a Securities Delivery Bill for the settlement must deliver the securities to the KSE by the second day following the date of the bill issuance.

For regular-way transactions, a member must make a settlement with its client by 12:00 p.m. on the settlement day. For cash transactions, the member must make a settlement with its client by 3:30 p.m. on the day of the contract.

4. Cross-border Settlements

When Korean investors purchase securities from foreign markets, they usually keep them under the custody of local custodians. The methods to settle and manage overseas securities acquired by Korean investors are grouped into two categories depending on the status of investors. Institutional investors specified in the relevant regulations may settle and administer their purchased securities through the KSD, local custodians, global custodians or international securities depositories. However, individual investors and corporations other than institutional investors, must settle and administer the securities purchased overseas through the KSD. For this purpose, the KSD appoints foreign custodians who meet the requirements of the regulation in terms of reputation, size of

custody business and global network.

Foreign investors are encouraged to designate standing proxies among securities companies, banks and the KSD for order, safekeeping, settlement and exercise of rights in line with the Regulation on Trading of Securities by Foreigners of the FSC.

C. Book-entry Settlement

The settlement of securities transactions is executed under the book-entry system of the KSD which acts as a central depository. With its establishment in 1974, the KSD's system was put into full operation and expanded to cover all listed stocks in 1975 and all listed bonds in 1983.

In this system, securities transactions are settled by a simple book-entry transfer of securities certificates from a delivering party to a receiving party through their KSE accounts, without any physical movements of certificates.

For the system to operate, the securities companies are required to deposit with the KSD their own shares as well as those of their customers. Institutional investors are also encouraged to open their accounts with the KSD. These measures not only reduce the possibility of accidental loss or damage, but also enable the KSD to function as the central depository and contribute to streamline the settlement procedure. 373 institutions were participating in this system as of October 2000.

D. Ensuring Settlement

1. Joint Compensation Fund

The KSE is responsible for the settlement of all securities transactions traded on its market and stands liable for the damages incurred due to breaching of trading contracts by a member. All members are conditioned to contribute to the Joint Compensation Fund managed by the KSE and may be jointly liable for damages.

The Joint Compensation Fund was devised to make payments for damages stemming from a settlement default. The rate of deposit paid into the fund by each member is 1/100,000 of its trading value. The funds are limited to a maximum reserve equal to the sum of 2/300 of the total trading value.

on the KSE marketplace during the business year. When the amount of the fund reaches the maximum limit (100 billion won), the deposits are suspended. When the fund is reduced due to a compensation payment, however, deposits are again required until the fund is restored to its maximum limit.

The fund deposited by a member who caused the damage is to be paid first and those deposited by other members are to be used for the remaining damages. If the amount of the money in the Joint Compensation Fund is insufficient to cover a compensation payment, the KSE makes up for the difference out of its own funds. In cases where the registration of a member is cancelled, the KSE shall, after subtracting any amount used, refund to the member the remaining balance in the Joint Compensation Fund deposited by that member.

2. Fidelity Guaranty Money

All members must deposit the fidelity guaranty money, and the amount is determined by the board of directors of the KSE up to at maximum 50 million won. If a member fails to fulfill, to the KSE or any other member, its obligation arising from securities transactions, the KSE may apply the member's fidelity guaranty money to fulfill the obligation. No member may transfer the redemption rights of deposited the fidelity guaranty money to others or use it as collateral.

3. Disciplinary Measures against Settlement Failure

When a member fails to settle its transactions, the KSE is authorized to order the suspension of its transactions. Additionally, if the failure causes a serious confusion in the market, the KSE is empowered to cancel the registration of the member concerned and the FSC may revoke the member's license to engage in the securities business.

E. Services for Institutional Investors

1. Securities Lending and Borrowing

The KSD commenced intermediary service for securities lending and borrowing in September 1996. This facility is designed to support institutional investors' activities in the financial market and facilitate settlements in case of securities shortage. Furthermore, the MOFE opened the nation's securities lending market to foreign institutional investors in July 1998 by revising the Foreign

Exchange Management Regulation (revised in 1999 as the Regulation on Foreign Exchange Transactions). On September 21, 1998, bonds were included to the existing facility.

The KSD, as an intermediary, plays the role of system operation, trade intermediation, and risk and collateral management. Domestic institutions are required to first file an application with the KSD for participation in the securities lending and borrowing facility. Those who wish to have a third party guaranty for securities lending and borrowing transactions need to enter an agreement with the KSD. The same procedure applies to foreign institutions, but they must participate in securities lending and borrowing through their agent, mainly the custodian bank, in Korea.

A lender can only have its own securities holdings out on loan. Securities companies, however, can put their institutional customers' holdings on loan, if requested so by the customer.

Securities lending and borrowing is classified into the following three types of transactions: transactions for settlement coverage, open transactions and tailor-made transactions. In case of transactions for settlement coverage, a borrower first files an application for borrowing with the KSD, which locates potential lenders and notifies the borrower of the loan availability. When both parties enter into a transaction, the borrower puts up collateral and then the securities are delivered for loan.

As for eligible collaterals, they are stocks, bonds, beneficiary certificates, commercial bills and cash. Marking-to-market is made daily on offered collateral and margin calls are made in case of insufficiency. All the economic rights deriving from securities lending and borrowing (e.g. rights issues, bonus stocks, stock dividends and cash dividends) are compensated by the borrower.

The securities borrowing and lending market has been significantly expanded in September 2000 when the Korea Securities Finance Corporation (KSFC) and securities companies were also allowed to provide institutional investors with intermediary service for securities lending and borrowing. For retail investors, the investment trust companies were allowed to provide them with securities lending service.

2. Institutional Settlement

Members of the KSE can settle securities and funds with their institutional customers through the KSD. The Institutional Affirmation & Settlement (INAS) system of the KSD is not for a separate or

individual market but for the transactions between securities companies and their institutional customers

Securities companies first initiate the process by forwarding trade details of their institutional customers to the KSD. Data transferred include account names, account numbers, security description, type of order (buy or sell), quantity and unit price. The KSD then sends out trade data via SAFE, the KSD participant system, to institutional investors or their agents for confirmation of transaction they entered into the day before. If trades are inaccurately described, institutional investors contact their corresponding brokers to work out differences in trades. The broker concerned is liable for submitting the correct details to the KSD and corrections are re-submitted to the institutional investors through SAFE. If they affirm the trade details, the KSD provides preliminary settlement details to securities companies and institutional investors via SAFE.

On the settlement day, the KSD notifies institutional investors of the net position, together with securities shortage to be covered. Settlement is done on a delivery versus payment (DVP) basis and the KSD delivers the securities by book entry. Money transfer is made through the participants' accounts opened at the banks designated by the KSD.

VIII. MEMBERSHIP

A. Membership Types

The KSE is a membership organization to which the access is confined to members. Only the securities firms licensed by the Financial Supervisory Commission (FSC) are eligible for the KSE membership. As for non-member securities firms, they can participate in the KSE market through member firms. The KSE opened its membership to foreign securities companies in 1991 and as of December 2000, the KSE had 51 members, among which 14 were foreign brokerage firms.

The KSE has two classes of membership, regular and special. Regular members have both voting rights and claims to the KSE properties, while special members only have the right to use trading facility. As of December 2000, the KSE had 32 regular members and 19 special members.

Aside from the membership, qualified commercial and merchant banks and non-KSE member securities firms can participate in the Inter-dealer Market for government securities (IDM), which was opened in April 1999 by the KSE. This quasi-membership, called special participant system, was introduced in November 1999. To be eligible for special participants of the IDM, applicants should be licensed as government bond dealers by the FSC. The number of special participants was 31 as of December 2000.

B. Admission and Termination of Membership

1. Admission

The typical procedures for member admission include application, examination, resolution by the board of directors, approval from the general meeting of members, and payment of fees. The whole process usually takes six to eight weeks.

Any securities company who intends to join the KSE membership is required to submit an application form. Once the applicant is deemed qualified after the examination of the applicant's financial status, profitability, personnel, facilities and other relevant matters, admission is granted upon the approval from the general meeting of members. The admission takes effect on the following day when the applicant makes full payments of Basic Admission Fee (BAF), Special Entrance Fee (SEF), contributions to Joint Compensation Fund (JCF) and Fidelity Guaranty Money (FGM), as stipulated by the KSE Constitution. A special member can change its membership status into a regular member by the approval of the general meeting of members.

2. Termination

A member firm may voluntarily withdraw its membership by submitting an application and obtaining an approval from the KSE for the withdrawal (voluntary withdrawal). A membership is also terminated when a member falls under any category of disqualification, dissolution, or expulsion (mandatory termination).

C. Obligations of Members

1. Payments of Admission & Membership Fees

a. Admission Fee

The matters pertaining to the admission fees are stipulated in the KSE Constitution, according to the types of membership.

Regular members should pay the BAF, the SEF, contributions to the JCF and the FGM in lump sum, at the point of entrance. Special members are also required to pay all the fees except the BAF. Instead of paying BAF, special members should pay Annual Dues after being admitted to the KSE. As for special participants, they are obligated to pay the fees except the BAF and the SEF.

The amount of BAF is calculated by dividing net assets of the KSE by the number of regular members. The SEF can be regarded as the cost for the benefits one can enjoy as a KSE member. The amount of SEF is determined by the KSE. The Annual Due paid by special members is set at the amount equivalent to the interest of one-year deposit of the BAF amount.

In addition to the admission fees, both regular and special members are required to deposit a certain amount of money to the JCF, the settlement guaranty facility of the KSE. The amount of contribution to the JCF for a new member is determined by dividing the total amount accumulated in the JCF by the number of members. Detailed matters on the accumulation and management of the JCF are stipulated in the Articles 48 through 53 of the Enforcement Decree of the SEA. The FGM is also collected from the newcomers to cover any damages incurred to the KSE properties by the members, within a limit of 50 million won.

b. Membership Fee

After being admitted to the KSE, regular members are required to pay fixed-rate membership fees, while special members pay Annual Dues in addition to the fixed-rate membership fees. According to the Constitution, the membership fee is calculated by multiplying the trading value that the member concluded on the KSE market by the predetermined rate. Different rates are applied to each product of equity, bond, futures and options.

2. Reporting to the Exchange

Members are required to make reports to the KSE regarding any material facts such as increase or decrease of capital stock, changes in the shareownership of controlling shareholders, violation of tax code, license cancellation by the MOFE, an application for bankruptcy, etc. Furthermore, the KSE may order members to submit materials relevant to their business or property and members are obliged to comply with the regulations and rules of the KSE. Members are also required to file their financial statements with the KSE every month.

D. Member Supervision

The KSE is authorized by law to supervise the trading activities of its members in order to maintain a fair and orderly market. The KSE may take disciplinary measures against a member if the member or one of its officers or employees is proved to be involved in cases of membership acquisition by fraudulent means, settlement default, violation of relevant laws, false report submission, hindrance of supervisory activities by the KSE, etc.

The disciplinary measures that can be taken by the KSE include expulsion or suspension of membership for up to six months, suspension of transactions in whole or in part for up to six months, and request for disciplinary measures against the responsible officers or employees.

The decision on the types of disciplinary actions to be taken against members is made at the meeting of the Disciplinary Committee of the KSE. The Committee consists of one non-standing auditor, one executive director of the KSE, two officers from members, and two experts in the securities industry and related laws, recommended by the Chairman & CEO of the KSE



IX. DERIVATIVES MARKET

The KOSPI 200 futures market, which started its trading on May 3, 1996, is already known as one of the largest index futures markets in the world with its daily trading volume of more than 100,000 contracts. Furthermore, introduced on July 7, 1997, the KOSPI 200 options market has become one of the fastest growing markets in the world, despite its short history. Its daily trading volume reached 1.2 million contracts in November 2000, marking the most active index options product internationally.

A. Underlying Index

The underlying index KOSPI 200 is a market value weighted index which consists of 200 stocks selected based on the individual stock's liquidity, market capitalization and position in its industry. The component stocks were chosen from six industrial groups including manufacturing, electricity and gas, construction, distribution and other services, communication, and financial services. The index base is January 3, 1990 and the base value is 100.

B. Trading

1. Contract Specifications

a. Contract Months

Futures contract months are March, June, September, and December. The longest maturity period is one year. Options contract months are three consecutive near-term months plus one nearest month from the quarterly cycle (March, June, September, and December).

b. Options Strike Prices

Each options contract month has at least five strike prices. The number of strike prices may, however, increase according to the price movement. The interval between the strike prices is 2.5 points. The exercise style of the KOSPI 200 Options is European and thus contracts can be

exercised only on the expiration dates.

c. Multiplier and Quotation

One point equals 500,000 won for a futures contract and 100,000 won for an options contract. The tick sizes are 0.05 points for a futures contract and 0.01 point for an options contract, which are equivalent to 25,000 won and 1,000 won, respectively. The tick size, however, is 0.05 points for options contracts with premium of 3 points or more. Only limit orders are permitted and maximum quantities of bids and offers are 999 for futures and 4,999 for options.

d. Daily Price Limits

The daily price limit for futures contracts is 10% of the previous day's closing price. On the other hand, theoretical prices are used for options contracts supposing the KOSPI 200 varies up to 15% of the previous day's closing price.

2. Trading Days and Hours

Last trading day of a contract month is the second Thursday of the delivery month or the business day preceding the second Thursday in case the second Thursday is a holiday. First trading day of a new contract month is the first business day following the last trading day.

Trading of futures and options begins at 9:00 a.m. and closes at 3:15 p.m. It opens 15 minutes longer than the stock trading to give investors time to adjust their positions after the stock market's closing. On the last trading days, however, trading hours are shortened to close at 2:50 p.m. to avoid market disruptions in relation with the final KOSPI 200 index.

3. Trade Execution

Orders are effective only for the day and trading is executed through a computerized trading system. All orders are executed on the basis of individual auction. Precedence is given to orders with price priority followed by time priority. All orders entered during the time of opening and closing of the daily sessions, and reopening after a trading halt, are considered to have been entered at the same time.

4. Trading Halt (Circuit-breakers)

To minimize abnormal market impact from temporary imbalance of order flow, trading in the stock

market is halted for twenty minutes when the KOSPI falls by 10% or more from the previous day's closing price for one minute or longer. In such cases, the futures and options trading are also halted

In addition, if the futures price changes more than a certain level, the futures and options trading are halted for five minutes to minimize possible fluctuations in the underlying stock market. Currently, the triggering point is set at 5% and 3% of base prices and theoretical prices, respectively, for the most active futures contract

5. Regulation on Program Trading (Side-cars)

In cases of the most active futures contract continuing to go up 4% or more from the base price for one minute, execution of all the program trading orders in the cash market is delayed for five minutes. This is to prevent the acceleration of volatility in the stock market by program trading. Also, in case a member securities company intends to place orders for a program trading during the last ten minutes on the expiration date of a futures or an options contract, the member must report the KSE of the details of the program trading fifteen minutes prior to the afternoon session closing.

C. Settlement

The KSE serves as the counter party to both sell- and buy-sides. Each member is required to deposit a certain portion of the daily trading amount with the KSE as the Joint Compensation Fund. The fund is used to cover any damages arising from settlement failures.

a Marking-to-market for Futures Contracts

After the futures market closes, the KSE determines settlement prices for futures contracts and conducts a daily settlement against all open positions with settlement prices. The settlement amount from marking-to-market is the sum of the difference between the settlement price and the previous day's settlement price for the previous day's open positions, and the difference between today's trading prices and today's settlement price for positions traded today.

The settlement price is the daily closing price of each futures contract. If a futures contract has not been traded on the day, the most recent day's closing price becomes the settlement price of the day. However, when the spread between the most recent day's closing price and the theoretical futures price exceeds 5% of the most recent day's closing price, the theoretical price becomes the day's

settlement price.

b Final Settlement of Futures Contract

The final settlement is made on the last trading day against open positions and the final settlement price is the final KOSPI 200. If there is no cash price index on the last trading day, a special settlement price, which is calculated based on the opening prices of KOSPI 200 component stocks in the cash market on the next business day, is applied.

c. Settlement of Options

Options buyers must pay the premium on the next business day of the trade. The settlement amount from options exercises is equal to the difference between the exercise price and the exercise settlement price of the expiring options contract. The exercise settlement price is the final KOSPI 200 of the last trading day and the exercise settlement is conducted on the business day following the exercise day. In cases where there is no cash price index on the last trading day, a special exercise settlement price, which is calculated based on the opening prices of the KOSPI 200 component stocks in the cash market on the next business day, is applied.

d. Settlement Deadline

Deadline for settlement is 4:00 p.m. on the business day following the day of trade, marking-to-market, and exercise. The deadline for the settlement between members and customers, however, is the noon.

D. Margin

1. Members' Margin

Margin requirement for a member is calculated by the KSE's margin system, called portfolio risk-based margin system, with a margin interval of 10% of the KOSPI 200. A member must deposit its required margin with the KSE by the noon on the next business day. Margin can be deposited in cash or substitute securities.

2. Customers' Margin

a. Basic Deposit

A customer who has no open interest should deposit at least 10 million won in cash or securities

before placing an order with the securities company. This aims at discouraging individual investors from participating the market for an institutional investors-oriented derivatives market

b Initial Margin

A customer must deposit a certain amount of margin with the securities company before placing an order, which would increase his/her open interest. A customer's margin is calculated by the securities company's portfolio risk-based margin system with a margin interval of 15% of the KOSPI 200. A customer's margin is calculated as follows.

- The amount of premium in cash when placing an order to buy options contracts
- 15% of cash index multiplied by 100,000 won and by the number of contracts when placing an order to sell option contracts
- 15% of the contract value when placing an order to buy or sell futures contracts, of which 5% of contract value should be deposited in cash

c Maintenance Margin

In case a customer's deposit is insufficient for the maintenance margin level, the customer must deposit the difference between the initial margin level and the deposit amount by noon of the next business day. The maintenance margin is calculated by the portfolio risk-based margin system with a margin interval of 10% of the KOSPI 200.

E. Brokerage Commission

Each member determines its own brokerage commission rate independently. The commission is collected for execution of an order, settlement of a futures contract, and exercising of an options contract.

X. BOND MARKET

As it is the case in many other markets, bond trades in Korea have dominantly taken place outside of the exchange market. The KSE bond market only accounted for less than 10 percent in total bond trades and the majority of trades were conducted on the OTC market. In addition, the majority of bond trades had traditionally concentrated on corporate bonds with less than 3-year maturity, making it difficult to develop benchmark yields and a normal yield curve.

However, the establishment of the government bonds Inter-dealer Market (IDM) by the KSE in April 1999, combined with the introduction of the Primary Dealership System in July 1999, has brought about major structural changes in the Korean bond market. More than 40 percent of government bonds trades are now done on the KSE market and, consequently, the yield of 3-year Treasury Bonds is perceived in the financial market as the benchmark yield, replacing corporate bonds yields.

A. Bond Listing

Although a large part of bond trades has been done on the OTC market, most of the bonds issued in Korea are listed on the KSE. The main reason is that only listed bonds can be used as substitute securities. In other words, listed bonds can be used as a substitute for cash in paying guaranty money for the contracts with the government, or in paying margins for securities trading. The collateral values of listed bonds are calculated by the KSE on a regular basis.

1. Listing Application

In Korea, bonds are most actively traded on the day issued and in order to induce more bond trades, the KSE accepts listing applications prior to issuance. The issuing date listing allows bonds to be traded on the exchange market as soon as they are issued.

For some of the government and municipal bonds, which are continuously sold throughout the year on a monthly basis, issuers can apply for listing of the total volume to be issued during the year

(Shelf Registration). For bonds such as the Treasury Bonds, which are issued through competitive auctions, the KSE accepts listing applications two days before the issuing date and lists those bonds on the issuing date.

Various documents have to be submitted to the KSE, either by the issuer or the lead manager, to apply for listing. Documents include; listing application forms, contracts for firm-commitment and resale, and other relevant documents. Listing applications must be filed no later than three days before issuance.

2. Listing Examination

Major requirements for listing include 500 million won or more of capital stock, 300 million won or more of total issuance, 300 million won or more of redemption value, issuance through public offerings, etc. Government and municipal bonds are exempted from the requirements mentioned above.

B. Bond Trading

The KSE bond market is divided into two sub-markets: the IDM and the General Bond Market (GBM). The GBM is a retail market in which individual investors in general can participate to trade any kinds of listed fixed income securities, convertible bonds, government bonds, municipal bonds, etc.

The IDM is a wholesale market where only government bond dealers can trade government securities with each other, using the electronic trading platform of the KSE. To gain access to the IDM, government bond dealers must obtain government bond dealership from the FSC.

1. General Bond Market

a. Market participants

Similarly to the equity market, a direct participation in the GBM is limited to the KSE members. To participate in the GBM, all non-member market participants such as individual investors and corporations should open accounts at securities firms who are KSE members. For anyone who already has an account for equity trading, he/she can use the account for bond trading.

b. Trading and settlement schemes

The trading hours and rules applied to the equity market are identical to that of the bond market,

except that there is no call-auction for the determination of closing prices. Only limit orders are allowed in the GBM and all trades are settled on a netting basis on the contract day (T).

c. A special market for small-lot government and municipal bonds

In Korea, some of the government and municipal bonds are sold to the public for administrative purposes. When anyone purchases a house, a car, lands, etc., and registers them, he/she is required to purchase a certain amount of government or municipal bonds, depending on the purchasing values. Without a marketplace where the administratively placed bonds can be traded, the public was usually forced to resell these bonds to private vendors at unfavorable prices. To solve this problem, the KSE implemented a separate trading scheme for such bonds, called the Market for Small-lot Government & Public Bonds (Small-lot GPB Market) in 1995.

For government and municipal bonds such as National Housing Bonds, Seoul Subway Bonds, Local Development Bonds, and Municipal Subway Bonds, all orders with less than 50 million won of par value are required to be traded on the Small-lot GPB Market of the KSE. In order to maximize the liquidity, the KSE allows only the bonds issued within the period of last two months into the market.

One of the unique features of the special market is that a group of securities firms, designated as market makers by the KSE, make bidding quotations during the trading hours. The best quotations made by the market makers are publicly displayed and the people who purchased bonds in small-lots can easily sell them at such quotations.

2. Inter-dealer Market for Government Securities

Along with the introduction of the Primary Dealership System into Korean government securities market in July 1999, the KSE has launched a fully electronic trading platform, named KTS (KSE Trading System for Government Securities) in April 2000.

a. The Primary Dealer System

In July 1999, the MOFE named the first batch of primary dealers in Korea, based on a set of criteria including BIS ratios, underwriting performance, market making performance, business capacities, etc. The financial institutions such as commercial and merchant banks, and securities firms, who were licensed by the FSC as government bond dealers, are eligible for the application for primary dealership. The number of government bond dealers was 82 as of December 2000.

The Primary Dealers (PDs) enjoy special privileges, including the exclusive access to government bonds auctions and to the standing borrowing facilities provided by the Korea Securities Finance Corporation, while assuming the obligations such as placing bid and ask prices at the IDM on a continuous basis. As of December 2000, there were 26 PDs. 12 domestic and foreign banks, 13 domestic securities firms and one domestic merchant bank. Aside from the PDs, there are 4 Preliminary Primary Dealers who are the candidates for becoming PDs. They are required to make activity reports to the MOFE on a regular basis, but do not assume market making obligation. They can be named as new PDs by the annual review of PD status

b. Inter-dealer Market for Government Securities

o Market participants

Participation in the IDM is basically limited to government bond dealers who are either KSE members (securities firms) or special participants (banks and non-member securities firms). There were 82 financial institutions participating in the IDM as of December 2000, including 51 members and 31 special participants

o Eligible bonds

Although all government securities issued through competitive auctions are eligible for trading on the IDM, Treasury Bonds (TBs) and Foreign Exchange Stabilization Fund Bonds (FESBs) are actively traded on the market. The bond issues traded on the IDM can be further divided into two categories: Market-making issues and Non-market making issues. Market making issues are designated among the on-the-run issues of TBs and FESBs by the MOFE, and the PDs are required to make the market for those issues by placing bids and ask prices. Non-market making issues are designated by the KSE

o Trading scheme

The IDM is a market that combines both the quote-driven and order-driven features. PDs continuously make two-way quotations to which other dealers apply, while orders are compiled in a central limit order book to be matched by auction principles. Trading hours and auction principles are the same as in the equity market, but the opening and closing prices are determined by regular auctions not by call auctions. The IDM's trading unit is set at one billion won. In addition, due to the fact that the IDM is a dealers' market, customer orders are not allowed in this market.

● Settlement

All trades concluded on the IDM are settled by 5:00 p.m. on the business day following the contract day and the settlement is done on a multilateral netting basis. Payments are made to the KSE account opened at the BOK-wire of the Bank of Korea, whereas the securities are settled under the book-entry system of the Korea Securities Depository (KSD), the central securities depository in Korea. The Joint Compensation Fund (JCF) acts as settlement guaranty facility for the IDM market participants.

XI. SECURITIES TAXATION

A. Overview

Taxes related to securities transaction in Korea are comprised of income tax, inhabitant tax, and securities transaction tax

With respect to the way of imposing taxes, there are two types of taxation: global taxation and separate taxation. Global taxation refers to a method by which tax is levied on the total sum of an individual's ordinary income, which occurs every year repeatedly and normally. Separate taxation refers to a method by which liability to taxation is completed after withholding taxes on incomes, which are not included into the taxation base on the global incomes, although they belong to the range of the global incomes.

Currently, incomes earned from dividends and interests are taxed by separate taxation. However, when the global taxation on the financial income, which was incorporated in the Income Tax Law in 1996, takes effect in January 2001, incomes earned from dividends and interests are subject to the global taxation. Meanwhile, capital gains from listed securities transactions are tax-free.

Income tax is classified into two categories of individual income tax and corporate income tax. A taxpayer subject to paying the individual income tax is classified into residency categories as resident and non-resident, regardless of his or her nationality. In case of a resident, who holds his or her domicile in Korea or holds a temporary domicile in Korea for one or more years, the individual income tax is levied on all the incomes earned in Korea and abroad. On the other hand, in case of a non-resident, tax is levied only on the domestic source income. A taxpayer subject to paying the corporate income tax is also classified into two categories of domestic juristic person and foreign juristic person. A juristic person having the head office or principal office in Korea is considered a domestic juristic person, otherwise a foreign juristic person.

Currently, the inhabitant tax is imposed in the form of a surcharge at 10% on the amount of

income tax.

Securities transaction tax is levied on the seller of shares at the rate of 0.3% of sales proceeds.

B. Taxation on Residents

1. Individual Income Tax

a. Dividend Income Tax

The tax rates or methods of dividend income tax vary depending on the status of the dividend-paying corporation and whether the taxpayers are minority shareholders or not.

That is to say, dividends paid to the minority shareholders of listed companies and registered companies, and any proceeds accruing from a securities investment trust (excluding the bonds and debentures investment trust) are taxed by the separate taxation (currently withheld at the rate of 20% and will be reduced to 15% from January, 2001). On the other hand, dividends paid to the majority shareholders of listed companies, dividends received from unlisted companies and foreign companies are taxed by the global taxation. In this case, the term of minority shareholders refers to those who hold the smaller of 300 million won and 1% of either the total issued securities amount or the total investment amount of the corporation concerned.

b. Interest Income Tax

As interest incomes are taxed by the separate taxation, any liabilities to taxation are completed by withholding tax. Currently, interest income tax is withheld at the rate of 20% and will be reduced to 15% from January 2001 to balance with dividend income tax.

Meanwhile, any profits accruing from a non-business loan and other interest incomes received abroad are taxed by the global taxation. According to the global taxation on the financial income, which will become effective starting from January 2001, the interest income tax will be withheld at a rate of 15% from the source if the total financial income is less than 40 million won. However, on the interest income earned from long-term private loans or earned abroad, taxpayers can choose either a global taxation or a 30% tax rate by the separate taxation.

c. Capital Gains Tax

Basically, capital gains from listed securities transactions are tax-free. However, in case where the

person who holds 3% or more of the total number of listed stocks issued and outstanding sells 1 share or more out of his or her shareholdings, capital gains tax will be levied at a 20% marginal rate, while 10% marginal rate is applied to the securities of listed small-and medium-sized companies.

On the other hand, capital gains from unlisted securities transactions are subject to 10% - 20% final tax withholding, depending on the size of the company

< Tax Rates >

Classification	Rates
Dividend Income	- 20% withholding tax
Interest Income	(will be reduced to 15% in January 2001)
Capital Gain	<ul style="list-style-type: none"> - Tax-free - In case where the person who holds 3% or more of the total number of listed stocks issued and outstanding sells 1 share or more out of his or her shareholdings, capital gains tax will be levied at a 20% marginal rate (10% marginal rate will be applied to the securities of listed small-and medium-sized companies from January 2001) - Unlisted securities 20% (10% marginal rate is applied to the securities of small-and medium-sized companies)

2. Corporate Income Tax

Corporate income taxes are imposed in the form of global taxation on the total incomes of each business year, and the tax rates differ according to the size of the corporation's taxable income. However, tax on interest income is levied at the rate of 20% (15% from January 2001) and then the paid amount is deducted in applying global taxation to the corporation concerned

In calculating the taxable income of an institutional investor prescribed in the Presidential Decree on the Corporate Tax Law, 90% of dividend incomes received from listed companies is excluded from the taxable income if the shareholding ratio of the institutional investor is 10% or less.

3. Inhabitant Tax

An inhabitant tax is surcharged on the income tax at the rate of 10%. Therefore, an individual or a juristic person who is liable to pay income tax is subject to an inhabitant tax as well.

Taxable Income	Rates
- 100 million won or less	- 16%
- More than 100 million won	- 16 million won + 28% of the amount exceeding 100 million won

4. Securities Transaction Tax

The securities transaction tax is imposed only on a transfer of shares and the standard rate of the securities transaction tax is 0.5%. However, an urgent support for the capital market is deemed necessary, the tax rate may be reduced to nil for stock trading on the KSE or the KOSDAQ market

In this regard, under the conditions as prescribed by the Presidential Decree of the Securities Transaction Tax Act, a 0.3% tax rate is currently applied to the seller of shares on the sum of the transfer values traded on the KSE market. Additionally, there is no tax levied on bond transactions and stocks sold below par value, nor on the public offering price during the first year of listing on the KSE.

C. Taxation on Non-Residents

1. Individual Income Tax

a. Dividend/Interest Income Tax

The taxation on a non-resident individual depends on two factors: the individual's status of establishment in Korea and the individual's nationality.

If an individual is a national of a country that signed a tax treaty with Korea and he or she is entitled to the benefit of that tax treaty, taxation is conducted under the conditions as prescribed by the tax treaty. Mostly 10-15% rates are applied on the income from dividends and interests, respectively.

On the other hand, the rate of individual income tax applicable to a non-resident, who is a national of the country having no tax treaty with Korea nor has a permanent establishment in Korea, is

...currently 25%.

b. Capital Gains Tax

A non-resident without a permanent establishment in Korea is also subject to taxation on his or her capital gains in Korea. The capital gains tax is levied at the rate of 25% on the capital gain, or 10% on the gross proceeds, whichever is less. However, this rule does not apply to the KOSPI 200 futures and options contracts.

2. Corporate Income Tax

Any foreign corporation with business facilities in Korea including its head office or principal office, is considered a domestic corporation and thus has the same liability to taxation as all domestic corporations.

However, a foreign corporation without any business facility in Korea is considered a non-resident and thus subject to the non-resident taxation.

3. Inhabitant Tax

The inhabitant tax rate varies depending on whether the taxpayer is a national of a country having a tax treaty with Korea or not

4. Securities Transaction Tax

The Securities Transaction Tax is applied to both resident and non-resident on an equal basis.

CONVENTION FOR THE AVOIDANCE OF DOUBLE TAXATION AND THE PREVENTION OF FISCAL EVASION

(As of Nov 31, 2000)

Country	Entered Into Force	Country	Entered Into Force
1 Japan	1970	31. Poland	1992
2 Thailand	1977	- France (Re)	1992
3 Germany	1978	32 Italy	1992
4 United Kingdom	1978	33 Mongolia	1993
5 Denmark	1979	34 Egypt	1994
6 Belgium	1979	35 Vietnam	1994
7 United States*	1979	36 China	1994
8 Canada*	1980	37 Romania	1994
9 France	1981	38 Spain	1994
10 Singapore	1981	39 Mexico	1995
11 Netherlands	1981	40. Fiji	1995
12 Switzerland	1981	41 Czech	1995
13. Finland	1981	42 Bulgaria	1995
- Belgium (Re)	1982	43 Russian Federation	1995
14 Sweden	1982	44 South Africa	1996
15 Malaysia	1983	- United Kingdom (Re)	1996
16 New Zealand	1983	- Belgium (Re)	1996
17 Australia	1984	- New Zealand (Re)	1997
18 Norway	1984	45 Israel	1997
19 Bangladesh	1984	46 Portugal	1997
20. Turkey	1986	47 Malta	1998
21 Sri Lanka	1986	48. Papua New Guinea	1998
22 India	1986	49. Greece	1998
23 Philippines*	1986	50 Uzbekistan	1998
24. Luxembourg	1986	- Netherlands (Re)	1999
25 Pakistan	1987	51. Kazakhstan	1999
26. Austria	1987	- Japan (Re)	1999
27 Indonesia	1989	52 Brazil	1999
28 Tunisia	1989	53. Kuwait	2000
29 Hungary	1990	54 Morocco	2000
30. Ireland	1991		

- * indicates that inhabitant tax is not included in the tax treaty with the country concerned and 10% inhabitant tax shall be surcharged accordingly.

- (Re) indicates the renewal of tax treaty.

Source: National Tax Service, Ministry of Foreign Affairs and Trade

XII. MARKET INDICATORS

The KSE publishes various stock market indicators that provide useful information on the overall market trend and the movement of individual issues. Among the main indicators are stock price index, dividend yield, price earnings ratio, bond yield and bond index.

A. Stock Market Indicators

1. Stock Price Index

The KSE introduced the Korea Stock Price Index in 1972 to provide a comprehensive display of the general market trend for the benefit of investors who were interested in general price movement. This was a price-weighted index of selected stocks representing the market as a whole. Its base date was January 4, 1972, with a base index of 100. The original index was composed of 35 issues, but the number of issues had swelled to 153 by January 4, 1979. The base date was then adjusted to January 4, 1975.

A new index called KOSPI (Korea Composite Stock Price Index) was adopted in the beginning of 1983. Currently, it is based on aggregate market value and has a base date of January 4, 1980, with a base index of 100. Since the creation of KOSPI, the KSE has published this new index encompassing all listed common and preferred stocks, except newly-listed issues for 30 trading days and bond-type preferred stocks, reflecting changes in the aggregate market value.

In calculating the KOSPI, the number of preferred stocks is added up to the number of common stocks and then multiplied by common stock price, not by preferred stock price in order to compute both base and current market value. The calculation formula for the KOSPI is as follows:

$$\text{KOSPI} = \frac{\text{Current Aggregate Market Value}}{\text{Base Aggregate Market Value}} \times 100$$

The index is adjusted to eliminate the influence of any corporate action and thereby reflect only movements resulting from market activities. To this end, the base aggregate market value is adjusted whenever the current market value undergoes certain variations such as capital changes of companies, new listings, delistings or other factors not related to the price changes.

The number of listed stocks is the total number of outstanding stocks, both common and preferred, at the moment of calculating the index. Bond-type preferred stocks with specific dividend rate are excluded because unlike bond-type preferred stocks with specific dividend rate of other countries, most Korean preferred stocks are equity-type. These preferred stocks are very similar to common stocks in that the dividend rate is usually set 1% higher than that of common stocks. The prices of preferred stocks, therefore, show the same trend as common stock prices. That is the foremost reason as to why the KOSPI includes equity-type preferred stocks. As for newly issued shares, they are included in the outstanding stocks. The KOSPI is published every 30 seconds during trading hours.

The KSE also publishes supplemental indexes by industry and capital stock sizes. This compensates for the weak point of the KOSPI by allowing the identification of areas in which price movements take place. The indexes by industry are comprised of 22 industrial subgroup indexes. The indexes based on capital stock size have included three indexes for small-sized companies (less than 35 billion won), medium-sized companies (between 35 billion won and 75 billion won), and large-sized companies (75 billion won or more) since February 2, 1995. The capital stock size for classification is adjusted every three years, if necessary. Moreover, the KSE began to publish an information technology index called the KOSPI IT Index on a daily basis in March 2000. All the supplemental indexes are compiled and released in the same manner as the KOSPI.

In 1992, the KSE introduced a new reference called the Adjusted Stock Price Average to the KOSPI. The new indicator is calculated by averaging all shares prices listed on the KSE after making technical price adjustments without giving weight to the capitalization of each issue. Additionally, sub-indicators of the Adjusted Stock Price Average that are calculated by capital stock size and industry are published on a daily basis.

2. Dividend Yield

The dividend yield represents the ratio of the dividend to the stock price. In calculating the dividend yield of a given stock, the amount of dividend paid in the previous business year by the listed

company concerned is used. Accordingly, the dividend yield is an indicator of how much cash return can be made if an investor purchases a given stock at the current price, assuming that the company pays the same amount of dividend as it paid in the previous year. The KSE publishes daily and monthly arithmetic average of dividend yields for all dividend-paying companies

3. Price Earnings Ratio

The price earnings ratio (PER) is calculated by dividing the stock price by the Earnings Per Share (EPS). It is a useful criterion for investment decisions and a yardstick of the price level from the standpoint of earnings. The KSE began to publish the PER on a monthly basis in April 1969 and from 1974, it has published an average PER for all listed stocks and individual PERs for each listed stock on a daily basis.

B. Bond Market Indicators

1. Bond Yield

The KSE releases the average yield of each bond by subgroups on a daily basis. The subgroups are classified by issuer, terms for payment of principal and interest, and terms to maturity. The KSE publishes two types of average bond yields: arithmetic and weighted average. The arithmetic average daily yield is based on the latest yields of individual issues traded during the day and weighted averages are calculated on a monthly basis.

2. Bond Index

Since the beginning of 1986, the KSE has published a bond index to provide investors with a handy yardstick to measure the performance of bond investments. The bond index reflects capital gains and interests accruing from investments in selected bonds representing each subgroup. The calculation formula for the index is as follows:

$$\text{Bond Index} = \frac{\text{Aggregate Prices of Selected Issues on Each Day}}{\text{Aggregate Prices of Selected Issues on Base Day}} \times 100$$

The KSE currently publishes two bond indexes according to the base date. One is published on both

daily and monthly basis with a base date of December 31, 1995, and a base index of 100. The other index is published on a monthly basis with a base date as the last day of each previous year and a base index of 100.

C. Index Futures and Options Market Indicators

1. KOSPI 200

The KSE announced a new stock price index called KOSPI 200 in 1994 for futures trading, which was to commence in May 1996. Currently, the KOSPI 200 is the only underlying instrument for futures and options contracts traded on the KSE. With the KOSPI 200 futures and options contracts, individuals and institutions now have a means of diversifying their investments and hedging their risks while investing in the Korean financial products.

The KOSPI 200 is a market capitalization weighted index with sampled constituents. It is composed of major 200 stocks listed on the KSE making almost up to 80% of market capitalization. In order to preserve the index's representativeness and avoid unintended bias, the constituent stocks are thoroughly examined and adjusted periodically. Therefore, the overall market movement is well reflected in the change of the index.

Like the KOSPI, the KOSPI 200 is published every 30 seconds. Along with the KOSPI 200, the KSE publishes five supplementary indices of the KOSPI 200 by five industrial groups such as manufacturing, electricity and communication, construction, wholesale, retail and other services, and financial services. The component stocks are selected based on the individual stock's liquidity and position in its industry. Its base date is January 3, 1990 and the base index is 100. The KOSPI 200 is calculated by the same method as the KOSPI calculation.

The market capitalization of an individual stock is calculated by multiplying the common stock price by the number of the outstanding shares. Like the KOSPI, the bond-type preferred shares are excluded from the calculation of the KOSPI 200.

In principle, component stocks are regularly reviewed every June. New component stocks are selected based on their average market values and annual trading volumes during the year preceding the regular review.

XIII. FOREIGN PORTFOLIO INVESTMENTS

A. Limitations on Foreign Investments

Since May 1998, foreigners have been allowed to purchase shares of the corporations listed on the KSE or KOSDAQ without any limitations. However, public corporations defined in the SEA and the Regulation on Securities Trading by Foreigners of the FSC, and other corporations in public utilities industry such as electricity, telecommunications, broadcasting, airlines, etc., which are deemed to be of national strategic importance, are still subject to limitations for foreigners.

The aggregate foreign investment ceilings for the public corporations are stipulated in the Regulation on Securities Trading by Foreigners of the FSC, while those for the corporations in public sectors are prescribed by the separate industry laws. The industry-specific laws that prescribe foreign investment ceilings include the Telecommunications Business Act, the Broadcasting Act, the Act on Privatization of State-owned Enterprises, the Aviation Law, and the Fisheries Act.

Moreover, the corporations can further limit aggregate foreign investments in their articles of incorporation, within the ceilings prescribed in the laws or regulations. Meanwhile, the ceilings per foreign individual are set in the articles of incorporation of the corporations concerned.

< Companies with Foreign Investment Ceilings (as of December 2000) >

Company Names	Ceilings (%)		Company Names	Ceilings (%)	
	Aggregate	Individual		Aggregate	Individual
KEPCO	40.00	3.00	Korea Tobacco &		
Korea Telecom	19.44	15.00	Ginseng	5.00	NA
DACOM	49.00	NA	Seoul Broadcasting	0.00	NA
Hanaro Telecom	49.00	NA	CJ39 Shopping	33.00	NA
SK Telecom	49.00	NA	LG Home Shopping	33.00	NA
Seoul Mobile Telecom	49.00	NA	M1 Rae TV	33.00	NA
LG Telecom	49.00	NA	DCC	33.00	NA
Dream Line Co	49.00	NA	Korean Air	50.00	NA
Eyes Vision	49.00	NA	Asiana Air	50.00	NA
KT Freetel	49.00	NA	Silla Co.	50.00	NA
KT M Com	49.00	NA	Sajo Industry	50.00	NA
Selim I Tech	49.00	NA	Samho Company	50.00	NA
KOGAS	15.00	NA	Dongwon Fisheries	50.00	NA

* NA: not applicable

B. Procedures for Foreign Investments

The process for foreign investments in the Korean securities market is prescribed in the Regulation on Securities Trading by Foreigners of the FSC. The preparatory procedures for foreign investments include: investment registration, appointment of a standing agent, and opening of an account.

1. Definition of Foreign Investors

According to the Regulation, a foreigner refers to an individual who holds foreign nationality, and has neither his/her address nor abode for more than six months in Korea.

a. Foreigners Eligible for Investment Registration

- Individuals with foreign nationality;
- Companies incorporated under foreign laws;
- Korean citizens with permanent foreign residency;
- International financial organizations or associations established by treaties;

- Governments, municipal governments and public entities of foreign countries; and
- Funds or unions established, regulated and controlled by foreign laws, etc.

b Resident Foreigners Exempted from Registration

- Individuals working at business offices or performing business activities in Korea.
- Corporations with their head offices in Korea. and
- Branches/offices of a foreign corporations

2. Available Instruments

- All shares listed on the KSE and the KOSDAQ markets.
- All bonds listed on the KSE;
- Stock price index futures and options contracts listed on the KSE,
- Equity-and bond-type beneficial certificates,
- Certificates of right offering; and
- Short-term money market instruments such as CPs, corporate bills and notes, etc

3. Investment Procedures

- Application for investment registration certificates (IRC) issued by the FSS,
- Designation of foreign exchange bank(s);
- Designation of custodian(s),
- Entering into standing proxy agreement(s),
- Opening accounts at correspondent bank(s) and securities firm(s);
- Remittance of funds through the correspondent bank;
- Placing orders,
- Fund transfer from the correspondent bank account and the securities firm account;
- Confirmation of trades; and
- Repatriation of funds with confirmation from the correspondent bank

4. Investment Registration

According to the Regulation, any foreign investor who wants to invest in the Korean securities market is required to register under his or her real name with the FSS to receive investment registration certificate. The application can be made either directly or through a standing proxy. In the meantime, resident foreigners are exempted from the registration.

5. Designation of Standing Proxy

Although it is not required by law to designate a standing proxy, non-resident foreigners are recommended to have a standing proxy to ensure that their investment-related activities are carried out in a timely manner. Securities companies, foreign exchange banks and the Korea Securities Depository (KSD) are eligible to be a standing proxy for foreign investors. The major services of a standing proxy cover investment registration, account opening, order placing, settlement, collection of dividends or interests, etc

6. Account Opening

To invest in the Korean securities market, foreigners should open accounts at securities firms. The following information is necessary to open an account.

- ID number on the IRC;
- Full name of the account holder;
- Status of residency,
- Mailing address, phone, fax, or telex number, and
- Names of standing proxy and custodian

7. Order Placement

Orders can be placed by telephone, telex, facsimile, and personal computer or in written forms. When placing an order, the followings should be specified.

- Whether to buy or sell,
- Account numbers;
- Secret code numbers, if any,
- Name of issues to be traded;
- Number of shares; and
- Order type (limit or market) and price.

8. Payment of Good Faith Deposit

When a KSE member receives orders from its customers regardless of their nationalities, it collects Good Faith Deposits from its customers at the time of order receipt. Each brokerage firm determines its own deposit rate, and the amount of deposit is calculated by multiplying the deposit rate by the

cash amount of the securities to be bought or sold.

9. Trading on the OTC market by Foreigners

In principle, foreigners should trade securities exclusively on the KSE or the KOSDAQ market. In the following cases, however, they can execute trades on the OTC market:

- Trading of odd-lot orders.
- Acquisition of shares converted from overseas securities.
- Acquisition by inheritance, donation or bequeath;
- Acquisition of shares by the exercise of shareholders' rights; and
- Trading of stocks among foreigners in excess of the foreign investment ceilings.

Mar. 3, 1956	The Korea Stock Exchange (KSE) established
Jan. 15, 1962	The Securities and Exchange Act (SEA) enacted
Apr. 1, 1962	The KSE reorganized into a joint stock corporation
June 11, 1962	The KSE market closed due to the monetary reform (reopened on July 14, 1962)
May 8, 1963	The KSE reorganized into a non-for-profit, government-run corporation
Nov. 22, 1968	The Act on Fostering the Capital Market enacted
Feb. 1, 1969	Forward transaction method replaced with regular-way transactions
June 3, 1971	Margin trading introduced
Jan. 1, 1972	A composite stock price index published
Jan. 5, 1973	The Public Corporation Inducement Act enacted
Nov. 2, 1973	A book-entry clearing system introduced.
Aug. 8, 1974	The Korea Investment Trust Co. established.
Dec. 6, 1974	The Korea Securities Depository (KSD) established
Jan. 4, 1975	Continuous trading system replaced call-trading system
Feb. 19, 1977	The Securities & Exchange Commission (SEC) established.
Sept. 20, 1977	The Korea Securities Computer Corporation (KOSCOM) incorporated.
July 2, 1979	The KSE moved to the present place, Yoido
Sept. 24, 1979	The KSE joined the FIBV (International Federation of Stock Exchanges)
Jan. 14, 1981	A comprehensive plan for capital market internationalization plan announced
Nov. 19, 1981	International investment trusts (KIT and KT) launched.
Jan. 4, 1983	The Korea Composite Stock Price Index (KOSPI) launched (Jan. 4, 1980=100)
Feb. 1, 1983	Computerized order-routing system launched
Aug. 22, 1984	Korea Fund listed on the NYSE.
Nov. 12, 1985	Overseas CB issued by Samsung Electronic Co.
Mar. 1, 1988	The KSE privatized and incorporated into a membership organization
Mar. 3, 1988	The Stock Market Automated Trading System (SMATS) launched
Dec. 2, 1988	A plan for gradual internationalization of the capital market announced.

May 4, 1990	The Stock Market Stabilization Fund launched
Dec 18, 1990	Overseas DRs issued by Samsung Co
Mar 15, 1991	Foreign securities firms allowed to open branches in Korea
June 14, 1991	KSE membership opened to foreign securities firms
Jan 3, 1992	Portfolio investments by foreign investors allowed
Aug 12, 1993	The Real-name Financial Transaction System introduced
July 1, 1994	Bond market opened to foreign investors
	Domestic individual investors allowed to invest in foreign securities
Oct 9, 1994	The KSE hosted the 34th General Assembly of the FIBV
Oct 14, 1994	Pohang Iron & Steel Co listed on the NYSE
Dec 1, 1994	Foreign investment ceiling extended from 10% to 12%
Jan 4, 1995	The Comprehensive Surveillance and Information System (COSIS) launched
Feb 27, 1995	Jardine Fleming joined the KSE as the first foreign member.
Mar 1, 1995	Daily price change limit extended from an average 4.6% to a flat 6%
Apr 3, 1995	Korea Mobile Telecom listed on the LSE
July 1, 1995	Foreign investment ceiling extended from 12% to 15%
Oct 2, 1995	Trading of small-lot public bonds concentrated into the KSE
	Asian Development Bank's won-denominated bonds listed on the KSE
Apr 1, 1996	Foreign investment ceiling extended to 18%.
	Outbound securities investment limits for corporations and individuals were abolished
	Foreign companies were allowed to issue and list their shares on the KSE
May 3, 1996	The KSE opened its stock index futures market
	The KOSDAQ Co came into operation
Oct 1, 1996	Foreign investment ceiling extended to 20%
Nov 1, 1996	Foreign investment ceiling in KOSPI 200 futures trading expanded 30%
Nov. 25, 1996	The KSE introduced a new computerized trading system
	After-hour trading introduced
	New types of orders such as market order and limit-or-market-on-close-order introduced

Apr. 1, 1997	The Business Regulation of the KSE amended to accommodate On-line Trading.
July 7, 1997	Stock Index Options Market opened at the KSE
Aug 30, 1997	Trading system fully computerized and closed the floor of the KSE
Sept 15, 1997	The electronic disclosure system launched
Nov 21, 1997	Requesting for IMF bail-out package
Dec 31, 1997	Foreigner investment ceiling on stock trading raised to 55% and all restrictions on foreign investments in bond market lifted
May 25, 1998	Foreign investment ceilings completely eliminated
Dec 7, 1998	The KSE began to close its market on Saturdays and trading hours changed (morning session: 09:00-12:00, afternoon session: 13:00-15:00). Circuit Breakers system introduced in the stock market The band for daily price fluctuation expanded to 15% for stock trading and to 10% for futures trading
Feb. 9, 1999	Mutual funds listed on the KSE
Mar 29, 1999	The Inter-dealer Market for Government Securities (IDM) opened at the KSE.
Apr. 23, 1999	The Korea Futures Exchange (KOFEX) launched.
Mar. 2, 2000	The KOSPI IT Index, a sub-index of KOSPI, published.
May 22, 2000	Lunchtime breaks abolished
July 3, 2000	Warrants trading introduced Basket Trading introduced.

Institution	Phone	Address	web site
Financial Supervisory Commission	82-2-3771-5000	27, Yoido-dong, Youngdeungpo-ku, Seoul 150-743, Korea	http://www.fsc.go.kr
The Korea Securities Dealers Association	82-2-767-2600	34, Yoido-dong, Youngdeungpo-ku, Seoul 150-884, Korea	http://www.ksda.or.kr
KOSDAQ Securities Co Ltd	82-2-780-3400	34, Yoido-dong, Youngdeungpo-ku, Seoul 150-884, Korea	http://www.kosdaq.or.kr
Korea Securities Finance Corporation	82-2-3770-8800	34-9, Yoido-dong, Youngdeungpo-ku, Seoul 150-884, Korea	http://www.ksfc.co.kr
Korea Securities Depository	82-2-785-5311	33, Yoido-dong, Youngdeungpo-ku, Seoul 150-977, Korea	http://www.ksd.or.kr
Korea Securities Computer Corporation	82-2-767-7114	33, Yoido-dong, Youngdeungpo-ku, Seoul 150-977, Korea	http://www.koscom.co.kr
Korea Listed Companies Association	82-2-783-6501	33, Yoido-dong, Youngdeungpo-ku, Seoul 150-977, Korea	
Korea Investment Trust Companies Association	82-2-785-0181	33, Yoido-dong, Youngdeungpo-ku, Seoul 150-977, Korea	http://www.kitca.or.kr
Korea Futures Exchange	82-51-630-1000	853-1, Pumsun 1dong, Jin-ku, Pusan 614-828	http://www.kofex.com

附件七



**KOREA
STOCK EXCHANGE**

www.kse.or.kr

Kim, Jae-il

Head
Int'l Relations Office

33, Yoido-dong, Youngdeungpo-gu
Seoul 150-977, Korea
Tel 82-2-3774-9120/9121 Fax 82-2-786-0263
E-mail jhkim1111@hananet.net



FINANCIAL SUPERVISORY COMMISSION
INTERNATIONAL COOPERATION DIVISION

YOO, JAE-HOON

Director

27 Yoido-Dong, Youngdeungpo-Gu,
Seoul, 150-743 Korea

TEL (82-2) 3771-5191
FAX (82-2) 3771-5190
E-mail fscint@fsc.go.kr
jhy@fsc.go.kr



**KOREA
STOCK EXCHANGE**

In-Sik Myung

General Manager
Market Surveillance Dept

33, Yoido-dong, Youngdeungpo-gu
Seoul 150-977, Korea
Tel 82-2-3774-9102 Fax 82-2-761-0670
E-mail ismyung@kse.or.kr



FINANCIAL SUPERVISORY COMMISSION

Myong-Ho Rhee

Senior Deputy Director
Securities Supervision Policy Division

27, Yoido-Dong, Youngdeungpo-Gu,
Seoul, 150-743, Korea
Tel (82-2) 3771-5051
Fax (82-2) 3771-5056
E-mail mhrhee21@fsc.go.kr



**KOREA
STOCK EXCHANGE**

Jung-Suk JO

Manager
Research & International Relations

33, Yoido-dong, Youngdeungpo-gu
Seoul 150-977, Korea
Tel 82-2-3774-9136 Fax 82-2-786-0263
E-mail jsjo@kse.or.kr



FINANCIAL SUPERVISORY COMMISSION

Kwon, Wooseog

International Cooperation Division

27, Yoido-Dong, Youngdeungpo-Gu,
Seoul, 150-743, Korea
Tel (82-2) 3771-5158
Fax (82-2) 3771-5190
E-mail wskwon@fsc.go.kr



**KOREA
STOCK EXCHANGE**

Hee Sul Lee

Manager
Futures Options Surveillance Team

33, Yoido-dong, Youngdeungpo-gu
Seoul 150-977, Korea
Tel 82-2-3774-9171 Fax 82-2-761-3767
H P 016-228-0261



FINANCIAL SUPERVISORY SERVICE

Seo, Kyungkug(Cliff)

Professional
Stock Market Team
Capital Market Supervision Office

27, Yoido-Dong, Youngdeungpo-Gu,
Seoul, 150-743, Korea
Tel (82-2) 3786-8343 Fax (82-2) 3786-8354
E-mail skkcliff@fss.or.kr
skkcliff@chollian.net