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FINANCIAL SUPERVISORY SYSTEM IN KOREA

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INTERNATIONAL COOPERATION OFFICE

FINANCIAL SUPERVISORY SERVICE

Foreword

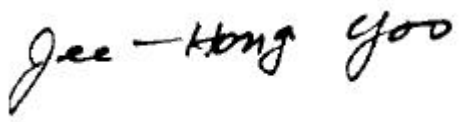
It has now been over three years since the onset of a foreign exchange crisis in Korea shook the very foundations of our national economy. However, over the course of this relatively short period of time, the Korean financial industry has undergone fundamental changes through the implementation of bold and far-reaching reforms in the domestic financial sector.

As a result, Korea has greatly accelerated its move towards the establishment of a world-class financial system, governed by strong prudential regulation and based on codes of international best standards and practices. Moreover, market-based reform of Korean financial institutions has significantly raised their levels of fiscal soundness and competitiveness amid the global trends towards financial consolidation and universal banking.

In the immediate wake of the crisis, Korea moved swiftly to consolidate the financial regulatory framework in order to eliminate supervisory gray areas and produce sounder and more effective regulation over the entire financial sector. The resulting establishment of the Financial Supervisory Commission (FSC) and the Financial Supervisory Service (FSS) laid the ground for enhanced financial supervision by ensuring consistency in relevant statutes and regulations, and by integrating the regulatory framework for all sectors.

However, despite our progress, we are also aware that the creation of a sound regulatory system is a long and, in many ways, continuous process given the constantly changing nature of global finance. Therefore, in looking ahead, greater vigilance and cooperation among the worlds financial regulators will be required to maintain both the stability and integrity of the global financial system. Meanwhile, we must continue to upgrade our supervisory system at home by increasing transparency, promoting vigorous market reforms, and strengthening prudential regulations.

This publication has been firstly prepared with the aim of assisting foreign investors and observers to gain a better understanding of the major aspects of Korea's financial supervisory system. We hope that this publication will prove to be a helpful resource to all those with an interest in the Korean financial industry.



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I. Introduction

1. Financial Industry

A. Overview

Financial institutions in Korea can be divided into five categories depending on the characteristics of the financial services they offer: banks, non-bank financial institutions, insurance companies, securities-related institutions, and other financial institutions.

Banks can be defined as all juridical persons or entities that regularly and systematically engage in the business of lending funds acquired through the assumption of obligations in the form of deposits, securities, etc. There are two types of banks operating in Korea: commercial banks and specialized banks. While specialized banks were established by separate acts, commercial banks, which consist of nationwide commercial banks, regional banks and foreign bank branches, were established and are operated according to the provisions of the Banking Act.

Non-bank financial institutions consist of merchant banking corporations, mutual savings and finance companies, credit-union type institutions, and credit-specialized companies. The business scope of merchant banking corporations covers almost all financing activities, including long- and short-term lending, investment trust, and leasing except securities and insurance business. Mutual savings and finance companies specialize in providing financial services to regional households and small businesses. Credit-union type institutions, which consist of credit unions, mutual credit facilities and community credit cooperatives, facilitate financing for their members and promote mutual economic benefits. Credit-specialized companies include credit card companies, leasing companies, factoring companies, and new technology venture capital companies.

Insurance companies collect insurance premiums from policyholders, manage the funds in loans, securities and real estate, and pay out insurance claims or its equivalent in kind upon occurrence of unexpected events against the property, life or body of policyholders. Insurance companies consist of life insurance companies and non-life insurance companies.

Securities-related institutions include securities companies, investment trust (management) companies, asset management companies, investment advisory companies, futures companies, and a securities finance company. The business scope of securities companies includes the purchase and sale of securities as brokers or for their own accounts, serving as intermediaries or agents for clients, underwriting securities, and making arrangements for the public offering of securities. Investment trust (management) companies collect funds through the sales of beneficiary certificates to investors, and manage the funds by investing in securities, normally stocks and bonds.

The resulting profits are distributed among beneficiaries. Asset management companies manage both the establishment and public offerings of securities investment companies (mutual funds in Korea). Investment advisory companies provide advice regarding the value of securities or investment decisions. The Korean Securities Finance Corporation is the only securities finance company operating in Korea, and specializes in financing the primary and secondary securities markets. Futures companies engage in domestic and overseas futures trading on behalf of a customer or for their own accounts.

Other financial institutions that regularly participate in financial transactions as intermediaries include a money brokerage company and special purpose vehicles. The Korea Money Broker Corporation is the only money brokerage company in Korea and intermediates money transactions among financial institutions. Special purpose vehicles include special purpose companies, which engage in the business of asset securitization, and mortgage-backed securitization companies, which specialize in the securitization of mortgage-backed credit-secured bonds.

A breakdown of financial institutions operating in Korea by category as of September 2000 is shown in the following table (Table1).

B. Banks

Commercial Banks

Commercial banks refer to financial institutions established according to the Banking Act, which focus on the businesses of deposit taking, lending and payment settlements. Traditionally, commercial banks have played a key role in Korea's financial system. In 1999, for example, commercial and special banks channeled 60.1% of all funds used by individual sectors, and 28.3% of all fund sources for the corporate sector in Korea[1]. Commercial banks consist of nationwide commercial banks, regional banks, and foreign bank branches. Each group of commercial banks in Korea retains certain distinctive characteristics.

*Nationwide commercial bank*s conduct business at the national level without regional restrictions. At the end of 1997, there were a total of 16 nationwide commercial banks operating in Korea, up from just 5 nationwide banks at the end of the 1970s. The sharp increase in the number of nationwide banks is attributable to the establishment of new banks following introduction of financial liberalization measures and the transformations of other financial institutions into banks over the course of financial industry restructuring.

[1] The Bank of Korea, *The Flow of Funds in 1999*

Table1

Financial Institutions in Korea

(As of September 2000)

Financial Institutions			Number[1]
Banks	Commercial Banks	Nationwide Banks	11
		Regional Banks	6
		Foreign Bank Branches[2]	43
	Specialized Banks[3]		5
Non-Bank Financial Institutions	Mutual Savings and Finance Companies		163
	Merchant Banking Corporations		9
	Credit-specialized Companies	Credit Card Companies	7
		Leasing Companies	19
		Installment Finance Companies	20
		New Technology Venture Capital Companies	6
	Credit Unions		1,330
Insurance Companies	Life Insurance Companies[4]		23
	Non-life Insurance Companies	Property and Liability Insurance Companies[5]	15
		Reinsurance Company	1
		Guarantee Insurance Company	1
Securities-related Institutions	Securities Companies[6]		64
	Investment Trust Management Companies		27
	Asset Management Companies		32
	Investment Advisory Companies		127
	Securities Finance Company		1
	Futures Companies		14
Others	Money Brokerage Company		1
	Special Purpose Vehicles	Special Purpose Companies	125
		Mortgage-Backed Securitization Company	1

Notes: 1) Based on authorization
2) Based on the number of banks
3) Korea Development Bank, Export-Import Bank of Korea, Industrial Bank of Korea, National Agricultural Cooperative Federation, and National Federation of Fisheries Cooperatives
4) Including 7 branches of foreign insurance companies and 3 joint ventures with foreign insurance companies
5) Including 4 branches of foreign insurance companies.
6) Including 20 branches of foreign securities companies

However, in the wake of the 1997-1998 financial crisis, the total number of nationwide commercial banks in operation fell dramatically to 11 banks as of September 2000 as a result of closures and mergers[2].

The 11 nationwide commercial banks have adopted a branch banking system in order to extend their reach throughout the country. The total number of domestic branches of nationwide commercial banks stood at 4,039 as of June 2000. Bank branches are authorized to engage in both long-term and short-term financing.

Regional banks were first established in 1967 with a view to producing more balanced regional economic development and greater access to financial services. At the end of 1997, there were a total number of 10 regional banks in operation. However, due to the spate of closures and mergers occurring in the wake of the nation's financial crisis, the number of local banks fell to 6 by September 2000. Like nationwide banks, regional banks have also adopted a branch banking system within their respective provinces. The number of regional bank branches, however, was restricted to 10 in Seoul and up to 2 in each of 6 major provincial cities outside their own head offices before November 1998, when these restrictions were lifted. There were a total number of 745 domestic branches of regional banks open as of June 2000. Their main business clients are small- and medium-sized enterprises based in their respective regions.

Foreign bank branches were first allowed to be established in 1967 to facilitate the inducement of foreign capital and greater access to international financial markets. In 1984, the government defined its basic stance to level the playing field for foreign banks with their domestic counterparts and, in 1991, significantly eased regulations on foreign banks' operations in order to promote greater competition among banking institutions. More specifically, the government allowed foreign banks multiple branches under the same standards and procedures as those applied to domestic banks. As a result, foreign banks operating in Korea were granted de jure and de facto national equal treatment so that they can compete with domestic banks on an equal footing. Traditionally, foreign bank branches in Korea have been specialized in the wholesale banking business. However, in accordance with gradual deregulation, some foreign bank branches have been shifting a larger proportion of their business to retail banking. As of September 2000, 43 foreign banks had 62 branches in Korea.

The business of commercial banks can be divided into three categories: indigenous business, incidental business, and concurrent business. Indigenous business refers to the business of lending funds acquired through the assumption of obligations in the form of deposits, securities, etc. and the business of domestic and foreign exchange.

[2] From January 1998 to September 2000, 5 commercial banks (3 nationwide commercial banks and 2 regional banks) were closed by P&A method, and 11 banks (6 nationwide commercial banks, 2 regional banks and 3 specialized banks) were merged to form 5 banks (4 nationwide commercial banks and 1 specialized banks).

Commercial banks engage in commercial banking business[3], along with some long-term banking business[4]. Incidental business refers to the business that accompanies the conduct of indigenous banking business, including payment guarantees, acceptance of commercial papers, mutual installments, securities investments, repurchase agreements, underwriting and sales of securities. Concurrent business, which requires additional authorization, includes trust and credit card businesses.

The main sources of funds for commercial banks in Korea are deposits in domestic currency (62.5%, as of September 2000) and debentures (4.2 %, as of September 2000), which have steadily increased since first being allowed in 1997. The main uses of funds are lending (50.9%, as of September 2000) and securities investments (23.0 %, as of September 2000) have increased at a faster rate than lending.

Specialized Banks

Specialized banks were established mostly during the 1960s under individual acts to supplement commercial banks in areas where they could not supply enough funds due to limitations in funding, profitability, and expertise, and also to support special sectors that were given priority in Korea's series of economic development plans. With subsequent changes in the financial environment, however, specialized banks have expanded their scope of business into commercial banking areas, although their share of fund allocations to relevant sectors is still relatively high. In raising funds, specialized banks depend mainly on public funds and on the issue of debentures, although they compete with commercial banks for deposits. As of September 2000, there were 5 specialized banks in operation: the Korea Development Bank, the Export-Import Bank of Korea, the Industrial Bank of Korea, the Credit and Banking Sectors of the National Agricultural Cooperative Federation, and the Credit and Banking Sectors of the National Federation of Fisheries Cooperatives.

The Korea Development Bank (KDB) was founded in 1954 through the Korea Development Bank Act to supply long-term credit for major industries in order to stabilize the economy and promote industrial development. The major businesses of KDB consist of 1) loans with longer than one-year maturity; 2) investment in the form of the underwriting of bonds and stocks; and 3) payment guarantees to help finance industrial projects. The issue of debentures has become KDB's main source of funds, while borrowings from the government, which previously were its most important financial resources in the early stage, have decreased sharply.

[3] Commercial banking business means the business of lending funds acquired predominantly from demand deposits for periods < 1 year, or for periods of 1 to 3 years within the limit determined by the FSC in consideration of the total deposits of a banking institution.

[4] Long-term banking business means the business of lending for periods exceeding one year those funds acquired through capital subscription, accepting deposits with maturity of at least one year, or issuing debentures or any other long-term bonds with maturity of at least one year.

The Export-Import Bank of Korea (KEXIM) was founded in 1969 through the Export-Import Bank of Korea Act to facilitate trade and external cooperation by providing medium and long-term credit. The major businesses of KEXIM consists of 1) medium- and long-term export financing for capital goods; 2) the support of overseas investments and major natural resource development projects; 3) credit extension to foreign buyers for importing capital goods and technical services from Korea. KEXIM's main sources of funds are 1) borrowings from the government, domestic/foreign financial institutions; and 2) the issue of debentures.

The Industrial Bank of Korea (IBK) was established in 1961 through the Industrial Bank of Korea Act to strengthen financial support for small- and medium-sized enterprises. The major businesses of IBK are 1) extending loans and discounts to small and medium business; 2) investing in equity or underwriting bonds issued by small- and medium-sized enterprises. IBK's main sources of funds are 1) deposits from the public, 2) the issue of debentures, and 3) borrowings from the government and the Bank of Korea.

The National Agricultural Cooperative Federation (NACF) and its member cooperatives were formed in 1961 through the Agricultural Cooperatives Act. The Act merged the former Agricultural Cooperatives and the Korea Agriculture Bank in order to enable agricultural development programs to be implemented more effectively by ensuring close coordination between the systems of financial and non-financial support. In 2000, the National Livestock Cooperative Federation was merged into NACF as part of financial sector restructuring. The credit and banking sectors of the NACF were designated as a banking institution within the meaning of the Banking Act. Major businesses of the credit and banking sectors of the NACF are 1) lending to its member cooperatives and non-financial business sectors, and 2) lending to non-members within a total amount equivalent to non-farmer deposits without legal reserve requirements. The main sources of funds for NACF come from deposits from the public, and borrowings from the government and the Bank of Korea.

The National Federation of Fisheries Cooperatives (NFFC) and its member cooperatives were established in 1962 through the Fisheries Cooperatives Act to help fishermen and fish processors enhance their economic and social status and to increase their productivity. The credit and banking sectors of the NFFC serve as banking institution within the meaning of the Banking Act, and its businesses are similar to those of NACF.

C. Non-Bank Financial Institutions

Merchant Banking Corporations

Merchant banking corporations (MBCs) were first established in 1976 through the Merchant Banking Corporation Act to help induce foreign capital and meet the financial demands of enterprises by providing a wide range of financial services.

The major businesses of MBCs consist of five categories: short-term financing, international financing, medium- and long-term financing, securities brokerage, and other concurrent businesses. Short-term financing includes 1) discounts, purchase, and sales of commercial papers issued by enterprises along with acceptance and guarantees thereof, 2) cash management accounts (CMAs), and 3) factoring business. Paper issuance and CMAs are the major sources of funds for MBCs. International financing, which was reduced sharply after the 1997 crisis, includes brokerage of foreign capital inducement, overseas investments, and inducement of foreign capital on their own account for re-lending to enterprises. Medium- and long-term financing refers to medium- and long-term loans funded by debenture issues. Securities brokerage includes underwriting and brokerage of securities sales. Other concurrent businesses that require prior approval according to relevant laws include leasing, securities investment trust, and foreign exchange business.

As of September 2000, the total number of MBCs was reduced to 9 from a peak of 30 during 1996~1997, mainly due to the restructuring since the financial crisis of 1997[5].

Mutual Savings and Finance Companies

Mutual savings and finance companies (MSFCs) were introduced following the promulgation of the Mutual Savings and Finance Company Act in 1972. MSFCs were created to help channel small depositors' funds from the unregulated "curb" market into the organized financial market and to provide financial services to households and small businesses in their home regions. The main business areas of MSFCs are the extension of small, and unsecured loans and the discount of bills for mutual installment savings. MSFCs' major sources of funds are the acceptance of mutual installment savings, which give an entitlement to borrow, and mutual time deposits.

As of September 2000, the numbers of MSFCs have decreased to 162 from a peak of 350 just after the introduction of MSFCs in 1972[6].

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[5] From January 1998 to September 2000, 18 MBCs' were closed following establishment of a bridge bank, Hanareum Banking Corporation, and 3 MBCs were merged with other financial institutions including 2 commercial banks and 1 securities company, respectively. Remaining 9 MBCs as of September 2000, 3 MBCs under the suspension of business and 1 KDIC subsidiary.

[6] From January 1998 to September 2000, 57 MSFCs were closed either through P&A method or formation of a bridge MSFC, and 20 MSFCs were merged with other financial institutions.

Credit-union Type Institutions

Credit-union type institutions include credit unions, mutual credit facilities, and community credit cooperatives. Credit unions were organized in order to help facilitate financing for their members and to promote mutual economic benefits. Since their enactment in 1972, credit unions have been subject to the Credit Union Act, which also applies to mutual credit facilities that are handled by agricultural and fisheries cooperatives. Community credit cooperatives are another mutual credit organized by persons residing in the same neighborhood and formed under the Community Credit Cooperatives Act. Local governments supervise community credit cooperatives, while the Financial Supervisory Commission and Financial Supervisory Service (FSC/FSS) regulate credit unions (including mutual credit facilities). Credit-union type institutions' main sources of funds are deposits from their members and funds are operated mainly in the form of loans and securities.

As of September 2000, there were 1,330 credit unions and 1,599 mutual credit facilities.

Credit-specialized Companies

Credit-specialized companies consist of credit card companies, leasing companies, factoring businesses, and new technology venture capital companies. They extend credit by raising funds mainly through debenture issues and borrowings from other financial institutions without taking deposits by themselves. Before the enactment of The Credit-Specialized Financial Business Act in 1997, these firms were established and operated under their own respective laws, and their businesses were strictly divided from each other. The Credit-Specialized Financial Business Act, however, integrated the existing laws in order to meet the increased needs in this area in line with the global trends toward universal banking and consolidation.

Credit card companies, established first in 1969, provide consumers with credit-card-related financing. The main businesses of credit card companies in Korea include 1) issuance and administration of credit cards, 2) settlements of charges in relation to the use of credit cards, and 3) establishment and maintenance of a merchant network of credit cards. As of September 2000, the credit card market has 7 credit card companies and 20 credit card business of commercial banks.

Leasing companies, established first in 1972, provide business enterprises with facilities leasing and deferred payment sales. Facilities leasing is a financing method by which companies can lease specific goods (such as industrial and business equipment, machinery and plants, newly purchased or leased) to others for use over a specific period against periodic payments receivable in installments. Deferred payment sale is another financing method by which companies deliver specific acquired goods to a

counter party, which uses the goods against payments in periodic installments. As of September 2000, there were 19 leasing companies.

Installment finance companies, established first in 1996, provide sellers and buyers with installment financing, by which companies can lend a sum of money to a buyer for a purchase of goods and then collect the principal and interest from the buyer in installments by entering into an agreement with the buyer and seller. As of September 2000, there were 20 installment finance companies.

New technology venture capital companies, established first in 1974, provide financial support for technological development projects by underwriting issues of stocks or convertible bonds by new or established business firms, and extending loans to venture businesses. New technology venture capital companies' businesses include consulting services on management and technology for venture businesses, establishment of venture business investment associations, and management and operation of funds of those association. As of September 2000, there were 6 new technology venture capital companies[7].

D. Insurance Institutions

Life Insurance Companies

The insurance business fulfills two major functions. First, insurance diversifies and reduces individual risks by pooling the risks' of a large number of people. Second, it transforms individual insurance premiums into funds for industrial development as a financial intermediary. The insurance business in Korea began to show systematic development in 1962, when three major insurance-related laws were promulgated. In particular, significant improvements in insurance-related regulations were achieved through consolidating the three insurance-related acts into the Insurance Business Act in 1977, which laid the basis for future growth of the domestic insurance industry. The improvements include upgrading the payment of claims, deducting insurance premiums from the amount of taxable income, and internationalizing the insurance industry.

[7] There are currently two types of venture capital firms operating in Korea: Start-up Support Financing Companies (SSFCs) and New Technology Support Financing Companies (NTSFCs). SSFCs are supervised by the Small & Medium Business Administration (SMBA) and focus primarily on equity investment during the early stages of a venture company's development. NTSFCs fall under the supervisory jurisdiction of the FSC/FSS. Unlike SSFCs, NTSFCs provide comprehensive financing support to small- and medium-sized enterprises, including equity investments, loan financing, leasing, and factoring services.

The present insurance system is divided into life and non-life insurance sectors. Insurance companies were prohibited from engaging in both sectors at the same time until 1997, when the wall between the life and non-life insurance sectors was lifted amid global trends towards financial convergence and consolidation.

Life insurance companies' major sources of funds include their paid-in capital by stockholders, insurance premiums paid by policyholders, and operating profits from investment assets. By April 2000, insurance premium rates were set by the Korea Insurance Development Institute (KIDI)[8] and, within narrow limits, were adhered to by insurers operating in the marketplace. However, life insurance premium rates were fully deregulated in April 2000. Investment assets mainly consist of securities, such as bonds and stocks, loans, deposits, and real estate. Since the liabilities of insurance companies are recognized in the form of policy reserves to have long maturity, the investment assets tend to have long maturities as well.

Entry into the life insurance business by the top 5 business groups has been prohibited through the end of 2003, except in the case that more than two ailing life insurance companies are acquired or merged.

By the end of 1970s, there were only 6 life insurance companies in Korea. However, thanks to the introduction of substantially lowered entry barriers in the process of market opening and deregulation, 23 life insurance companies including 12 domestic life insurance companies, 4 joint ventures with foreign companies, 5 foreign life insurance companies and 2 branches of foreign life insurance companies were in operation as of September 2000. Following the onset of the financial crisis in late-1997, 5 life insurance companies were closed through the transferal of their policies to other companies, and 5 life insurance companies were merged as part of financial restructuring as of September 2000.

Non-life Insurance Companies

Non-life insurance companies have followed a similar pattern of growth with life insurance companies. Non-life insurance companies in Korea are divided into two specialized companies (Korean Reinsurance Company, Seoul Guarantee Insurance Company)[9] and other general non-life insurance companies, including fire & marine, automobile, other casualty, and personal pension insurance companies.

[8] The Korea Insurance Development Institute was set up in December 1989 as a rate-making organization to succeed the former Korea Non-Life Insurance Rating Association. It performs the calculation of premiums and other related functions entrusted to it by the government, insurers, and other insurance-related organizations. Its members consist of both life and non-life insurance companies.

[9] Korea Export Insurance Corporation (KEIC), which is owned and regulated by the government (Ministry of Commerce, Industry and Energy), can be regarded as another specialized non-life

Korean Reinsurance Company specializes in the reinsurance business. To safeguard the rights and interests of policyholders and contribute to the sound development of the insurance industry, each non-life insurance company was required to reinsure a certain portion of each risk with a reinsurance company. However, the obligatory reinsurance ratios were gradually lowered and replaced by a voluntary reinsurance system.

Seoul Guarantee Insurance Company, originally established in 1969 under the name of Korea Fidelity and Surety Company, specializes in offering guarantees to entrepreneurs and individuals. Since 1989, when Hankuk Fidelity and Surety Company was established, the two guarantee insurance companies have provided a competitive environment to the market. However, after the financial crisis of 1997, the two guarantee insurance companies merged together under the new name, Seoul Guarantee Insurance Company (SGI) from November 1998.

Other non-life insurance companies engage in other various areas of non-life insurance business such as fire, marine, automobile, and other casualty insurance, excluding the specialized areas described above.

The products and premium rates of non-life insurance companies have been deregulated since 1998, although KIDI is responsible for reviewing the rates once a year. Unlike life insurance companies, there are no restrictions on the ownership of non-life insurance companies by large business groups.

Non-life insurance companies' liabilities mainly consist of policy reserves and accounts payable. Investment assets mainly consist of securities such as bonds and stocks, loans, deposits and real estates. Since the liabilities of insurance companies have shorter maturity periods compared to those of life insurance companies, the investment assets tend to have more products with short maturity such as cash and deposits.

As of September 2000, there were 17 non-life insurance companies including 2 specialized companies, and 15 general non-life insurance companies, which consist of 11 domestic companies and 4 branches of foreign insurance companies.

E. Securities-Related Institutions

Securities Companies

insurance company. KEIC, established in 1992 to promote sound overseas transactions, specializes in export insurance and guarantees, by which the company compensates those losses incurred in export transactions and overseas investments that cannot be handled by the general insurance systems, and provides precise and diverse information to its customers.

Securities companies are established and regulated under the Securities and Exchange Act to carry out licensed securities business. The Act classifies basic securities business into three categories: dealing, brokerage, and underwriting. In addition to the basic securities business, securities companies may also engage in incidental and concurrent business[10].

Since securities companies focus on the brokerage business in the direct capital market, the companies' sources and uses of funds are quite different from banks and non-bank financial institutions. Major sources of funds consist of call money, short-term borrowings from financial institutions, and deposits of customers. The uses of funds consist mainly of marketable securities, and cash and deposits.

As of September 2000, there were 64 securities companies operating in Korea including 20 branches of foreign securities companies. During the period from January 1998 to September 2000, 5 securities companies had their licenses revoked, and 1 securities company was liquidated as part of financial restructuring.

Investment Trust (Management) Companies[11]

The business of securities investment trust was first introduced in 1970 after the Securities Investment Trust Business Act was enacted in 1969 in order to support corporate financing and to contribute to the sound development of capital markets. Securities investment trusts in Korea bear greater similarity to contractual-type unit trusts in U.K. than corporate–type mutual funds in U.S.A. An investment trust contract is concluded between an investment trust company (ITC), the investment decision maker, and a trustee company. The trustee, acting as both custodian and bookkeeper, must be a bank authorized for trust business by the Trust Business Act. The beneficiaries are the recipients of profits from the trust. ITCs served as both manager and distributor of the fund. ITCs distributed their products in the form of beneficiary certificates directly to customers through their branches, and transferred them to securities trust accounts established as a trust accounts with a trustee, which should be a bank. The introduction of investment trust management companies (ITMC) in 1995 led to the gradual separation of ITCs into ITMCs, which make investment decisions, and securities companies, which sell the beneficiary certificates directly to investors. The separation, which was completed in 2000 when the last major ITCs, Korea and Daehan ITCs were split to form separate ITMCs and securities companies, was aimed at enhancing the specialization and overall soundness of the securities investment trust business. Other ITMCs were also newly established or created through a conversion into ITMCs from investment advisory companies.

[10] The detail of securities business is described in the latter part. See Part II, 2. A Securities Companies.

[11] The detail of the legal structure will be described in the latter part. See Part II, 2. B Collective Investment Scheme.

As of September 2000, there were 27 ITMCs, among which 6 were transformed from ITCs. From January 1998 to September 2000, a total of 7 IT(M)Cs were closed either through fund transfer (2), redemption (4) or merger (1).

Securities Investment Companies

The corporate-type investment trust, which is based on US mutual funds, was first introduced in 1998 through the Securities Investment Company Act in order to offer investors diverse investment instruments and promote securities investment. The corporate-type investment trusts consist of 5 types of companies: securities investment companies, asset management companies, asset custodians, distributors, and general administrations trustee company.

Securities investment companies (SICs), which are paper companies recognized under the Commercial Code, invest fund assets raised through sales of shares to investors, who become the company's shareholders. It is permitted only to manage funds through the investment of securities and call loans within thirty days, etc, and profits derived from investments are then distributed to its shareholders.

Asset management companies (AMCs), which must be registered with the FSC, conduct the business of asset operation upon being entrusted with the business of asset management by securities investment companies.

Asset custodians hold such assets, maintaining them separately to protect shareholders' interests upon being entrusted with the custody of fund assets by securities investment companies. Banks, which engage in trust business under the Trust Business Act, are allowed to conduct business of asset custodian companies.

Distributors are also registered with the FSC and are authorized to sell shares of securities investment companies directly to investors. Securities companies, banks, and AMCs are allowed to register as distribution companies.

Currently, in order to enhance the stability of the funds, only closed-end funds are permitted. However, open-ended funds will be permitted within five years from the inception of the Act.

As of September 2000, there were 32 AMCs, 84 SICs and 49 distributors.

Investment Advisory Companies

The investment advisory business was officially introduced in 1987 through an amendment to the Securities and Exchange Act. A further revision of the Securities

Investment Trust Business Act in 1995 separated the securities investment advisory business from the investment trust business. The business of investment advisory companies consists of investment advisory services, by which companies provide investment advice to customers, and discretionary investment services, by which companies directly invest customer-entrusted assets. Both types of business require separate registration with the FSC, but requirements for discretionary investment services is stricter than that of investment advisory services[12].

As of September 2000, there were 127 investment advisory companies including 67 companies registered to conduct discretionary investment service, and 12 foreign companies.

Securities Finance Company

The Korea Securities Finance Corporation (KSFC), established in 1955, is the only securities finance company authorized to engage in financing the primary and secondary securities markets under the Securities and Exchange Act.

Its major business includes 1) making loans to underwriters to facilitate smooth underwriting and market making; 2) lending funds or securities to securities companies to finance customers' margin transactions; 3) making general securities collateral loans to employ stock ownership associations and individuals; and 4) lending working capital to securities companies, securities investment trust (management) companies, and the Korea Stock Exchange. The KSFC's major sources of funds include 1) deposits for subscription to initial public offerings; 2) receipt of deposits from securities companies, which are required to place all deposit money from customers with the KSFC; and 3) the issuance of debentures and short-term paper.

Futures Companies

Futures companies were first introduced in 1997 under the Futures Trading Act, which was enacted in 1996 in order to promote the growth of futures business as well as the development of a futures market. Futures companies are corporations which have obtained permission from the FSC to engage in futures trading business, including domestic or overseas futures trading of commodity products, financial products, or indexes for their own accounts or on the behalf of customers, and the business of assuming the duties of a broker, intermediary, or agent for a customer.

As of September 2000, there stood 14 futures companies operating.

[12] The detail of the requirements for registration of investment advisory service is described in the latter part. See Part II, 2. (3) Collective Investment Scheme.

F. Other Financial Institutions

Money Brokerage Company

The Korea Money Broker Corporation (KMBC) is the only money brokerage company allowed to engage in intermediating money transactions among financial institutions[13]. KMBC was formally established in 1996 under the Merchant Banking Corporation Act as part of plans to promote the domestic money market among financial institutions, which was spurred by the conversion of eight investment and finance companies into merchant banking corporations.

The major brokerage business of KMBC consists of call transactions, certificates of deposits, securities repurchase agreements and commercial papers. In the case of call transactions, KMBC is allowed to trade on its own account or as simple brokerage. In addition, KMBC has engaged in brokerage in foreign currency since 1999.

Special Purpose Vehicles

Special purpose vehicles (SPV) were established under the Act on Asset Securitization of 1998, and the Mortgage-backed Securitization Company Act of 1999. The acts were introduced to help reduce the social costs of economic restructuring by facilitating the smooth sales of assets such as loan claims and real estate which financial institutions and the Korea Asset Management Company (KAMCO) held in the process of financial and corporate restructuring after the financial crisis in Korea.

SPVs engage in asset securitization under the Act on Asset Securitization by issuing asset-backed securities (ABS). SPVs use securitized assets transferred to SPVs by originators as underlying assets; SPVs pay the amount of principal and interest or dividends with respect to the ABS out of the earnings arising from the management, operation, or disposition of the securitized assets.

SPVs include special purpose companies (SPCs), foreign corporations specializing in the business of asset securitization, and trust companies. An SPC, which is a paper company established in the form of limited company, engages in 1) the assumption or assignment of securitized assets, or entrustment to a trust company; 2) the administration, management, and disposition of secuitized assets; 3) the issuance and redemption of ABS; and 4) conclusion of contracts necessary for redemption of the asset securitization plan.

[13] In December 2000, Seoul Money Brokerage Service (SMBS) was licensed as money brokerage company in Korea. SMBS is scheduled to begin its business from February 2001.

However, unlike SPCs, mortgage-backed securitization companies (MBSC), which specialize in securitization of mortgage-backed credit-secured bonds under the Mortgage-backed Securitization Company Act, should be a stock corporation of a real entity.

As of September 2000, there were 123 SPCs including foreign corporations, and 2 trust companies, registered with the FSC under the Act on Asset Securitization, and 1 IMTC registered with the FSC under the Mortgage-backed Securitization Company Act.

Introduction of Financial Holding Companies in Korea

On October 9, 2000, the National Assembly passed the Financial Holding Company Act. Enactment of the financial holding company system in Korea is expected to enhance the international competitiveness of domestic financial institutions by helping them to further consolidate and to reduce both costs and branches, thereby alleviating inefficiencies and excess capacity in the financial industry. It will also assist financial institutions in their efforts to achieve economies of scale and scope through the creation of "mega-banks" and by advancing the trend towards universal banking.

Definition

A financial holding company (FHC) is defined as a company engaged in the ownership and control of financial institutions or companies associated with financial business as its subsidiaries. The FHC should hold a minimum 50 percent stake in its subsidiaries, or a minimum 30 percent stake in the case of listed subsidiaries. The FHC should not engage in profit-making businesses other than the management of its subsidiaries and related businesses.

A subsidiary of an FHC is permitted to hold its own subsidiaries only if the companies are either financial institutions whose business is closely related to that of the subsidiary or companies that are closely associated with financial business. IT firms that conduct finance-related business and financial research institutions fall into the latter category. In contrast, a subsidiary's subsidiary (SS) cannot own subsidiaries.

Establishment and Authorization

The establishment of an FHC requires authorization and approval from the Financial Supervisory Commission (FSC). Prior to making its final decision, the FSC considers numerous requirements of FHC applicants, including soundness of financial structure, credibility and investment capacity of major shareholders, management competency, and feasibility of business plans for the applicant and its subsidiaries. Before finalizing its authorization, however, the FSC should consult with the Fair Trade Commission (FTC) to determine whether the establishment of the FHC would hinder fair competition.

Authorization from the FSC is also required when an FHC wants to include additional subsidiaries under its roof or when an FHC subsidiary wants to include additional SS.

Another salient feature of the newly introduced FHC legislation is the allowance of the "pure" financial holding company that can own 100 percent of shares in its subsidiaries. The pure FHC can be established either through the exchange or transfer of stocks.
The stock exchange method is used when an existing FHC wants to become a pure FHC by issuing new stocks in exchange for all of the outstanding shares of its subsidiary. Under this method, shareholders of the subsidiary become shareholders of the pure FHC. The stock transfer method is used when shareholders of a financial institution transfer all of their shares to a newly created pure FHC. After receiving newly issued stocks of the pure FHC, they become shareholders of the FHC.

Ownership Structure and Corporate Governance

In principle, financial institutions, including foreign financial institutions, are prohibited from holding controlling stakes in FHCs. However, an FHC may own and control other FHCs, which are termed "intermediary" FHCs. Also, mutual funds that are authorized by the FSC to specialize in financial business, or "specialized mutual funds," may own and control FHCs.

For a "bank holding company," or an FHC that owns and controls financial institutions under the Banking Act as its subsidiaries, the single shareholder limit of 4% is applied. The Korean Government, the Korea Deposit Insurance Corporation (KDIC), FHCs, specialized mutual funds and individuals engaged exclusively in financial business, or "financial professionals," are exempt from the single shareholder limit and may hold shares in excess of the ceiling. "Financial professionals," however, must gain approval from the FSC whenever their holdings of bank holding company's shares exceed 10 percent, 25 percent, and 33 percent of total shares with voting rights respectively.

Regarding corporate governance, FHCs with total assets of 100 billion won or greater should appoint at least three outside directors to their Board of Directors based on the recommendation of the Outside Director Recommendation Committee. In addition, more than half of both the Board and Committee members should be outside directors. FHCs should also establish an Audit Committee, of which at least two-thirds should be comprised of outside directors.

Furthermore, executive directors of FHCs are prohibited from holding directorships at other companies or engaging in profit-making businesses on their own in cases where conflicts of interest with a subsidiary's clients may arise or damage to the financial health of a FHC subsidiary may occur. However, executive directors of FHCs are permitted to become executive directors at subsidiaries of their FHC.

The protection of minority shareholders' rights is another important feature of the FHC legislation. For example, a minority shareholder who has owned stock in an FHC for more than six months can file lawsuits against the CEO, demand replacement of board members, make written shareholders' proposals, or convene shareholders' meetings, depending upon the percentage of shares held.

Prudential Regulation and Supervision

The FHC legislation includes rules aimed at enhancing the prudential regulation and supervision of FHCs in Korea. The rules stipulate that leverage ratios of FHCs must not exceed 100 percent, and strictly prohibit investments by FHCs into their subsidiaries that are in excess of their equity capital. Investments into securities are also limited to the amount of FHCs' equity capital surplus (equity capital minus equity investment into subsidiaries).

In addition, FHCs are prohibited from holding stakes in companies other than their own subsidiaries for the purpose of management control. Stock ownership by FHCs in companies other than their subsidiaries are limited to 5% of total outstanding shares, while voting rights according to the ownership ratio are also limited to prevent undue influence on voting results (i.e. "shadow voting")

Total credit extended by an FHC to same borrowers and major shareholders, including their subsidiaries, that have greater than a 10% stake in the FHC must be less than 25% of its net equity capital.

And in order to enhance and maintain the financial health of FHCs, the FSC/FSS will provide management guidelines outlining desired financial and management conditions of FHCs and their subsidiaries. In cases where FHCs fail to obey the management guidelines or where there are concerns of deteriorating financial health, management improvement measures such as the submission of management improvement plans, capital increases, or limits on dividends or the disposal of shares in subsidiaries, will be imposed on the concerned FHCs.

Additionally, subsidiaries of FHCs are banned from extending credits, making capital injections into parent FHCs, or from holding shares in their parent FHC.

2. Financial Market

A. Money Market

Overview

The term "money market" usually refers to those financial markets specializing in financial instruments with maturities of a year or less. Financial institutions, non-financial businesses, government units, and individuals all place funds in, or borrow from, the money market to bridge differences in timing between receipts and payments. In general, the behavior of the money market provides the most immediate indication of the current relationship between the supply of, and demand for, funds through changes in yields on instruments in response to shifts in market conditions.

The money market in Korea embraces the call market and a wide range of other financial markets including those for Monetary Stabilization Bonds (MSBs), negotiable certificates of deposit (CDs), repurchase agreements (RPs), commercial papers (CP), and cover bills.

Table 2

Money Market Trends

(Unit: billion won)

	1990	1995	1997	1998	1999
Call[1]	3,651	4,480	14,214	15,956	17,980
MSBs[2]	15,241	25,825	23,471	45,673	51,489
CDs[3]	6,804	28,330	25,500	15,743	15,502
RPs[3]	3,357	6,173	23,699	17,516	16,187
CPs[3]	22,687	44,230	74,624	19,872	11,176
Cover bills[3]	277	10,697	12,354	4,093	4,746

Notes: 1. Daily average transactions during December
2. Monetary Stabilization Bonds issued by the Bank of Korea
3. Outstanding amount as of the end of each year

Source: The Bank of Korea (www.bok.or.kr)

Since 1985, there has been a sharp increase in the outstanding balance of money market instruments. Product innovations and a sharp expansion in the number of financial institutions handling such instruments have chiefly prompted the increase. However, the total scale of money markets other than MSBs and the call market contracted in the course of financial and corporate restructuring. Among the money markets, the CP market suffered the greatest contraction in the two years after the 1997 financial crisis.

Scope of the Money Market

Call Market

The call market in Korea, which is similar in nature to the Federal Funds market in the U.S., was established in 1975 when the Call Transaction Office in the Korea Federation of Banks was opened to adjust temporary shortages or surpluses of funds among financial institutions.

The participants in the call market are banks including foreign bank branches in Korea, and other financial institutions such as merchant banking corporations, insurance companies, and the Korea Securities Finance Corporation.

Due to differences in the pattern of transaction behavior, the market segmented into an inter-bank market and an over-the-counter market between non-bank financial institutions. The segmented markets were integrated into a single market in October 1989 as part of a move to promote smoother adjustment of short-term funds among different types of financial institutions.

The Call Transaction Office was subsequently abolished and all transactions are now conducted either directly or through the Korea Money Broker Corporation, which is a specialized-broker institution that has conducted the brokerage of call transactions since November 1996.

The longest maturity of call transactions is limited to 30 days. Most transactions involve one-day overnight funds and the unit of transaction is in multiples of 100 million won.

Monetary Stabilization Bonds Market

Monetary Stabilization Bonds (MSBs) have been issued since 1961 under the Bank of Korea Monetary Stabilization Bonds Act. MSBs are special negotiable obligations of the Bank of Korea that are issued to control monetary growth. They serve as one of the most important instruments in the open market operations used by the Bank of Korea.

In the case of issues on a discount basis, MSBs may have five face values: 1, 5, 10, 50 and 100 million won, with 11 differing maturities from 14 days to 2 years. When issued on a par value basis, the maturity is limited to two years only and the interest is paid on a three-month basis.

MSBs are issued by public offerings (including subscription, competitive bidding and sales) to individuals and financial institutions, and by assignment to specific financial institutions. MSBs are primarily issued through competitive bidding and general sale. In addition, an electronic bidding system was introduced through the BOK's financial clearance system, BOK-Wire, in August 1997.

Negotiable CD Market

Negotiable certificates of deposit (CDs) refer to fungible certificates of time deposit. The negotiable certificate of deposit market refers to the market in which CDs are issued and circulated. Presently, all banks except the Export-Import Bank of Korea are allowed to issue CDs.

The first attempt to introduce a CD market in the 1970s proved unsuccessful and was abandoned by banks in December 1981 mainly because of their lackluster performance, which reflected the lower interest rates they carried compared with those on other financial instruments. Nationwide commercial banks, regional banks, and the Korea Exchange Bank resumed CD business in June 1984. The market was opened to all domestic banks in March 1985, to all foreign bank branches in September 1986, and to the Korea Money Broker Corporation in December 1996. The reintroduction of CDs was designed to promote banks' competitiveness against non-bank financial intermediaries for short-term deposits and to encourage the mobilization of otherwise idle short-term funds, by offering higher interest rates than those of time deposits.

At present, there are no limitations on maturity, as long as it is above 30 days. While there is no minimum denomination, it is generally above 1 billion won in the case of institutions or corporations, and above 10 million won in the case of individuals.

Bond Repurchase Agreement Market

A bond repurchase agreement (RP) involves the acquisition of immediately available funds through the sale of bonds with a simultaneous commitment to repurchase the same bonds on a specific date at a specified price. Thus, an RP is essentially a secured means of short-term borrowing and lending, even though the instruments used in RP transactions are long-term bonds. The bond repurchase market not only serves to intermediate short-term funds but it also contributes to the development of the bond market through the provision of greater liquidity for long-term issues. Moreover, the RP transaction retains a synchronizing function for spot and futures transactions.

RPs originally functioned mainly as an alternative form of interest-bearing deposits at banks, post offices, and securities companies. Recently, however, financial institutions have begun to utilize them as a means of adjusting their short-term liquidity positions for longer periods.

RPs transactions have no maturity limit, except the regulation on minimum maturity (30 days) for banks. In principle, the minimum denomination also has no limit (except the 50,000 won minimum denomination of post offices), but the minimum denomination is generally above 1 billion won in the case of financial institutions or corporations, and above 10 million won in the case of individuals.

RP transactions were introduced in February 1977 when the Korea Securities Finance Corporation undertook such transactions with securities companies. Securities companies were allowed to engage in RP business from February 1980, and banks were allowed from September 1982. In addition, post offices began offering RPs starting in March 1983. And in May 1997, the Korea Money Broker Corporation, the call transaction specialized broker institution, began conducting brokerage of RPs transactions among financial institutions.

Commercial Paper Market

Commercial paper (CP) refers to short-term promissory notes issued by non-financial companies, and notes discounted or intermediated by merchant banking corporations and other financial institutions. The issue of commercial papers, normally on the strength of their own credit, serves as an alternative to short-term borrowings from banks or other private financing. The institutional framework of the CP market was put in place with the promulgation of the Short-term Financing Business Act in August 1972. The Act's main objective was to facilitate systematic organization of the domestic money market. Presently, MBCs, securities companies, banks, investment trust companies, insurance companies and credit-specialized finance companies participate in the CP market as discounting and selling institutions or only as discounting institutions.

Since most CPs are unsecured, their quality rating is of particular importance. Credit ratings are composed of four grades: A, B, C, or D. Only corporations with a credit rating of A or B from at least two credit rating companies[14] are allowed to issue CPs.

Cover Bills Market

Cover bills are issued by financial institutions under their own name on the basis of underlying primary commercial and trade bills and factoring receivables discounted and held by them. The maturity of the cover bills can be tailored to the investor's needs and may differ from that of the underlying bills. Currently, banks, MBCs, and mutual savings and finance companies are allowed to issue cover bills.

Investment and finance companies began to deal in cover bills that are based on trade bills in September 1989. They were allowed to issue cover bills collateralized by factoring receivables in July 1992. Banks were also permitted to sell cover bills in order to ease their difficulties in raising funds to discount the bills of small- and medium-sized

[14] As of September, 2000, there are four companies registered as a credit rating specialized companies: the Korea Management Consultation & Credit Rating Corporation, the Korea Information Service Incorporation, the National Information & Credit Evaluation Incorporation, and the Seoul Credit Information Incorporation.

enterprises in July 1994. In addition, mutual savings and finance companies were permitted to issue cover bills from May 1995.

The regulations on issuing requirements, such as maturity and limits on issuing amount, were lifted in accordance with the liberalization of interest rates, while the requirement on the minimum denomination of cover bills was abolished in July 1997. However, sellers generally determine the minimum denominations, and minimum denominations of financial institutions, general corporations, and individuals are normally above 1 billion won, 50 million won, 10 million won, respectively.

Table 3

Money Market Instruments in Korea

	MSB	CD	RP	CP	Cover bills
Maturity[1)]	Discounting: 14~546 days Face-value: 2 years	Over 30 days	-	Within 1 year	Banks: Over 30 days Merchant Banks[3)]: within 1 year MSFU: liberalized
Minimum Trading Value	Competitive bidding: 100 million won General sale: 1 million won	-	-	-[2)]	-
Prior Redemption	Impossible	Impossible	Possible	Possible	Banks: Impossible Merchant Banks: Possible MSFU: Possible
Interest Payment Method	Pre-payment by discounting method or interest payment over 3 months	Pre-payment by discounting method	Lump sum payment at maturity date	Pre-payment by discounting method	Pre-payment by discounting method

Notes: 1) There is no limit on the length of maturity; however, the maturity of the money market instruments, except MSBs, is usually within 1 year.
2) In the case of securities companies, the minimum trading value is 100 million won.
3) According to the Merchant Banking Corporation Act, the merchant banks can handle only the cover bills whose maturity is within 1 year.

B. Capital Market

Overview

The capital market refers to the markets where stocks and bonds are traded. The capital market provides long-term capital raising measures and most commonly refers to the securities market. With the establishment of Daehan Securities Exchange, a profit-making organization jointly formed by banks, securities companies and insurance companies in March 1956, the Korean capital market became an organized market. The Daehan Securities Exchange was converted into a stock corporation with the enactment of the Securities and Exchange Act in January 1962. Subsequently, it was reorganized into a government-invested public management organization in May 1963, and was formally renamed as the Korea Stock Exchange (KSE).

In July 1984, the over-the-counter market for bonds was systematized with the enactment of the Regulation on the Over-the-Counter Exchange of Bonds. The over-the-counter market for stocks was subsequently opened in April 1987. And in January 1997, the OTC stock market became known as the KOSDAQ market, in which stocks registered with the Korea Securities Dealer's Association are traded.

Stock Market

The stock market has grown substantially in line with the expansion of the Korean economy. In particular, after the economy recorded its first-ever trade surplus in late-1986, the expansion of the domestic stock market began accelerating. As of 1998, the aggregate market value had risen twenty-fold and the total market capitalization of KSE-listed companies increased ten-fold since 1985.

The stock market also pursued qualitative growth in combination with its rapid growth in size and scope. As a result, numerous measures have been introduced to raise market standards, such as continuous strengthening of market infrastructure, the introduction of advanced trading and monitoring systems, and enhancements in market transparency and efficiency. And in the wake of the 1997-1998 financial crisis, Korean capital markets have undergone another remarkable transformation. Foreign investment ceilings, for example, on stocks, bonds, futures/options and short-term instruments were all lifted in 1998. In addition, other measures to attract foreign investment and to offer equal treatment for foreign investors have been introduced to help diversify the investor base and to internationalize Korean capital markets.

The stock market, however, has experienced several stages of difficulty with its troubles compounding problems facing the real economy. Heavy fluctuations in the exchange's main index, the KOSPI, have reflected these uneven developments. Most notably, the KOSPI rose sharply from 1986, reaching a high of 1,007.77 points in April 1989.

However, the KOSPI has also suffered precipitous declines, such as its fall to 459.07 in August 1992 due to an oversupply of stocks in the market. KOSPI rallied again up to 1,138.75 by November 1994, but fell once again to a new low of 280.00 in June 1998 at the height of the nation's foreign exchange crisis.

Recent positive developments in the economy, including a sizeable trade surplus and stabilized currency, led to an upgrade in Korea's investment status, and spurred a surge in the composite stock market index to over the 1,000 point level in 1999. In 2000, however, the stock market reversed its upward trend due to the slowdown in domestic economic growth coupled with adverse external economic circumstances and concerns over the progress of financial and corporate restructuring.

Table 4

KSE Market Statistics

(Unit: billion won, thousand shares)

Categories	1996	1997	1998	1999	2000[1)]
Number of registered companies	760	776	748	725	706
Shares registered	8,598,375	9,030,747	11,443,672	17,325,801	19,476,948
Aggregate market value	117,369	70,988	137,798	349,503	187,291
Trading volume	7,785,416	12,125,338	28,533,107	69,359,139	67,876,822
Trading value	142,642	162,281	192,845	866,923	592,811
KOSPI [2)]	651.22	376.31	562.46	1,028.07	509.23

Note: 1) As of November of 2000

2) Korea Composite Stock Price Index, 1980.1.4=100

Source: Korea Stock Exchange (www.kse.or.kr)

KOSDAQ Market

Until the end of the 1970s, high economic growth in Korea was achieved through export-driven policies that supported the expansion of the nation's large industrial conglomerates, or chaebols. Such policies, however, led to development gaps between and within sectors, which resulted in a severe economic imbalance between the chaebols and the nation's small- and medium-sized enterprises (SME).

In addition, such volume-oriented export policies encountered major obstacles in the form of increased trade barriers set up by advanced countries. To promote further economic growth, the Korean government revised its policy direction in the early 1980s, extending tax incentives and financial support to SMEs and venture businesses to help nurture their growth.

In the local securities market, however, listing requirements for the Korea Stock Exchange (KSE), remained quite stringent. This made it difficult for fast growing SMEs and venture businesses to raise needed funds through direct financing in the market. But

an alternative route was paved with the changing industrial structure in Korea, along with the growing necessity for direct financing.

According to the announcement of the *Market Organization Plan for Vitalizing the Stock Trading of SMEs* in 1987, an over-the-counter market was organized in the same year to provide opportunities for SMEs not listed on KSE to raise capital through the securities market. Furthermore, the OTC market provided investors with more diverse investment options.

Table 5

KOSDAQ Market Statistics

(Unit: billion won, thousand shares)

Categories	1996	1997	1998	1999	2000[1)]
Number of registered companies	331	359	331	453	592
Shares registered	613,753	719,475	1,167,115	4,089,875	7,109,240
Aggregate market value	7,606	7,069	7,892	98,704	12,628
Trading volume	35,416	47,190	205,653	8,674,396	46,224,624
Trading value	535	1,166	1,607	106,808	559,124
KOSDAQ Composite Index[2)]	120.47	97.25	75.18	256.14	67.26

Note: 1) As of November of 2000
2) 1996.7.1.=100

Source: The Korea Securities Dealers Association (www.ksda.or.kr)

Bond Market

The first bonds were issued in Korea during the 1950s with the government endeavoring to raise funds for reconstruction following the Korean War. The bond market, however, did not play an important role until the late 1960s as both the government and corporate sectors relied mainly on overseas and local bank loans for financing, not direct financing through the capital market.

During the late 1960s, however, the government realized the need to promote bond and stock issuance as means of fund raising. As a result, the *Capital Market Promotion Act* was enacted in 1968 to develop both the bond and stock markets. This led to the establishment of the *Korean Investment Corporation* (KIC), which assumed the following roles: distributing, underwriting, dealing, brokerage, and market-making of securities; scrutinizing public offerings; and engaging in the investment trust business. Among other things, the KIC introduced a guarantee system for corporate bonds in 1972. Under this system, banks, securities companies or the Credit Guarantee Fund guaranteed the interest and principal of bonds.

In 1980, floating rate long-term corporate bonds were introduced and, in 1984, bond transactions under repurchase agreements were initiated. Meanwhile, individual investors' growing preference for bonds as investments and the introduction of various

bond-related financial instruments promoted further expansion of the bond market. Since 1987, the amount of government and special public bonds outstanding has increased to absorb the excessive liquidity resulting from balance of payment surpluses. These bonds are monetary stabilization bonds (MSBs) and foreign exchange stabilization fund bonds.

In May 1993, to enhance transparency in the bond market and to promote development of the over-the-counter bond market, the Korea Securities Dealers Association established the *OTC Bond Trading Center*. The center oversees OTC bond trading and discloses trading information such as yields and trading value.

In July 1994, the bond market was partially opened to foreign investors, who were allowed to purchase non-guaranteed convertible bonds issued by small- and medium-sized companies through the KSE's bond market. And since June 1995, international financial organizations, such as ADB and IMF, have been permitted to issue won-denominated bonds. Bond market liberalization was further accelerated following Korea's membership in the Organization for Economic Cooperation and Development (OECD) in October 1996.

From October 1997, no taxes were levied on capital gains by foreign investors in Korea, providing foreign investors with equal treatment as domestic investors. And in December 1997, to attract greater foreign capital under the IMF program, the bond market was fully opened to foreign investors by lifting restrictions on the purchase of guaranteed corporate bonds and commercial papers. In May 1998, short-term money market instruments, including CDs, MMF and bank notes, were also fully liberalized. As a result, all fixed income instruments in Korea were made available to foreign investors.

Since the onset of the financial crisis in late-1997, the Korean bond market undergone the following significant changes:

- First, the bond market grew sizably as the government issued bonds to implement reforms and restructuring process in the financial, corporate and public sectors, as well as in the labor market.

- Second, the trading of government bonds became more significant than corporate bonds. This was due primarily to the issuance of government bonds on a regular basis; corporations, on the other hand, had difficulty issuing bonds on such a basis due to increased risks.

- Third, in the corporate bond market, issuance of non-guaranteed bonds increased considerably, while the issuance of guaranteed bonds sharply decreased. Currently, non-guaranteed bonds dominate the corporate bond market, and provide the benchmark yield in the market. With increasing insurance of non-guaranteed bonds, the role of credit rating agencies has also become increasingly important.

- Fourth, continuous improvement of the bond market infrastructure has promoted development of the bond market. Improvements include introduction of the mark-to-market valuation of new funds, new bond lending systems, measures to ensure proper disclosure of bond trading information, etc.

- Lastly, the bond market has benefited from the continuing introduction of new instruments to enhance its performance and development. In April 1999, for example, a new futures exchange was officially opened and, in July 1999, a futures market for government bonds was launched. To reduce settlement risk, the Korean government introduced the delivery-versus-payment system in July 1999 and, in July 2000, the mark-to-market system was fully introduced. With these measures, foreign investors can avoid both exchange and settlement risks.

C. Foreign-Exchange Market

Overview

The foreign exchange market in Korea is divided into a customer market, where foreign exchange banks deal in foreign exchange with customers such as importers, exporters and travelers, and an inter-bank market, where foreign exchange banks deal in foreign exchange among themselves. The bulk of foreign exchange transactions in terms of value is conducted in the inter-bank market, and it is here that the exchange rate is determined.

Participants in the foreign exchange market consist of the central bank, foreign exchange banks, business firms, and foreign exchange brokers. The central bank may intervene in the market, in exceptional cases, if there is a large discrepancy between foreign exchange supply and demand that disrupts the regular operation of the foreign exchange market. Foreign exchange banks mainly participate in the market to dispose of open positions arising from transactions with non-financial sector customers such as firms. Meanwhile, firms enter the market to settle external transactions such as imports and exports. Foreign exchange brokers intermediate between foreign exchange banks without holding any positions.

Exchange Rate System

Between 1945 and 1990, Korea adopted various exchange rate regimes, from fixed to multi-basket pegged systems, in order to cope with changes in the internal and external economic environments. In March 1990, Korea opted for a market average exchange rate system with a daily fluctuation band to avoid large swings. The daily fluctuation band has been widened several times in accordance with the implementation of liberalization measures in financial and capital markets.

Following the outbreak of the foreign exchange crisis in November 1997, the Korean won fell repeatedly to its daily lower limit, paralyzing the domestic foreign exchange market. In December 1997, Korea finally switched to a free-floating exchange rate system. In the period immediately following the decision, the won depreciated and fluctuated widely due to the low level of usable foreign exchange reserves and the loss of international credibility. Owing to financial assistance from international financial institutions and to Korea's restructuring efforts, the foreign exchange market regained stability shortly thereafter.

Since early April 1999, the Korean government has liberalized regulations on foreign exchange transactions and has implemented various measures to improve the foreign exchange market infrastructure, such as the opening of the currency futures market.

Foreign Exchange Liberalization

The Korean foreign exchange market has been significantly developed through the elimination of restrictions on foreign exchange. In particular, the elimination of restrictions has enhanced market autonomy with regard to the international transactions of financial institutions and corporations.

The liberalization of the foreign exchange regime has been implemented in two stages since early April 1999. The first stage of liberalization, which went into effect on April 1, 1999, included a streamlining of procedures for current account transactions by corporations and financial institutions, and the change from a Positive List System to a Negative List System for capital account transactions.

The second stage of liberalization will be implemented beginning from the end of 2000. Remaining restrictions on capital account transactions and guidelines regarding individuals' current account transactions are liberalized with a few exceptions, such as those related to national security and prevention of criminal activities. Indicative guidelines concerning individuals' travel expenses, remittances overseas for inheritance purposes, and moving and settlement expenses are also eliminated.

Accompanying foreign exchange liberalization, safeguard measures will be instituted, including partial or complete freezes in payments and transactions in foreign exchange, introduction of a capital transaction permission system, concentration of foreign currency to the Bank of Korea, and introduction of the Variable Deposit Requirement that obligates a certain percentage of capital inflows be deposited into a non-interest bearing account to discourage excessive capital inflows.

Moreover, soundness of financial institutions and corporations will be ensured through strengthening prudential regulations: the Financial Supervisory Service (FSS) will reinforce its supervision over institutions engaging in foreign exchange businesses, and the Bank of Korea will be responsible for the supervision of money changers and foreign exchange brokers.

As a result of liberalized capital inflow, the interdependency of macro-economic policies and market responses will be greater. This, in turn, will demand sounder macro-economic policies.

D. Financial Derivatives Market

Overview

Financial derivatives refer to a financial contract in which the value of the contract is determined by variations of an underlying financial asset, such as currency, bonds, or stocks. The financial derivatives market refers to the market in which such contract transactions occur.

The financial derivatives market offers participants a wide opportunity to hedge risks and facilitates greater ease in constructing portfolios. That is, a risk-averse investor can hedge the volatility of the underlying asset value and liability while a risk-inclined investor can achieve greater profit by predicting such volatility.

The financial derivatives market is divided into two kinds, the institutionalized market and the over-the-counter (OTC) market. The institutionalized market means a market in which all transaction factors of financial derivatives, except price, are standardized. This type of market is usually called an exchange market. The OTC market means a market in which non-standardized financial derivatives are directly transacted among participants not through exchange market.

In Korea, the Korea Stock Exchange (KSE) and the Korea Futures Exchange (KOFEX) are institutionalized markets. At the KSE, the Korea Stock Price Index 200 (or KOSPI 200) futures and options markets were established in May 1996 and July 1997, respectively. In addition, the KOFEX, which was opened in April 1999, launched products such as U.S. dollar currency futures and options, CD futures, government bonds futures, and gold futures[15].

Performance of Stock Price Index Futures and Options Markets

The KOSPI 200 futures market is a liquid market, with daily trading volume of more than 100,000 contracts and daily trading value of over 3 trillion won in November 2000. The KOSPI 200 options market, which was introduced in July 1997, has experienced rapid growth due to the increasing need to hedge risks from fluctuations in stock prices. The market's daily trading volume exceeded 1,000,000 contracts with a daily trading value of more than 70 billion won in November 2000.

[15] The detail of the financial derivatives market in Korea is described in the latter part. See Part III

Table 6

Transactions of Index Futures and Options

(Unit: contracts ,billion won)

	1997	1998	1999	2000[1)]
Stock Price Index Futures				
Daily average trading volume	11,317	61,279	69,078	102,833
Daily average trading value	355	1,390	3,299	3,459
Stock Price Index Options				
Daily average trading volume	31,890	110,653	321,031	1,235,780
Daily average trading value	2.2	7.6	34.6	78.4

Note: 1) As of November 2000

Source: The Korea Stock Exchange

Market performance of Korea Futures Exchange

Investor interest in the newly opened futures market was particularly strong in 1999. Within three months after opening, the market surged to 10,000 contracts daily, and by year-end, passed a total of 10 million contracts. The listing of government bonds in September 1999 spurred development of the market and the trend has continued in 2000 as total transactions of listed products has exceeded 400,000 contracts. As of November 2000, the transaction volume of KTB (Korea Treasury Bond) futures posted the largest transaction volume of the KOFEX-listed products.

The steady increase in futures exchange trading has been prompted by increasing fluctuations in real prices in the foreign exchange and bond markets, which have led institutional investors to hedge against crises, and individual investors to participate in the market more intensively.

Table 7

Monthly Transactions of KOFEX-listed Products

(Unit: contracts)

	1999.6	1999.12	2000.6	2000.9	2000.11
KTB futures	-	49,395	106,070	140,320	211,593
CD futures	13,967	4,033	217	39	7
Gold futures	504	4,255	15,644	1,049	562
US Dollar futures	15,110	53,345	107,099	132,092	188,505
US Dollar options	7,688	14,090	-	4,000	800
Total	37,269	125,118	229,030	277,500	401,467

Source: The Korea Futures Exchange (www.kofex.or.kr)

3. Financial Supervisory System

A. Overview

Since the late 1980s, numerous arguments have been made regarding the need for a single, consolidated supervisory body to regulate the entire financial industry. The growing convergence of financial services and blurring distinctions between financial sectors created a growing need for a single regulator to oversee the full range of financial businesses in order to enhance cooperation between financial supervisors and to eliminate supervisory gray areas. Industry-specific supervisory organizations, each with its own approach and administration, hindered efficient regulatory cooperation and the establishment of consistent supervisory policies.

In early 1997, the Presidential Committee on Financial Reform was launched and, after a period of detailed review, submitted a series of recommendations that led to the reform of the central bank and financial supervisory structure in Korea.

Based upon the Committee's recommendations, the government created a plan to consolidate the existing four financial supervisory authorities: the Office of Bank Supervision (OBS), the Securities Supervisory Board (SSB), the Insurance Supervisory Board (ISB), and the Non-bank Supervisory Authority (NSA), into a single, consolidated organization.

The plan, along with other reform related draft bills including the revised Bank of Korea Act and Act on Establishment of Financial Supervisory Organizations, was submitted to the National Assembly for legislation on August 23. The bills were passed on December 29, 1997 in a special session of the National Assembly.

On April 1, 1998, the Financial Supervisory Commission (FSC) was established as the nation's supreme and integrated financial supervisor. More importantly, as the FSC has driven initiatives to reform financial institutions and business groups (i.e. chaebols) as agreed to between international organizations including the IMF and the Korean government, it has overseen and facilitated financial and corporate sector restructuring, thereby building a fundamentally sounder infrastructure for the national economy.

In addition, the Securities & Exchange Commission, which had formerly regulated the securities market in Korea, was dissolved and the Securities & Futures Commission (SFC) was set up within the FSC to oversee the securities and futures markets. The Insurance Supervisory Commission, which had formerly regulated the insurance market, was also dissolved.

On January 1, 1999, the four supervisory bodies, the Banking Supervisory Authority (formerly OBS), SSB, ISB and NSA, were consolidated into a single body, the Financial

Supervisory Service (FSS), which carries out its duties under the supervision of the FSC. The result was a fully integrated financial regulatory and supervisory system that serves to secure the transparency and international standing of Korea's financial institutions.

B. Relevant Laws

Laws and Decrees Relating to the FSC/FSS

The Act on the Establishment of Financial Supervisory Organizations (AEFSO) was enacted in December 1997 to contribute to national economic progress by enhancing the soundness of the credit order, the fairness of financial transactions, and the protection of consumers such as depositors and investors through the establishment of the FSC/FSS.

The Act on the Structural Improvement of the Financial Industry, which was renamed from the Act Concerning Merger and Conversion of Financial Institutions enacted in March 1991, was fully amended in January 1997. This Act was amended again in January1998, in compliance with the enactment of the Act on Establishment of Financial Supervisory Organizations. The purpose of this Act is to contribute to the balanced development of the financial industry by supporting the structural improvement of the financial industry such as the merger, conversion or reorganization of financial institutions, promoting sound competition between financial institutions and raising the efficiency of financial business.

Relating to Banking Supervision

The Banking Act is the basic law concerning banking regulations and was first enacted in May 1950, and most recently amended in January 2000. As of the end of 2000, this Act is one of the main banking regulations including the Bank of Korea Act and the Act on Establishment of Financial Supervisory Organizations. The purpose of this Act is to contribute to national economic progress by directing the sound operation of banking institutions, protecting depositors, and maintaining the order of the credit system. This Act also includes regulations concerning:

- authorization for banking business;
- ceiling on ownership of stocks by a single person;
- qualifications for officers and employees;
- banking operations and accounting;
- supervision and examination, mergers, closure and dissolution; and
- foreign banking institutions in Korea, etc.

The Trust Business Act, which was enacted in December 1961 and most recently amended in January 2000, regulates trust business institutions, thereby protecting the beneficiaries of investment trusts by controlling and directing trust business activities,

and rationalizing the management and organization of a trustee company. As of the end of 2000, this Act includes regulations concerning:

- authorization for trust business, mergers, dissolution and closure;
- authorization for amendment to its articles of incorporation or kinds and conditions of business activities; and
- acceptance of trust and management, operation and disposal of trusted assets and its coverage

Relating to Securities and Futures Supervision

The Securities and Exchange Act (SEA) was enacted in January 1962 to contribute to development of the national economy by attaining a wide and orderly circulation of securities and protecting investors through the fair issuance, purchase, sale or other transactions of securities. Since it was first enacted, it has experienced a serious of amendments including a comprehensive amendment in December 1976. In order to ensure fairness in securities issuance and corporate disclosure, the SEA requires corporations to register with the Financial Supervisory Commission (FSC) if it intends to list its securities on the Korea Stock Exchange (KSE) or to conduct other such activities as prescribed in the Act.

The SEA has provisions for disclosure requirements of securities issuers and the functions and roles of securities-related institutions, such as the KSE and the Korea Securities Depository (KSD), in order to ensure the fair and equitable pricing and trading of securities. Corporations listed on the KSE or registered with the Korea Securities Dealers Association should file annual and semi-annual reports with the FSC, and KSE or the KSDA. They are also required to make an interim report when there is any event that has material impact on the management or financial condition of the corporations.

The Act on External Audit of Corporations stipulates accounting and auditing-related rules. Specifically, the Act prescribes the FSC's responsibility for establishing accounting and auditing standards, firms' responsibility for preparing financial statements in compliance with accounting standards, and auditors' responsibility for conducting audits in accordance with auditing standards. The legislation requires the auditor to maintain confidentiality of the client and to report any managerial fraud to shareholders. The auditor is also liable for any damage due to negligence in performing his/her duties or failure to disclose material information.

The Futures Trading Act (FTA), which was enacted in December 1995, and amended once in January 1998, is the unitary statute regulating derivatives transactions. The FTA stipulates the basic structure and operations of the futures market, and contains the followings provisions:

- establishment, membership, and trading system of the futures exchange;
- licensing and regulation of futures companies such as futures commission merchants (FCMs) and commodity pool operators (CPOs); and
- establishment and regulatory functions of the futures association as a self regulatory organization.

The Securities Investment Trust Business Act (SATBA) was enacted in August 1969 to establish a securities investment trust scheme that can facilitate individual investors' investment in securities, and safeguard the rights and interests of the beneficiaries of the investment trust. Since its enactment, there have been a series of amendments to the SITBA, including a comprehensive amendment on December 29, 1995. This legislation regulates the establishment and operations of the trust and trustee companies, and contains the following provisions:

- licensing, eligibility of the officers and directors, and opening of branch offices of trust companies;
- management of the trust property by trust companies; and
- entering and liquidating the trust contract between the trust and trustee companies.

The Securities Investment Company Act (SICA) was enacted in September 1998 for the purpose of prescribing matters relevant to the requirements for the establishment, registration, method of asset employment, and issuing and repurchasing of stocks of a securities investment company. The SICA was recently amended on January 21, 2000. The SICA contains the following provisions:

- establishment of a securities investment company (mutual fund);
- composition of the organs of a securities investment company; and
- rights of stockholders to request redemption.

Relating to Insurance Supervision

The Insurance Business Law (IBL) was originally promulgated in 1962. In 1977, insurance-related laws or regulations including older versions of IBL, laws concerning insurance solicitation, laws concerning foreign insurers, and laws concerning domestic reinsurance corporations, were consolidated into the IBL. The purposes of the IBL are as follows: first, to direct and supervise the insurance industry efficiently; second, to protect the policyholders, insured parties, and others concerned; third, to secure the sound development of the insurance industry and to contribute to the balanced development of the national economy. The IBL was promulgated to specify the foundations, contents, and methods of insurance supervision.

Relating to Non-bank Financial Institution Supervision

The Merchant Banking Corporations Act was established in December 1975, for the purpose of supporting diversified banking services to enterprises. The Act was recently amended in January 2000. The Act covers the foundation of merchant banks, their business operations and general ideas of supervision. The main contents of the Act are as follows:

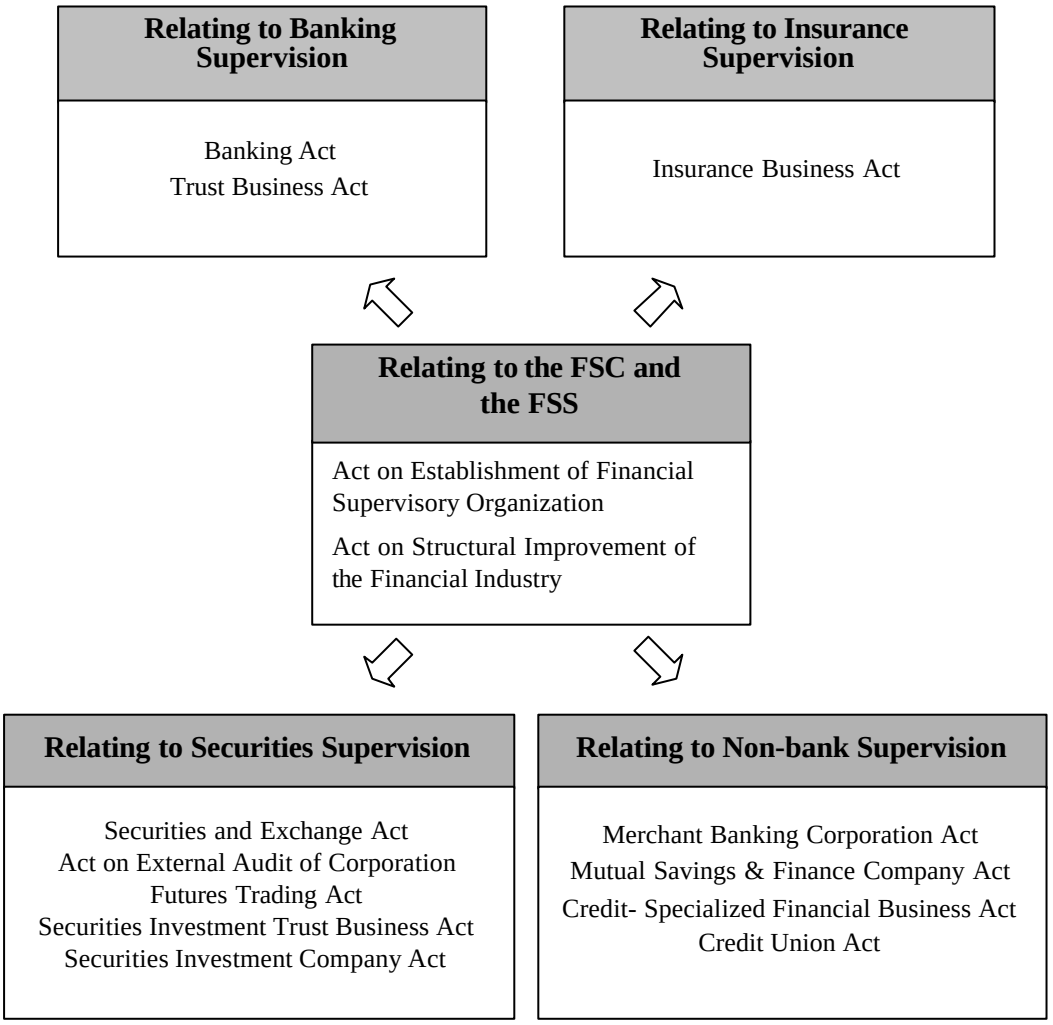
- merchant banking license, qualification of executives, and establishment of branches;
- merchant banking scope, reserve deposit requirements and restrictions on business operations; and

The Mutual Savings and Finance Companies Act was established on Aug 2, 1972, for the purpose of absorbing private personal loans into the organized financial market. The Act was amended in January 2000. The Act covers the foundation process for Mutual Savings and Finance Companies (MSFC), their business operations and general supervisory ideas. For the purpose of maintaining the sound quality of MSFCs' assets, the Act strictly prohibits loans to equity owners and restricts any loans over its limit to the same individual.

The Loan Specialization Financial Business Act was established in August 1997 and amended in May 1999. The financial companies governed by this Act include credit card companies, leasing companies, factoring companies, and new technology venture capital companies. Prior to the establishment of this Act, there were several different acts for the separate financial companies; the Credit Card Business Act, Leasing Act, and New Technology Venture Capital Act. In the process of unifying the acts, many restrictions on operations have been eliminated. The Act restricts loans over its limit to companies within the same equity owner's conglomerate. If a company neglects its responsibilities, its business license or registration may be cancelled. Other financial institutions may also operate loan businesses stipulated in this Act.

The Credit Union Act was established in August 1972 and recently amended in January 2000. The purpose of a credit union is to promote thrift and savings for its members and to improve their economic and social standing through the democratic management and utilization of its funds. The Act covers the foundation process of a credit union, its business operations and general ideas of supervision.

Laws Related to the Financial Supervision in Korea



Note: See the Appendices

C. Organization of Financial Regulators

The Financial Supervisory Commission (FSC)

Organization

The FSC is placed under the Office of the Prime Minister. However, the Commission performs its duties independently of any government organization. The Commission consists of nine members, each of whom is appointed by the President of Korea for a renewable term of three years.

The Chairman is appointed by the President of Korea upon the recommendation of the Cabinet Council. The Chairman of the FSC concurrently holds the position of Governor of the FSS.

The Vice-chairman is appointed by the President of Korea upon the recommendation of the Minister of Finance and Economy. The Vice-chairman concurrently holds the position of Chairman of the SFC. The standing commissioner is appointed upon the recommendation of the chairman of the FSC.

Of the six Non-Standing members, three are *ex-officio* positions, held by the Vice-Minister of Finance and Economy, the Deputy Governor of the Bank of Korea and the President of the Korea Deposit Insurance Corporation. The remaining three Non-standing members are appointed upon the recommendation of the Minister of Finance and Economy (an accounting expert), the Minister of Justice (a legal expert) and the President of the Korea Chamber of Commerce and Industry (an industry representative).

The FSC is independent of direct government control. The impartial nature of the FSC is further protected by the fact that no FSC executive is permitted to hold any political position or engage in any commercial business during his or her tenure on the Commission. Commissioners are also prohibited from participating in the resolution of cases in which they or their relatives have an interest.

Resolutions are passed when more than half the Commissioners are in attendance, and more than half of those present approve the resolution.

Function

The duties of the FSC fall into three main categories – resolution of issues relating to financial supervision, instruction of supervisory authorities and implementation of restructuring plans.

As part of its regulatory responsibilities, the FSC deliberates and resolves policy matters

relating to the inspection and supervision of financial institutions and the securities and futures markets. Matters relating to the securities and futures markets are largely delegated to the SFC. The FSC also has the authority to issue and revoke licenses to financial institutions. This enables the FSC unrestricted jurisdiction to carry out its tasks efficiently and effectively. Legislation relating to the financial sector is drafted and submitted by the MOFE, but must be done in consultation with the FSC.

Finally, the FSC is responsible for a special task (i.e. implementing and overseeing the restructuring process in the financial and corporate sectors on a temporary basis). The Commission's work relating to devising and implementing policy has been undertaken by the Structural Reform Planning Unit while the task of planning and coordinating the activities of the commission falls to the Office of Planning and Administration.

The Office of Planning and Administration consists of three divisions that perform a coordinating and planning function for the FSC by arranging the Commission's meeting schedule and preparing the agenda for the meetings. It establishes planning for the FSC's financial policy and coordinates issues related with the National Assembly. The office is also responsible for the development and execution of the Commission's office service programs.

The Financial Supervision Policy Bureau is responsible for the planning and administration of financial supervision, and also supervises the granting of authorizations for banking and trust businesses, non-banking and insurance firms, and securities and futures businesses with three divisions.

The Policy Coordination and International Cooperation Bureau is in charge of prudential supervision of the financial market and supporting the financial sector restructuring task. It also does market supervision, monitors the corporate finance environment and implements the cooperation with foreign governments and financial institutions.

The Structural Reform Planning Unit, which is operating on a temporary basis, is responsible for developing general and detailed schedules for restructuring of the financial and corporate sectors. This Unit also monitors the activities of financial markets and corporations to oversee the implementation of the restructuring process.

The Securities & Futures Commission

The SFC came into existence on April 1, 1998 under the Act on Establishment of Financial Supervisory Organizations. The SFC is responsible for the supervision of the securities and futures markets, under the guidance of the FSC, and consists of five members who are appointed by the President of Korea for a renewable three- year term.

The Vice-chairman of the FSC concurrently holds the position of Chairman of the SFC,

while the Standing Commissioner and three Non-Standing Members are appointed upon the recommendation of the Chairman of the FSC.

The principal role of the SFC is to investigate market abuses, such as insider trading and market manipulation in the securities and futures markets, and to monitor accounting standards and audit reviews. In addition, the SFC conducts prior review of matters relating to the securities and futures markets that are to be deliberated by the FSC.

The Financial Supervisory Service

Organization and Function

The Chairman of the FSC concurrently holds the position of Governor of the FSS. The Governor in turn recommends up to four Deputy Governors and up to nine Assistant Governors who are appointed by the FSC. An Auditor is appointed by the President of Korea upon the recommendation of the Chairman of the FSC. A Chief Accountant is also appointed by the Governor to assist with matters relating to accounting standards and systems.

The responsibilities of the FSS include the supervision and examination of all financial institutions in Korea. Within its supervisory capacity, the FSS is responsible not only for the supervision of regulations but also for the planning and drafting of matters to be addressed by the FSC.

The FSS has the authority to examine and inspect financial institutions and to request relevant documents, records or personal testimony necessary for the examination.

Failure to provide these materials or providing false materials qualifies as an offense under the relevant acts and regulations. Upon approval from the FSC, the FSS may also recommend the dismissal of management officers found responsible for the willful violation of regulations or the suspension of all or part of the institution's business operations.

In another area of its operations, the FSS serves as an arbitrator of disputes between financial institutions and their various consumers, including investors, depositors and creditors. In order to carry out its broad range of responsibilities, the FSS has a staff of about 1,450, as of September 22, 2000, and is divided into the five functional areas.

Operating Structure of the FSS

Twenty-nine departments and five offices carry out the operations of the FSS. In addition to its headquarters in Seoul, the FSS has three overseas and four regional offices. The various departments and offices address issues in five areas of operation: consumer protection, authorization and supervision, examination and enforcement,

supervision support, and general affairs. Separate from these functions is the Internal Audit Office, which is responsible for the internal auditing of the FSS.

In its consumer protection capacity, the FSS is responsible for ensuring a fair transaction process and establishing a consumer-oriented financial system. It addresses public complaints and administrates consumer protection organizations within the financial industry. Consumer Protection Department within the consumer protection function also handles and arbitrates disputes between financial institutions and their various consumers.

Disputes submitted for arbitration are handled by the Financial Dispute Settlement Committee, comprised of up to thirty members, including: FSS staff members and other individuals with the necessary skills and experience drawn from outside the regulatory body.

Within the authorization and supervision function, the FSS is concerned with enhancing supervision standards, risk management, and improving overall market efficiency. Each department in this area plans and coordinates the implementation of supervisory policy and establishes standards for the relevant financial institution.

This task includes making recommendations for the authorization of financial institutions and, where necessary, for their merger, dissolution or closure. Offices within this function also provide guidance on prudential and risk management, and govern other aspects of management such as accounting, auditing and disclosure.

Within the examination and enforcement functions lie concerns such as the assessment of risk management practices in financial institutions and the diversification of enforcement measures. The departments in this sector plan and coordinate the examination of financial institutions. They also conduct on- and off-site examinations of financial institutions in each industry, review the investigation results, issue PCA measures against sub-standard financial institutions and investigate unfair practices.

The supervision support function of the FSS covers areas relating to the overall planning and coordination of the organization and the support of its supervisory activities. One department within this functional area has responsibility for planning, budgeting and structural coordination. Other departments conduct research into financial supervision policies and the systems employed by international supervisory organizations, and undertake the public relations activities of the FSS at home and abroad.

The general affairs function is related to the internal management of the FSS, its personnel and information systems. Departments within this functional area assume responsibility for the appointment, training, and development of staff, as well as other matters relating to the human capital of the organization. This function also includes the management and maintenance of the computing facilities and networks that enable the free flow of information within the FSS.

Funding of the FSS

Fees collected from financial institutions and market participants cover the majority of the FSS' s costs. The Government and the Bank of Korea may also make contributions. The FSS's budget must be approved by the FSC.

The FSS' s main sources of funds are derived from:

- contributions from the government, the Bank of Korea, and financial institutions to be examined;
- supervision expense sharing with financial institutions to be supervised;
- issuance expense sharing with securities issuers; and
- other revenues..

The expense-sharing is divided into two categories: supervision expense-sharing of financial institutions subject to examination, and issuance expense-sharing of securities issuers that must submit a report to the FSC.

The ratio of supervision expense-sharing for financial institutions is determined on a yearly basis by the FSC and is subject to the limit ratios that are classified by business and based on the total liabilities of the financial institutions subject to examination as of the end of previous year. The FSC takes into consideration the current sources of revenue of the FSS, and the total scale of assets, deposits and credits, and business characteristics. The limit ratios for supervision expense-sharing are as follows:

- 3/10,000 in the case of banks, merchant banks, and credit-specialized financial companies;
- 30/10,000 in the case of securities companies; and
- 15/10,000 in the case of insurance business.

The issuance expense-sharing ratio is determined by the FSC within the scope provided by each of the following items:

- 2/10,000 of the total amount of issuance in case of issuing stock certificates; and
- 1/1,000 of the total amount of issuance in case of issuing bonds or other securities

D. Related Organizations

Ministry of Finance and Economy (MOFE)

The MOFE has historically been a strong influence in the Korean financial system. Its areas of responsibility are extensive and, prior to the 1997 crisis, included control of the specialized banks and non-bank financial institutions. This changed, however, following the crisis; as responsibility for supervision of all financial institutions was transferred to the FSC/FSS in line with IMF recommendations. With respect to the financial system, this has left the MOFE with two main roles, namely the drafting of legislation related to financial supervision and coordinating financial sector policy. In cases where the MOFE amends financial related legislation, it must consult with the FSC in advance.

The MOFE and the FSC/FSS may request information and documentation from each other, and such requests must be complied with unless the agency has a good reason to refuse.

The Bank of Korea (BOK)

The BOK, Korea's central bank, was established in 1950 under the Bank of Korea Act, which was amended in 1998 to give it greater independence over monetary policy, while removing from it responsibility for bank supervision. The BOK has the functions:

- issuing bank notes and coins;
- formulating and implementing monetary and credit policy;
- acting as banker to the banks;
- acting as banker to the government and its fiscal agent; and
- other duties, including managing the nation's foreign exchange reserves.

Although not directly responsible for bank supervision, the BOK has the power to inspect banks to which it extends liquidity support. The BOK implements such inspections by receiving data directly from banks or copies of reports from the FSC. The BOK also has the power to request the FSC to undertake examinations or for joint examinations.

Korea Depository Insurance Corporation (KDIC)

The role of the KDIC is to pay off insured depositors in the event of a liquidation in the insurance sector, or in the event that the FSC and the MOFE conclude that recapitalization using public funds of any such company is the appropriate action. In this stance, the KDIC provides the funds and should ensure that any terms and conditions are enforced.

The KDIC is a special juridical entity with no capital established in June1996 in accordance with the Depositor Protection Act of 1995 with the purpose of operating the deposit insurance system prescribed by the Act. The main body governing the KDIC is the Policy Committee which comprises the President of the KDIC, the Vice Minister of

Finance and Economy, the Deputy Governor of the BOK, the Vice Chairman of the FSC and the heads of the associations representing banks, insurance companies and other financial institutions.

The KDIC may request examinations or joint examinations with the FSC/FSS and information and documentation from each other, and such requests must be complied with unless the agency has a good reason to refuse.

Korea Asset Management Corporation (KAMCO)

KAMCO was originally established under the Korea Development Bank (KDB) Act and was commissioned by the government to manage and dispose of non-performing assets (NPAs) in the financial sector and state-owned properties. Since its foundation, KAMCO has been gradually expanding its functions. In November 1997, KAMCO was formally re-established to enhance and expand its role. At the same time, the Non-Performing Assets Fund was created to acquire, manage and dispose of NPAs to facilitate financial sector restructuring, the most integral part of KAMCO's business, based on the Act on Effective Management of Non-performing Assets of Financial Institutions and Establishment of Korea Asset Management Corporation.

KAMCO's newly stated principles and duties are to minimize financial sector restructuring costs while maximizing the recovery rate of NPAs and restoring soundness to the financial sector under the supervision of the FSC/FSS and MOFE.

KAMCO has assumed the following main functions:

- management and operation of Non-performing Loans Management Fund;
- acquisition and resolution of NPAs from financial institutions;
- implementing work-out programs for acquired distressed companies; and
- management of state owned properties and resolution of tax arrears.

E. Self-regulatory Organizations

Presently, financial sector trade associations and the Korea Securities Exchange are the main self-regulatory organizations in Korea. The Korea Stock Exchange, the Korea Securities Dealers Association (KSDA), and the Korea Investment Trust Companies Association (KITCA) all have self-regulatory functions to some degree, while other trade associations are defined as interested or affiliated organizations rather than self-regulatory bodies.

Korea Stock Exchange (KSE)

The KSE was established in February 1956 as a self-regulatory organization and a continuous market. Amendments to the 1987 Securities and Exchange Act established the KSE as s semi-autonomous juridical entity owned and operated by its member companies. This non-profit organization grants membership only to licensed securities companies and its roles include:

- maintaining a fair and orderly organized market;
- regulating and supervising the member firms;
- setting listing requirements;
- monitoring securities;
- enhancing activities approved by the MOFE; and
- regulating corporate disclosure.

Korea Securities Dealers Association (KSDA)

The KSDA, established in November 1953 as a non-profit organization, became a legal self-regulatory entity under the revised 1997 Securities and Exchange Act. The KSDA is responsible for the following:

- maintaining fair trading practices among members;
- promoting self-discipline among members;
- mediating dispute between public investors and members;
- protecting investors; and
- adopting, administering and enforcing rules of fair practices.

Korea Investment Trust Companies Association (KITCA)

The KITCA was established on May 3, 1996 for the purpose of promoting the sound growth of the fund management industry. The most important responsibility of the KITCA is to protect the interests of investors as well as that of its members by providing guidance for the sound development of the fund management industry. Its major responsibilities include:

- implementing government policies on behalf of the government within the scope of authority granted to it;
- making recommendations and proposals to the government and Financial Supervisory Service in connection with reforms, liberalization and deregulation of the industry; and
- reviewing advertising activities of the members, including the prohibition of false advertisement and excessive competition among the members.

National Credit Union Federation of Korea (NACUFOK)

The NACUFOK has managed central coordinated operations in order to provide critical support to primary credit unions, including advanced technical assistance, institutional guidance, publicity & promotion, government relations, legislation, etc. since its establishment in 1973. NACUFOK conducts management consultation, and its periodic examinations of primary credit unions is used to ensure their sound development and sufficient risk management in collaboration with the FSS.

II. Supervisory System of Financial Industry

1. Banking Sector

A. Banks

Overview

As the failure of a bank has the potential to lead financial disturbance both to borrowers and the broader economy, the management of banks has been subject to tighter regulation. Banking regulation also stems from the need to protect depositors who lack sufficient information on the management of banks. In general, tighter supervision of banks is necessary due to the inherent risks of the banking industry, and externalities such as the contagion effects of a bank run resulting from information asymmetry.

The supervisory system for banks includes regulations on new entrance, prudential regulation, bank examination and evaluation systems, prompt corrective actions and sanctions, and other regulatory tools. In other words, the supervision starts with the establishment of a bank, and ends with its exit from the financial market.

In accordance with the deepening globalization of financial markets, the standards of banking regulation have been brought increasingly in line with internationally accepted norms through greater cooperation among supervisory authorities to prevent contagious instability in international financial markets. The standards for banks' minimum capital adequacy requirements as prepared by the Basle Committee are a good example of this movement. Korea has also adopted other key regulations in order to enhance the quality of the supervisory framework to the level of international best practices and standards, including the Basle Committee's "Core Principles for Effective Banking Supervision."

Entrance Regulation

The entrance regulation for financial institutions is comprised of restrictions on establishments of financial institutions, and restrictions on the scope of financial institutions' business. All new businesses of financial institutions should meet the establishment requirements, and should also be authorized according to relevant laws. Some financial institutions including banks are also subject to the regulation of the

ownership structure. The regulation of financial institutions' business scope has been characterized as a fire-wall policy among the three pillars of banking, securities, and insurance sectors; any financial institution intending to engage in other financial institutions' business should obtain additional authorization. However, the gradual change into the universal banking system is expected to accelerate with the introduction of the financial holding company system[16].

Since the regulations governing the banking business scope was explained above as part of the description of the banking industry[17], we will focus here on ownership structure and the authorization procedures for banking business.

Ownership Structure

In order to promote the autonomy of management while also ensuring that banks retain public accountability, the ownership of any bank's stocks by a single shareholder has been restricted since 1982, thereby preventing misappropriation by major shareholders. Currently, a single juridical person or entity cannot own or control stocks in excess of 4% of issued voting stocks of a bank, except in the case of i) regional banks, for which the single shareholder ceiling is 15%, ii) converted banks, 8%, and iii) joint venture banks and banks established by foreigners, in which single shareholders can hold stocks up to the limit approved at the time of authorization of banking business. The Korean government and the Korea Deposit Insurance Corporation (KDIC) are not subject to the single shareholder limit in order to facilitate injections of public funds in the process of financial reform.

Licensing Requirements

Any applicant intending to engage in banking business should obtain authorization from the FSC in accordance with §8 of the Banking Act. In addition, if a domestic commercial bank wishes to establish an overseas presence in the form of a branch, subsidiary or representative office, it must first consult with the FSS.

In determining whether to grant authorization for banking business, the FSC evaluates the feasibility of an applicant's business plans, the adequacy of capital, the shareholder composition, subscription funds for the stocks, the integrity and ability of the incorporators or managing group, and the enterprise's contribution to the public interest.

[16] See the box in the previous section (I. 1. Financial Industry in Korea) for details regarding the introduction of financial holding companies.

[17] See Part I, 1. Financial Industry in Korea

The applying enterprise is required to meet the following criteria:

- Applicant should have sufficient operating funds to conduct banking business soundly and efficiently and must comply with the minimum paid-in capital requirements: 100 billion won in the case of a nationwide commercial bank and 25 billion won in the case of a regional bank;

- Its directors should meet the qualifications for "Director" as stated under the Banking Act (refer to the "Fit & Proper" test); and

- After considering its profit prospects and the financial market conditions, there should be no concerns regarding the protection of depositors or the maintenance of the order of the credit system in the operating region of the applicant bank.

Any foreign banking institution intending to establish a branch for the purpose of conducting banking business in Korea should obtain separate licenses with respect to each branch from the FSC. In addition, the establishment of a subsidiary by a foreign institution is currently allowed.

Regarding capital requirements, a foreign bank's branch must have operating funds of at least 3 billion won at the time of its establishment. Also, a foreign bank branch should hold onto total assets equal to its operating funds in Korea. Foreign bank branches should meet the BIS minimum capital adequacy ratio, currently 8% that is required to the domestic banks.

A foreign bank wishing to establish its first branch in Korea is required to meet the following criteria:

Matters Concerning Head Office of the Foreign Bank

- The supervisory authorities of the home country of the applicant foreign bank should have concurred to the proposed branch establishment.

- The applicant bank should be engaged in banking business in its home country and should have received systematic supervision from the regulatory authorities of the applicant foreign bank.

- The financial and operational conditions of the applicant foreign bank should be satisfactory, and its credibility should be recognized internationally.

- The applicant foreign bank should possess international business experience and service capabilities necessary for the operation of the proposed branch and should manage all domestic and overseas business offices systematically.

Matters Concerning Foreign Bank Branch in Korea

- The proposed branch should have operating funds, sound financial structure, business management systems and international control systems necessary for its operations.

- The business plan of the proposed branch should be recognized as being sound and adequate.

- The proposed branch should be able to provide the Korean regulatory authorities with sufficient information necessary for supervision in connection with the business activities of the proposed branch, its head offices and its affiliated companies.

Matters Concerning Branch Managers

- The legal representative of the proposed foreign bank branch should have management capability including sufficient knowledge and experience in bank management, a record of integrity and trust, and have no problems in complying with the laws and regulations of Korea.

"Fit & proper" test

When granting authorization, the FSC reviews the integrity of the founding members or managing group.

Under the Banking Act, no person who falls under any of the following categories may become a member of the board of directors of a banking institution:

- a minor or a person who has been declared legally incompetent or quasi-incompetent by a Court, or declared legally bankrupt by the Court and has not yet been rehabilitated;

- a person who has been sentenced to imprisonment without hard labor or punishment heavier than imprisonment, and for whom five years have not elapsed since a prison term was completed or since the decision not to execute

such a sentence was confirmed;

- a person who has been sentenced to punishment equal to or heavier than a fine because of violation of the Banking Act, any foreign banking act, or any other banking related acts, and for whom five years have not yet elapsed since the execution of obligation was completed or since the decision not to execute such sentence was confirmed;

- a person who was sentenced to a period of imprisonment without hard labor or punishment heavier than such imprisonment and whose sentence has been suspended and remains in suspension;

- a person who has been discharged or removed from office under the Banking Act, the Bank of Korea Act, the Act on the Establishment of Financial Supervisory Organizations, or financial business related legislation of foreign countries, and for whom three years have not yet elapsed since the date of his discharge or removal;

- a person who was an officer or an employee of a financial institution against which prompt corrective actions have been enforced, or administrative dispositions, such as a decision for the purchase & acquisition of contracts were imposed, and for whom two years have not yet elapsed since the date of on which the prompt corrective actions, etc. was taken (limited to persons who are directly or indirectly responsible for the reason why prompt corrective actions were taken); or

- a person who was an officer or an employee of a corporation or company that has had its business authorization or license revoked, and for whom five years have not yet elapsed since the date of the revocation.

In addition, a member of the board of directors of a banking institution should be a person of experience and knowledge in banking and finance, for whom no concern exists as to the possibility of his posing a threat to the public interest and sound management of the banking institution, or its credit operations.

These qualification criteria apply to the management of a financial institution in Korea on a continuous basis as long as it conducts business. However, they do not apply to the management of the head office or parent bank of a foreign bank.

Prudential Regulations

Prudential regulations are implemented to control various risks at financial institutions including capital adequacy, loan loss reserves, asset concentrations, liquidity, risk management and internal controls. The main purpose of prudential regulations is to limit imprudent risk-taking by financial institutions. Because prudential regulations are designed not to supplant management decisions but rather to impose minimum prudential standards in order to ensure that financial institutions conduct their activities in an appropriate manner, the strengthened prudential regulations are a key component of the currently prevailing market-oriented supervisory regime.

Capital Adequacy

The Banking Act sets the requirements for capital adequacy. The minimum paid-in capital requirements are 100 billion won for a nation-wide commercial bank, 25 billion won for a regional bank, and 3 billion won for a domestic branch of a foreign bank.

Apart from the obligatory minimum paid-in capital requirements, the FSC has introduced consolidated and risk-adjusted capital standards recommended by the Basle Committee on Banking Supervision[18] (BIS capital ratios) as a further prudential measure to ensure sound capital adequacy. These capital adequacy requirements came into full effect at the end of 1995. At present, all domestic banks and foreign bank branches are required to maintain capital adequacy ratios of at least 8%; any bank whose BIS capital ratio falls under 8% is subject to the prompt corrective action (PCA).

In 1998, improvements in the method of calculating the capital adequacy ratios were made following the advice of IMF. All provisions except those in respect to assets classified as "substandard and below" were included in Tier 2 Capital from January 1, 1999. In addition, assets in all trust accounts with guarantees were applied to 50% conversion factor from January 1999, and to 100% conversion factor from January 2000 like assets in banking accounts. As a result, the standards for banks' capital adequacy requirements became fully consistent with the international standard set by the Basle Committee.

With regard to the capital requirements for market risk[19], the FSS is currently advancing a plan to apply the new Basle standards to domestic banks in order to augment the

[18] Basle Committee, July 1988, *International Convergence of Capital Measurement and Capital Standards*

[19] Basle Committee, January 1996, *Amendment to the Capital Accord to Incorporate Market Risks*

efficient management of market risk. Adoption is slated to go into effect by the end of 2001 after banks have prepared to establish their own risk management systems including the internal models to measure market risks.

Another requirement with regard to the allocation of net profits earned in a fiscal term calls for banks to credit at least 10% of the net profits to a legal reserve until such time as the reserve equals the amount of its total paid-in capital.

Asset Classification and Provisioning

Banks are required to properly analyze and classify their assets in order to manage them more efficiently and to enhance the soundness of their operations. In this classification, due consideration must be given to the evaluation of the borrower's overall capacity to repay.

The FSC and the FSS have revised "Regulations on Supervision of Banking Institutions" to introduce new standards for banks' asset classification, the so-called Forward Looking Criteria (FLC), to fully incorporate borrowers' capacity to repay and not solely based on past performance from December 31, 1999.

Table 8

Changes in Standards for Asset Classification

	Previous Standards	FLC
Character	Uniform standards for all banks Banks have no own standards	Minimum guideline - Banks establish own standards
Assets subject to classification	Limited to 13 items including loans, guarantees	Expanded to all the assets that banks need to classify, including lease assets
Classification of loans	Based mainly on the past performance of borrowers - No distinction between corporate loans and household loans	Based primarily on borrowers' capacity to repay, and additionally on borrowers' past due, and dishonor. - Household loans are classified based solely on past due period
Classification of foreign bills bought	Separate standards are applied	In principle, the same standards of loans are applied, except when necessary due to guarantors' different credit, etc
Classification of securities	Primarily based on valuation and credit risks of issuers Securities subject to mark-to-market, or equity methods are exempt from classification	Based on issuers' credit ratings (by banks' own credit risk rating model, or credit rating agencies) - All securities are subject to classification without exemption
Restructured Loans	No separate standards for restructured loans	Separate standards for restructured loans

Under the new standards, the FSS provides only minimum guidelines for asset classification and provisioning, and banks should establish their own detailed standards for asset classification including the credit risk-rating model in order to evaluate the capacity of borrowers to repay.

Banks' assets are classified into five categories: "normal", "precautionary", "substandard", "doubtful" and "estimated loss". Under the new standards, the definitions of each category of asset classification are revised to reflect the borrower's overall capacity to repay. The applicable criteria are as follows:

- "Normal": assets extended to customers (normal customers), who, in consideration of management, financial position and future cash flows, are adjudged to have no risk of jeopardizing a bank's collection of the full due amount of principal and interest.

- "Precautionary": assets which have any of the following characteristics:

  - assets extended to customers (precautionary customers), who, in consideration of management, financial position and future cash flows, are adjudged to have potential weaknesses that may cause a weakening in the capacity to repay in the near future, although there is no immediate risk of jeopardizing the bank's collection of the full principal and interest as they become due; or
  - assets extended to customers who have credit arrears of at least one month but less than three months.

- "Substandard": assets which have any of following characteristics:

  - assets extended to customers (substandard customers), who, in consideration of management, financial position and future cash flows, are adjudged to have a considerable risk of jeopardizing the bank's collection of the full principal and interest due to revealed weakness that may have weakened the customer's capacity to repay the loan in a satisfactory manner;
  - amount expected to be collected from customers who have credit arrears of at least three months;
  - amount expected to be collected from customers who are adjudged to have serious risk of jeopardizing the bank's collection of principal and interest due to default, under liquidation or bankruptcy procedures, or cessation of business; or
  - amount expected to be collected from doubtful and estimated loss customers.

- "Doubtful": assets which have any of the following characteristics:

  - portion of assets in excess of the amount expected to be collected from customers (doubtful customers), who, in consideration of management, financial position and future cash flows, are adjudged to have a significant risk of jeopardizing the bank's collection of principal and interest due to a considerably weakened capacity to repay the loan in a satisfactory manner; or
  - portion of assets in excess of the amount expected to be collected from customers who have credit arrears of at least three months but less than twelve months.

- "Estimated Loss": assets which have any of the following characteristics:

  - portion of assets in excess of the amount expected to be collected from customers (estimated loss customers) of which credit must be accounted as a loss, because, in consideration of management, financial position and future cash flows, the bank's collection of principal and interest is not probable in the foreseeable future due to a serious weakening of capacity to repay the loan in a satisfactory manner;
  - portion of assets in excess of the amount expected to be collected from customers who have credit arrears in excess of twelve months; or
  - portion of assets in excess of the amount expected to be collected from customers who are adjudged to have serious risk of jeopardizing the bank's collection of principal and interest due to default, under liquidation or bankruptcy procedures, or cessation of business.

Banks should make provisions for loan losses in excess of the minimum required ratio of each asset classification category. The provision ratios are more than 0.5% of normal credits, 2% of precautionary credits, 20% of substandard credits, 50% of doubtful credits and 100% of estimated loss credits, in line with the five-fold classification of the status of loan assets undertaken by the banks themselves.

Banks should assure the independence of the credit review function responsible for asset classification to enhance accuracy and objectivity. Additionally the FSS evaluates the appropriateness of a bank's standards for asset classification and provisioning, and may require banks to make revisions if they are deemed inappropriate. The FSS may also examine whether banks have adequately classified their assets and accumulated provisions according to the standards established by the bank, and may require banks to correct the situation if their classification is deemed inadequate.

Controls on Credit Concentrations and Connected Lending

Under the Banking Act, no bank may grant credit extensions to a single individual or juridical person in excess of 20% of its total capital. Nor may it grant credit extensions to a single inter-linked business group in excess of 25% of its total capital.

In addition, the sum of its credit extensions to single individuals or inter-linked business groups that exceed 10% of a bank's total capital must be less than five times its total capital.

A bank's extension of credit to large shareholders who holds stocks in the bank exceeding 10% of the total voting stocks (in the case of regional banks : 15%) may not exceed the smaller of

- 25% of the bank's total capital, and
- the equivalent amount of the bank's total capital to the proportion of investment by the large shareholder.

A bank's credit ceilings to its subsidiaries are as follows:

- to a single subsidiary: 10% of the bank's total capital; and
- to all subsidiaries: 20% of the bank's total capital.

The current strict regulation of credit concentration as described above is a result of an amendment to the Banking Act and the Regulations on Banking Supervision in May 1999. The revisions were made in accordance with the Standby Agreement with the IMF in order to enhance the credit ceiling system to the level of international best practices.

Under the old system, credit extensions referred only to loans and payment guarantees. Under the new definition, however, direct and indirect transactions that accompany credit risk have been included, and credit ceilings have been lowered accordingly.

The Banking Act has been enforced in stages to minimize confusion in financial markets, and ceiling excesses as of the enforcement date should be eliminated within a grace period of 1 to 3 years. To implement the new credit ceiling system, the FSS required banks to submit plans to eliminate the total excess of aggregate large exposures and credit extensions to subsidiaries by March 2000, and March 2002, respectively. The single borrower, single group and large shareholder credit ceilings went into effect from January 2000, and excesses as of January 2000, should be eliminated by the end of 2002. Full disclosure of a bank's aggregate large exposure was required to be conducted from second quarter of 1999.

The following table shows the changes in the credit ceiling system due to the revision in May 1999. Also, the limit ratio refers to the credit ceiling to a bank's equity capital. Previously, equity capital was the sum of paid-in-capital, reserves, and other surpluses, but the new equity capital definition refers to the sum of the Tier 1 capital and Tier 2 capital (based on the capital standards set by the Basle Committee).

Table 9

Revision of Credit Ceiling System

	Before	After amendment
Credit ceiling on single borrower	Loans: 15% Payment guarantees: 30%	20%
Credit ceiling on single group[1)]	Loans and payment guarantees: 45%	25%
Ceiling on the sum of large exposures	Loans or payment guarantees of above 15% of equity capital to a single borrower or single inter-linked business group should not exceed 500% of a bank's equity capital	Credit extending of above 10% of equity capital to a single borrower or single group should not exceed 500% of a bank's equity capital
Credit ceiling on Large shareholder	Smaller between the lending (loans and payment guarantees) of 25% of equity capital and the amount equivalent to the ratio of investment by the large shareholder	Smaller between the credit extension of 25% of equity capital and the amount equivalent to the ratio of investment by the large shareholder

Notes: 1) A single individual, juridical person, and a person who shares the credit risk therewith (This refers to a corporation that belongs to the large inter-linked business group which is defined in the Monopoly Regulation and Fair Trade Act).

In addition, a bank must also ensure that loans to any of its officers or employees or to any officers or employees of its subsidiary corporations do not exceed 20 million won (50 million won in the case of a housing loan).

Banks are obliged to extend to small- and medium-sized enterprises a certain proportion of any increase in their domestic currency lending by the regulation of the Monetary Board of the BOK. This minimum ratio is set at 45% in the case of nation-wide commercial banks and 60% in the case of regional banks as of September 1999. Foreign bank branches making use of the Bank of Korea's rediscount window should, similarly, extend to such firms at least 35% of any increase in their domestic currency lending. For those that do not, the minimum is 25%.

Liquidity Ratio

Banks should not invest in securities such as stocks or bonds with more than 3 years' maturity in excess of 60% of capital, which is calculated by adding Tier 1 to Tier 2 of banks' own capital. However, this stipulation does not apply to government bonds and Monetary Stabilization Bonds issued by the BOK. Banks are also required not to invest in real estate for operation more than 60% of their capital, which is calculated in the same fashion.

The FSS requires banks to keep their Won-liquidity ratio above 100% which is the ratio of Won-denominated assets with a maturity of less than 3 months to Won-denominated liabilities with a maturity of less than 3 months. For demand deposits, which have no maturity, the concept of Core Deposit[20] is used to calculate Won-liquidity ratio. If the balance of demand deposits is above Core Deposit, 30% of the Core Deposit and the excess of demand deposit over the Core Deposit are considered liabilities with a maturity of less than 3 months (liquid liabilities). If the balance of demand deposit is below Core Deposit, only 30% of the Core Deposit is considered liquid liabilities. Also, all marketable securities are included in liquid assets.

Regarding liquidity in terms of foreign currencies of banks, the FSS requires banks to establish their internal foreign currency liquidity management systems based on the maturity ladder approach. The FSS will monitor each institution's compliance and liquidity status on a monthly basis. In cases where the ratio of the foreign currency liquidity is violated by any institution, the FSS may take measures such as calling it to the institution's attention.

Since July 1997, the FSS has required banks to maintain foreign currency assets with residual maturity of no more than 90 days of at least 70% of foreign currency liabilities of the same residual maturity and increased this ratio up to at least 80% from June 2000. The ratio is calculated by including foreign currency assets and liabilities of overseas subsidiaries and off-shore accounts, in addition to the assets and liabilities of both headquarters and domestic/overseas branches.

*** Short-term Foreign Currency Liquidity Ratio**

(for foreign currency assets and liabilities with residual maturity of no more than 3 months)

$$= \frac{\text{accumulated foreign currency assets}}{\text{accumulated foreign currency liabilities}} \geq 80\%$$

[20] Core Deposit = ($\sum$ monthly average on demand deposits for a recent year)/12 - standard deviation of demand deposits

Since January 1999, banks have been required to maintain minimum ratios of cumulative GAP amounts to total foreign currency assets as follows: the GAP ratio must be positive for residual maturity periods of no more than 7 days, and minus10% for residual maturity periods of no more than 1 month.

* **Foreign Currency Assets & Liabilities Gap Ratio**
(for foreign currency liquid assets and liabilities within *7days*)

$$= \frac{\text{accumulated foreign assets - accumulated foreign liabilities}}{\text{total foreign assets}} \geq 0\%$$

* **Foreign Currency Assets & Liabilities Gap Ratio**
(for foreign currency liquid assets and liabilities within *1month*)

$$= \frac{\text{accumulated foreign assets - accumulated foreign liabilities}}{\text{total foreign assets}} \geq -10\%$$

Banks are required to finance 50% or more of their foreign currency loans for 3 years or longer by foreign currency borrowings for 3 years or longer.

* **Long-term Borrowing Ratio for Foreign Currency Loans**

$$= \frac{\text{foreign currency borrowings (not less than 3 years)}}{\text{foreign currency loans (not less than 3 years)}} \geq 50\%$$

Foreign Exchange Risk and Country Risk

Banks are required to file monthly reports with the FSS including details of their daily foreign exchange positions. The reports are then compared with the position limits. Ceilings on the exchange position limit the difference between the amounts of foreign exchange bought and sold. They are set on the basis of the overall position, which includes both forward and spot positions, and face amounts of other derivative transactions. The current ceilings on the overall overbought position and oversold position of foreign exchange are 20%, respectively, of a bank's equity as of the end of the previous month.

In addition, the FSS has required each bank to set up and observe overall exposure

limits to countries as follows since April 1999:

- After classifying countries according to each country's credit ratings from international credit rating agencies such as S&P's or Moody's, specific limits are imposed on each country. For example, using S&P's system, a strong country would have a rating of AAA AA-, a moderately strong country, A+ BBB-, and a weak country, BB+ D.

- At the same time, an additional ceiling on total investment in the group of weak countries will be set at a specific portion of the bank's equity capital.

Derivatives and Other Off-balance Sheet Items

Under the "Regulation on Supervision of Banking Business", and "Detailed Enforcement Regulations", any banks should formulate and operate its own risk management standards for risks of foreign exchange derivatives. The FSS also requires banks to set volume limits and stop-loss limits on each dealer and branch at an appropriate level in their trading activities of foreign exchange derivatives. Banks are also directed to set up a system of mutual checks through the separation of dealers and back office staffs.

According to the revision of accounting standards, consistent with international accounting standards, on January 2000, market value accounting is strengthening and all kinds of derivatives are evaluated mark-to-market to enhance transparency and risk management of banks.

- Hedge transactions, which were excluded from the items of mark-to-market valuation, are evaluated by the market price, even though their loss and gains are not reflected in the financial statements, in order to estimate total loss and gains related to all kinds of derivatives transactions; and
- Any derivatives transaction for which it is difficult to estimate the market price to perform mark-to-market valuation is evaluated by the assumed market price considering the market prices of similar assets.

The FSS requires banks to report derivatives trading activities quarterly and analyzes them. Especially for non-plain-vanilla and large-valued transactions, monthly reports are required. By analyzing monthly reports, the FSS are monitoring unsound financial activities, e.g. loss parking by derivatives transactions.

Although domestic banks have steadily increased their use of derivatives, the lack of efficient supervisory measures for derivatives transactions has resulted in high exposure to risks. Due to this reason, and to improve risk management for derivatives, the FSS has introduced 「Best Practices of derivatives」, based on recommendations of international supervisory organizations and advanced supervisory agencies, and have recommended them to make use of it.

Some contents of 「Best Practices」 are as follows:

- It aims to reinforce the functions of internal controls and risk management. Validity of internal control and risk management at a bank should be evaluated, based on the complexity and risk exposure of derivatives transactions;
- The importance of public disclosure is emphasized. To enhance market discipline, banks should disclose the information related to derivatives transactions: methodology of accounting, plausible risks associated with derivatives transactions, level of risk management skills, and creditworthiness of trading partners;
- For the protection of investors, banks are called for in-depth explanations to investors with regard to related derivatives transactions; and
- In order to prevent unfair transactions, banks are restricted to execute over/undervalued transactions that may conceal losses.

In examining the headquarters of domestic banks, the FSS focuses on the appropriateness of risk management systems and the profit and loss evaluation systems related to derivatives transactions.

Public Disclosure of Financial and Prudential Information

The FSC has set Generally Accepted Accounting Principles that reflect international accounting standards. And the Securities and Futures Commission (SFB) has set Accounting Procedure for Banking Industry. The FSS has also drawn up and put into practice Banking Accounting Standards on accounting treatment for specific items that are needed to reflect the characteristics of banking business, such as derivatives transactions.

Regarding public disclosure, the Banking Act requires commercial banks to disclose or make public annually their balance sheet as of the book closing date, the income statement for the fiscal year, and a consolidated financial statement in the form prescribed by the FSS.

The FSS has also reinforced the mandatory disclosure of management performance to ensure that the general public, and depositors and shareholders in particular, are in a better position to monitor the bank. This requires a bank to disclose its performance on both a regular basis and occasional basis. Matters for regular disclosure are mainly related to a bank's performance for the fiscal year: items relating to soundness, profitability, productivity, sources and uses of funds, among others. The Korea Federation of Banks also sets guidelines for regular disclosure that requires individual banks to publicly release data concerning their management performance for each fiscal year within three months of the closure of accounts.

Commercial banks should also promptly disclose any matters that may negatively effect

the soundness of management as they occur. Firstly, banks should disclose all loans classified as non-performing loans that have been granted to a single inter-linked business group and exceed 10% of their own capital. Secondly, a commercial bank should disclose any adverse financial incident or losses in civil suits involving an amount of more than 1% of its own capital or which has resulted in a loss or estimated loss of at least 1 billion won. Lastly, when the Governor of the FSS issues supervisory measures such as a management improvement recommendation or management improvement order to a bank, the bank should disclose the details of such measures and how it intends to improve its management.

When a bank does not observe the above disclosure requirements, the FSS may take appropriate measures, such as issuing a warning or orders to follow the instructions. The disclosure requirements also apply to foreign bank branches in Korea.

External Audit

All corporations valued at over 6 billion won in terms of their total assets are subject to external audit under the Act on External Audit of Corporations. Since all banks currently operating in Korea claim assets of more than 6 billion won, they are all subject to audit by external auditors.

The external auditor is appointed by a bank's board of directors on approval of the general meeting of shareholders. The FSS does not require that the same external auditor be employed for overseas branches.

Relationship with Internal Auditors

The FSS requires that the internal auditors of commercial banks submit their examination results for the current year by January 31 of the following year. The internal auditors from head office are entitled to inspect the books of the braches for the purpose of internal auditing. Meanwhile, the FSS does not require them to meet with or report to FSS in the course of or right after their audit if there is not important problem.

Bank Evaluation System

The FSS evaluates the management status of a bank, and assigns a rating for its operations and a composite rating using the CAMELS bank rating system for head offices of domestic banks and overseas subsidiaries, and the ROCA system for overseas

branches of domestic banks and domestic branches of foreign banks[21].

The CAMELS bank rating system is an acronym for the six specific items, "Capital Adequacy", "Asset Quality", "Management", "Earnings", "Liquidity" and "Sensitivity to Market Risk". The components are similar to those used in the CAMELS evaluation system in the U.S.A. Each of the items is evaluated on a scale of one to five. The scale of "1" represents the highest and the scale of "5" the lowest level of operating performance. The ROCA system is an acronym for Risk management, Operational control, Compliance and Asset quality.

CAMELS

The management status evaluations are carried out at the time of the general examination of the head office of banks. However if the management status of an institution subject to evaluation has worsened considerably, even after the evaluation, the rating may be adjusted.

The composite rating is based on a scale of "1" to "5" in ascending order to evaluate the overall status of a bank's management and soundness. To arrive at the final composite rating, each of the 6 component ratings must be weighed and due consideration given to the inter-relationships among the various aspects of a bank's operations. Examiners first determine the tentative composite rating by calculating the arithmetic mean of the component ratings, and then a final composite rating is calculated by taking into account the overall management situation, directions of supervision policy and off-site surveillance results.

Component ratings are determined by integrating the evaluation factors comprehensively. For each component, quantitative indices and non-quantitative evaluation factors are classified into ratings of "1" to "5" according to the rating sections[22]. For each component rating, examiners first determine a tentative rating by calculating the arithmetic mean of the evaluation ratings of the quantitative indicators. Next, the determination of the final rating for each component is made by taking into account the evaluation of non-quantitative factors.

After the evaluation, if the quantitative indicators (CAEL) on a quarterly basis deteriorate as described in the following cases, relevant ratings may be adjusted by

[21] The rating method for overseas branches of domestic banks is called **ROCA1** ; the rating method for domestic branches of foreign banks is called **ROCA2**

[22] "Management" and "Sensitivity to market risk" components have no quantitative evaluation factors.

taking non-quantitative factors into consideration.

- when the quarterly rating of the quantitative indications has weakened, dropping two grades or more from the evaluation rating, or when it has weakened for two consecutive quarters;

- when the Composite Rating is at grade 3 or more and the quarterly quantitative rating for the Capital Adequacy or Asset Quality component has reached grade "4" or "5"; and

- when it is deemed that other operating factors have weakened seriously.

However, if it is deemed necessary for prompt corrective measures to be taken with respect to the banks in question, the composite rating may be adjusted without considering the non-quantitative factors.

The FSS may require that a bank set up a plan for improving the status of its management when the levels of component ratings and composite ratings are seriously inadequate. If a bank is evaluated as problematic or weak in a specific area, the FSS may also take prompt corrective action (PCA).

ROCA

The ROCA system, which is the evaluation system applied to overseas branches of domestic banks and domestic branches of foreign banks, is similar to the CAMELS system. However, there are the following essential differences in its components compared to the CAMELS system.

- Firstly, the ROCA system emphasizes risk management and operational control of foreign bank branches, because foreign bank branches are remote from their head-office geographically. Despite the head office's risk management and internal control systems, it is not easy to grasp and control the situation of the overseas branches.

- Another major difference is that the ROCA system adopts a 'Compliance' component. This reflects the fact that foreign bank branches have to understand and comply with local regulations and banking practices.

- The ROCA system has fewer quantitative indices than the CAMELS system; only the 'Asset quality' component adopts quantitative indices in evaluations.

The FSS takes actions according to the results of the ROCA ratings. In most cases, examiners pay closer supervisory attention to the off-site monitoring of foreign banks that receive a composite rating of "3". If needed, the examination cycle can be shortened. Where there are any signs of deteriorating financial conditions in combination with a poor rating in the previous examination, an immediate and targeted examination may be considered to prevent any additional financial deterioration. In addition, the ROCA composite ratings are used when the PCA is taken.

Prompt Corrective Action (PCA)

With regard to problem banks, the FSC/FSS has adopted a concrete trigger system of prompt corrective action since April 1998. When the BIS capital ratio or the overall evaluation result of a bank falls below minimum criteria, the FSC/FSS should take prompt and appropriate actions to correct the problem. Therefore, a bank given a Management Improvement Recommendation or Management Improvement Requirement should submit a management improvement plan to the Governor of the FSS within two months after the action.

If the BIS ratio of a bank falls below 8%, or though the composite evaluation grade (on a scale from "1" to "5") is grade 3 (fair grade) or higher the asset quality or capital adequacy is grade 4 (marginal grade) or lower as a result of the CAMELS Evaluation, the bank is subject to a *Management Improvement Recommendation,* including improvement of organizational structures; establishment of specific allowances; restrictions on investment into fixed assets; restriction on entry to new business area, new investments, or profit dividends; reduction or increase of its capital; and reduction of non-performing assets.

If the BIS ratio of a bank falls below 6%, or the composite evaluation grade is grade 4 (marginal grade) or lower though the composite evaluation grade (on a scale from "1" to "5") is grade 3 (fair grade) or higher as a result of the CAMELS Evaluation, the bank is subject to *Management Improvement Requirement.* In addition to Management Improvement Recommendation measures, the bank may be subject to closure or consolidation of operating offices, a freeze on new investment, a reduction of risk assets, a control of deposit interest rates, a change of senior management and external auditors, suspension from some parts of business, and submitting plan for merger with or acquisition by other financial institutions.

A bank receives a *Management Improvement Order* if ① a bank is identified to be a distressed institution[23] as stipulated in the Act Concerning the Structural Improvement of

[23] The definition of distressed financial institutions is as follows;

Financial Industry, ② its BIS capital adequacy ratio falls below 2%, or ③ its normal operations are hindered and it does not or can not implement its management improvement plan, even though it has been urged to do so. In this case, in addition to the measures from the Management Improvement Requirement, the bank may be subject to write-down of its stocks[24], suspension from the duty of top management, appointment of a receiver, inclusion in the financial holding company, merger with or acquisition by other financial institutions, suspension from operating business within six months, or request for revocation of its banking license, etc.

In the case that a financial institution's equity capital decreases to a level lower than the minimum capital set by the Banking Act due to the full write down of its equity capital as a result of prompt corrective action, the FSC may not revoke its license within a period of not longer than one year.

If the FSC deems that a banking institution may pose serious damage to the interests of depositors due to its possible insolvency in regard to its deposit liabilities, the FSC may order the bank to restrict its acceptance of deposits and granting of credits, or to suspend repayment of all or part of its deposit liabilities, or take other actions.

The FSS reviews the performance status of Management Improvement plans for each bank subject to the PCA, and if the bank did not or cannot perform part or its entire Management Improvement plan, the FSS takes necessary actions. However, if banks under PCA implement their normalization plans in an expeditious manner and their operations are rendered sound, the FSS can withdraw the imposition of PCA.

In addition to the formal, corrective or punitive enforcement, the FSS may also take informal supervisory actions to force banks to exert autonomous and preliminary efforts, through an agreement between the FSS and concerned banks to improve problematic

- The financial institutions that either the FSC or the Operation Committee of KDIC determines as distressed among those whose liabilities exceed their assets as a result of the appraisal of managerial status or due to financial incidents or an increase in bad debts.
- The financial institutions that have suspended the payment of deposit and other claims provided in the Depositor Protection Act or borrowings from other financial institutions.
- The financial institutions that either the FSC or the Operation Committee of that KDIC determines to be unable to pay the deposit claims or borrowings without outside financial support or special borrowings

[24] The FSC can exceptionally order to increase or decrease paid-in capital of a bank which received a "Management Improvement Recommendation" or "Management Improvement Measures", and is proven to be non-viable without inculcation of external funds and is subject to capital subscription from the government or KDIC.

sectors before the soundness of a bank deteriorates. The FSS may require a bank to submit a management improvement plan or a letter of commitment, or to enter into Memorandum of Understanding (MOU) with the FSS, in the case that its CAMELS ratings or management guidance ratios (BIS capital adequacy ratio and won liquidity ratio, etc.) are expected to worsen.

Table 10

PCA Enforcement Criteria

PCA	Enforcement Criteria
Management Improvement Recommendation	● If a bank's BIS capital ratios < 8%, or ● If a bank's "asset quality" or "capital adequacy" is evaluated as below the 4th grade (marginal), though it gets above the 3rd grade (fair) or higher by the CAMELS Evaluation
Management Improvement Requirement	● If a bank's BIS capital ratios <6%, or ● If a bank's grade of CAMELS Evaluation is the 4th (marginal) or lower
Management Improvement Order	● If a bank's BIS capital ratios <2%, ● If a financial institution falls into the categories of distressed financial institutions, or ● Normal operations of a bank are hindered and it does not or can not implement its management improvement plan required

On-site Examination and Off-site Surveillance

On-site Examination

The FSS has comprehensive powers to examine all businesses and assets of financial institutions under The Act on the Establishment of Financial Supervisory Organizations and other relevant financial statutes. On-site examinations are divided into two categories; regular examinations (full-scope examinations) and target examinations (partial examinations). Regular examinations are conducted comprehensively over the entire operation of a bank. All head offices of individual banks undergo regular examinations and some of their branches are selected to undergo regular examinations on every aspect of their business. Target examinations are carried out on certain offices or aspects of a bank's business in order to prevent financial incidents, and to firmly restore financial order when the Governor of the FSS determines such an examination to be necessary in view of his analysis of its management.

Examiners usually focus their attention on the following:

- soundness of assets;
- compliance with the Banking Act, relevant statues and decrees, regulations and instructions;
- adequacy of internal control systems;
- fraud, embezzlement, and other financial irregularities;
- accuracy of the statistical returns and reports submitted; and
- information collection.

During the examination, the FSS evaluates the management status and risk management (with risk management checklists) in accordance with examination policies focused on management status evaluation and risk-focused supervision, and then recommends appropriate measures including prompt corrective actions, etc.

In order to enhance the effectiveness of on-site examinations, the FSS receives business reports regularly from each bank, analyzes the current status of their management, and gathers what preparatory information is available. After the examination, the FSS evaluates the management status of a bank, such as the quality of its assets and reserve holdings and the adequacy of its internal controls. It then recommends appropriate measures to cope with problems that have come to light during the examination.

The number of examiners and the length of on-site examination differ in regard to the size of a bank. For the head offices of large domestic banks, about 15~30 examiners normally conduct an examination for a period of about 15~30 days.

Off-site Surveillance

The FSS conducts the off-site surveillance of banks as well as the on-site examinations. Each of its examination departments appoints an examiner and an examining team to take charge of each financial institution in order to enhance the off-site review. Off-site surveillance is mainly accomplished through the ordinary surveillance system that operates to monitor the soundness of a bank's management. Through the system, the FSS's on-line terminal is linked to that of each large commercial bank, making it possible for the FSS to detect symptoms of abnormality in a bank's management through regular analysis of its financial statements.

In addition, off-site surveillance is also partially accomplished through the analysis of other reports and documents. Pursuant to the provisions of the Banking Act, the FSS receives Call Reports monthly from each bank. These Call Reports include financial information regarding assets and liabilities, general information such as the number of

employees and branches, asset classification and the performance of foreign exchange business, among other items. Items are variously reported on a quarterly or semi-annual basis. The contents of the Call Reports differ according to the type of bank (nationwide and regional banks, foreign bank branches, specialized banks). Examiners check the reliability of Call Reports during their on-site examination. Other off-site surveillance methods than the analysis of banks' call reports include the following:

- analysis of all reports submitted by banks periodically;
- checking financial data through IT system connected with banks;
- selection of major business data and establishment of early warning system to detect problems at banks;
- discussions and negotiations with bank management; and
- collection of information relevant to banks related to financial incidents.

The FSC/FSS can use the results of off-site surveillance when they conduct supervisory actions, such as recommending (or requiring, ordering) management improvement, adjusting the management status evaluation rating, or reflecting examination planning and major examination items, for a problematic bank and its area of weakness.

Use of External Auditors

The Governor of the FSS has the right to ask external auditors of financial institutions to submit pertinent information gathered in the course of their audit and other information concerning the soundness of financial institutions. In addition, a financial institution must submit to the FSS a copy of the external auditor's report. The FSS uses the report to assist it in analyzing the financial structure of the financial institution and in checking the appropriateness of the accounting practices of the financial institution.

Other Regulatory Tools

Corporate Governance

Recently, corporate governance regulations of banks have been enhanced significantly with the introduction of outside directors, audit committees, and compliance officers. The improvements have been applied to all financial institutions by revising the their own establishment laws and, in case of banks, the Banking Act and the Enforcement Decree of the Banking Act were revised.

- *Outside Directors*: The system that requires a Board of Directors to include outside directors (non-standing directors) was first introduced in January 1997

in order to strengthen the monitoring of bank management. It was further revised in January 2000 when other financial institutions introduced the outside director system to enhance regulatory consistency. A board of directors consists of standing and outside directors, and the number of outside directors must be at least 50% of total directors. Representative shareholders of a bank and the board of directors recommend 70% and 30% of outside directors, respectively. The top 5 chaebols, institutional investors or any persons having a poor credit record as stipulated in the Presidential Decree can not be a representative shareholder of a bank.

- *Audit Committee*: The auditing system has been greatly strengthened with the introduction of new regulations requiring the establishment of an Auditor Committee in the BOD since January 2000. Banks are now required to constitute an audit committee, of which not less than two thirds of the total members must consist of outside directors.

- *Compliance Officer*: Banks are now required to appoint compliance officers through a resolution of the board of directors (must be approved by at least two thirds of the total number of directors). Qualifications to become a compliance officer state that a candidate must possess a great deal of knowledge about the company concerned and be fully independent in the process of executing his or her duties. Banks must respond faithfully to requests for sources or information that a compliance officer makes in order to carry out his or her duty.

Prohibited Activities

To promote the soundness of a bank's credit operations, the following categories of loans are prohibited according to §38 of the Banking Act:

- loans for the purpose of speculation in commodities or securities;
- loans made directly or indirectly on the pledge of a bank's own shares or on the pledge of shares in excess of 20% of the issued shares of any other corporation;
- loans made directly or indirectly that enable a natural or juridical person to purchase its own shares;
- loans made directly or indirectly to finance political activities;
- loans to any of the bank's officers or employees except petty loans as determined by the FSC;
- loans made on the pledge of shares of a subsidiary corporation of a bank or to enable a natural or juridical person to buy shares of a subsidiary corporation of the bank; and
- loans to any officers or employees of a subsidiary corporation of the bank

except petty loans as determined by the FSC.

Supervision of Trust Accounts

Trust is a legal action based on trust relationship between the beneficiary and trustee in which a trustee manages properties in trust and a beneficiary pays some part of the properties in trust to the trustee in return for their management. Banks operate trust accounts in addition to their bank accounts. Supervision of the trust business has the purpose of maintaining the order of trust transactions and promoting prudential management of trust companies in order to protect trustees and beneficiaries.

- *Protection of trustees and beneficiaries*: The Act on the Trust Business requires trust companies to manage their own properties separate from the properties in trust in order to protect the entrusted properties. The Act also segregates the properties in trust and prohibits the trust company from channeling cash from a particular fund into another fund for the purpose of raising the fund's rate of return. In addition, the FSC can review the standard contract terms of a newly introduced trust commodity or changed contract terms (standard contract forms) of an established trust commodity, and can order trust companies to change such terms if the FSC is concerned that the terms may undermine the rights of trustees or beneficiaries as well as the sound order of trust transactions. Moreover, trust companies should also disclose financial statements and rates of return, etc. in order to provide accurate information on their managerial status to customers.

- *Maintaining the Sound Order of Trust Transactions*: The FSC guides trust companies to distribute returns for properties in trust according to performance and prohibits the presentation of predetermined rates of return. In addition, trust companies are not allowed to make any agreement guaranteeing principal and interest and their customers should take responsibility for losses incurred during the normal operation of trust companies. The FSC also prohibits trust companies from acquiring stocks issued by them using their own properties in trust, and stocks issued by or of an affiliated company of a beneficiary with a fiduciary trust contract.

- *Prudential Regulations*: CPs, guaranteed bills, and bonds issued by private placement that are similar to loans are classified as loans in bank accounts and subject to mandatory provisioning for 100% of their expected losses. Moreover, the mark-to-market valuation is applied to marketable securities in trust account. The FSS also guides banks to fully reflect the performances of properties in trust in the rate of return and not to compensate losses of trusted

properties with the funds from their bank accounts. Loans to a single borrower may not exceed 5% of total loans at the end of previous fiscal year in a trust account. Also, the trust account of banks is not allowed to hold bills, including CPs, guaranteed bills, etc., issued by a single corporate or a single group exceeding 1% or 5%, respectively, of the average balance at the previous month in the fiduciary trust.

B. Non-bank Financial Institutions

Overview

The supervisory framework for non-bank financial institutions (NBFIs) is basically similar to that of banks, with minor differences reflecting their unique characteristics. The convergence of regulatory standards has progressed since the establishment of the FSC/FSS, the consolidated financial supervisory body. Therefore, the focus of this section will be placed on the differences between the supervisory system for non-bank financial institutions and that of banks.

Entrance Regulation

Licensing Requirements

Since the 1997-1998 financial crisis, the requirements and procedures for entry into the domestic non-banking sector including merchant banking corporations have been eased and simplified due to the implementation of deregulatory policies by the government as follows.

Merchant Banking Corporations (MBCs): Any company that seeks to conduct the business of merchant banking corporations (MBCs) should obtain a license from the FSC. The company should have a paid-in capital of over 30 billion won, necessary experts and computer equipment, a proper and sound business plan, and should meet with the requirements for contributors.

Mutual Savings and Finance Companies (MSFCs): Any company that seeks to conduct the business of mutual savings and finance companies (MSFCs) should obtain a license from the FSC. The company must possess a minimum paid-in capital of 2 billion won to 6 billion won depending on the business areas, while satisfying similar criteria as those applied to MBCs.

Credit Unions (CUs): To conduct a credit union business, a company should get approval from the Chairman of the National Credit Union Federation of Korea and obtain authorization from the FSC. The required minimum paid-in capital ranges from 40 million won to 300 million won depending on the business areas and characteristics of the credit union.

Credit-specialized Financial Companies (CSFCs): To conduct the business of financial companies specializing in the loan business, a company should obtain a license for credit card businesses from the FSC, while facilities leasing, installment financing or new technology financing companies should register with the FSC. Also, companies seeking to engage in two or less of the above-mentioned areas of credit-specialized financial business must possess a paid-in capital of over 20 billion won; in the case of engaging in three or more of the above-mentioned businesses, the minimum paid-in capital is 40 billion won.

Table 11

Minimum Paid-in Capital Requirements of NBFIs

	Minimum paid-in capital
Merchant Banking Corporations	30 billion won
Mutual Savings & Finance Cos.	6 billion won: within Seoul 4 billions won: within the metropolitan cities 2 billion won: other areas
Credit Unions	40 million won ~ 300 million won
Credit-specialized Financial Cos.	20 billion won: two or less types of businesses 40 billion won: three or more types of businesses

Any MBC intending to establish a branch office is required to obtain authorization from the FSS and meet certain criteria, such as adequate levels of financial soundness and net profits realized during more than one of two consecutive fiscal years prior to the submission of branch application. Also, MBCs seeking to open branch offices should not have received any warnings or suspension of operations as a result of previous investigations by the FSS during the last two years.

MSFCs are allowed to open branches only after receiving approval from the FSS in limited cases. Any MSFC seeking to open branch offices must also possess over 200% of the minimum equity capital, realized net profits over the last three years and received

no warnings or penalties from the FSS over the last three years. Also, a MSFC seeking to open a branch office must undertake a capital increase of 100% of its minimum equity capital.

Credit unions seeking to open branch offices must obtain authorization from the Chairman of the National Credit Union Federation.

Prudential Regulation

Capital Adequacy

The FSS has introduced the consolidated risk-adjusted capital standards recommended by the Bank for International Settlements (BIS) as a further prudential measure to ensure capital adequacy of non-bank financial institutions. At present, all MBCs are required to maintain a total capital position equivalent to at least 8%. Should the BIS ratio fall under 8%, the companies will be subject to prompt corrective actions. For MSFCs, the BIS guideline ratio is at least 4%.

Furthermore, the FSS currently applies the capital adequacy system to credit unions and CSFCs. Credit unions are required to maintain a "net equity capital ratio" of over 0%, while CSFCs have been advised to maintain an "actual equity capital ratio" of over 7%.

In its allocation of net profits earned in a fiscal term, a non-bank financial institution should credit at least 10% of the net profits to a legal reserve. MSFCs and credit unions should also accumulate legal reserves until the accumulation reaches the total paid-in capital, while MBCs and CSFCs should accumulate legal reserves until the accumulation reaches 50% of total paid-in capital.

Asset Classification and Provisioning

The FSC has revised the "Regulations on Supervision of Merchant Banking Corporations" to introduce new standards for MBC' asset classification based on the Forward Looking Criteria, which fully incorporate a borrower's capacity to repay obligations, and is not solely based on past performance. The system has been enforced since June 2000.

MBCs' assets are classified into five categories: "normal", "precautionary", "substandard", "doubtful" and "estimated loss" according to the Forward Looking Criteria, which is same as that for banks. In implementing the FLC system, relevant

acts and regulations prescribe only the minimum guidelines for provisioning, and require MBCs to prepare specific internal guideline.

Non-bank financial institutions that do not adopt the Forward Looking Criteria (FLC), such as MSFCs, credit unions and CSFCs, are required to analyze and classify their assets in order to manage them efficiently and to enhance the soundness of their operations. In their classification, due consideration must be given to the financial position, funding status, profitability, transaction records and other relevant matters in order to ensure an accurate overall assessment of the customers' liabilities. The assets of those non-bank financial institutions other than MBCs should also be classified on a quarterly basis into five categories: normal, precautionary, substandard, doubtful and estimated loss. The applicable criteria are as follows:

- "Normal": total credit extended to customers who maintain a certain specified level of credit standing as well as sound business and administration standards, or to customers who, although having loans that are overdue (no more than three months), have sufficient debt-servicing capability.

- "Precautionary": total credit extended to customers who, in consideration of their pattern of banking transactions and credit status, call for particular attention in ex-post facto control, such as:

  - credit extended to customers who have credit arrears of at least 3 months but less than 6 months,
  - credit extended to customers whose borrowings exceed the volume of their sales.

- "Substandard": the amount expected to be collected from customers who have an unfavorable pattern of banking transactions or credit status and for whom a definite repayment schedule must be agreed to in order to collect or control credit. This includes credit extended to customers who have been in arrears for no less than 6 months, or for whom a suspension of servicing or reduction of interest has been granted

- "Doubtful": the portion of credit in excess of the amount expected to be collected from customers classified as substandard that is expected to be a loss, but has not yet been realized as such.

- "Estimated Loss": the portion of credit in excess of the amount expected to be collected from customers classified as substandard that must be accounted as a loss, because collection is not possible in a foreseeable period.

Non-bank financial Institutions should make provisions for loan losses in excess of the minimum required ratio of each asset classification category as shown in the following table. The provisioning ratios are more than 0.5% of normal credits, 1% or 2%(MBCs) of precautionary credits, 20% of substandard credits, 50%(MBCs) or 75% of doubtful credits, and 100% of estimated loss credits, in line with the five-fold classification status of loan assets.

Table 12

Minimum Criteria for Loan Loss Provisioning

<table>
<tr><th></th><th>Normal</th><th>Precautionary</th><th>Substandard</th><th>Doubtful</th><th>Estimated Loss</th></tr>
<tr><td>Merchant Banking Corps.</td><td>0.5%</td><td>2%</td><td>20%</td><td>50%</td><td>100%</td></tr>
<tr><td>Mutual Savings & Finance Cos.</td><td rowspan="3">0.5%</td><td rowspan="3">1%</td><td rowspan="3">20%</td><td rowspan="3">75%</td><td rowspan="3">100%</td></tr>
<tr><td>Credit-unions</td></tr>
<tr><td>Credit-specialized Financial Cos.</td></tr>
</table>

Controls on Credit Concentrations and Connected Lending

Credit Ceilings

Credit limits to a single borrower, borrowers group or, large shareholder in MBCs have been introduced since 1996, and have been reinforced in order to meet international standards in line with the agreement with the IMF. Therefore, the same standards applied to banks' have been applied to merchant banking corporations. Accordingly, credit extensions to a single borrower (individual or juridical person) and to a single borrowers group are restricted to 20% and 25% of the total capital, respectively.

In addition, connected lending cannot exceed 15% of the total capital of MBCs. Also, total large exposures exceeding 10% of the company's total capital should be less than five times the company's total capital.

In the case of MSFCs, credit extension to a single person (individual or juridical person) and loans to members of management must be within 20% of the company's equity capital. Loans to individuals are limited to 300 million won, and loans to small businesses and other corporate entities are limited to 8 billion won. Also, loans for use

by state-run companies are limited to 20% of the total equity capital of an MSFC. In addition, loans to shareholders, management members, family members and other closely related persons are prohibited.

Credit unions are permitted to extend loans within 15% of the company's equity capital to a single person (individual or juridical person).

Ratio of Small- and Medium-sized Enterprises

Non-bank financial institutions except credit unions are obliged to extend to small- and medium-sized enterprises a certain proportion of its total loans. This lending ratio differs among the non-bank financial institutions as follows:

Table 13

Lending Ratios of Small- and Medium-sized Enterprises

Non-bank Financial Institutions	Ratios
Merchant Banking Corps.	25% or more
Mutual Savings & Finance Cos.	50% or more
Credit Unions	-
Credit-specialized Financial Cos.	30% or more of annual execution amount of facility leasing.

Liquidity

The FSS requires MBCs to maintain Won-liquidity ratios, which is the ratio of won-denominated assets with a maturity of less than 3 months to won-denominated liabilities with a maturity of less than 3 months, above 100%.

Regarding foreign currency liquidity, the FSS requires MBCs, like banks, to maintain foreign currency liquidity management systems.

Holding of Reserve Requirement Assets

Other than CSFCs, MBCs, MSFCs and credit unions should hold each of the following amounts as reserve requirement assets in the form of cash, deposits, dispositions or securities:

Table 14

Reserve Requirements of Non-bank Financial Institutions

Non-bank Financial Institutions	Reserve Requirements
Merchant Banking Corps.	At least 5% of sum of the liabilities
Mutual Savings & Finance Cos.	At least 10% of sum of the received mutual installment savings and installment deposits At least 5% of the amount obtained by subtracting its equity capital from the total received deposits
Credit Unions	At least 10% of the balance of deposits and installment savings
Credit-specialized Financial Cos.	-

Restriction on Acquisition of Real Estate

Non-bank financial institutions are also prohibited from investing in real estate for non-operating purpose. In the case of acquiring real estate for operating purpose, they are restricted to less than 100% of their total capital.

Securities Investment Limit

MBCs and MSFCs should not invest in securities such as stocks or long-term bonds in excess of 100% of equity capital. However, this stipulation does not apply to government bonds and Monetary Stabilization Bonds issued by the BOK, etc.

On the other hand, Credit Unions are not allowed to invest in stocks.

Table 15

Restriction on Securities Investment

Merchant Banking Corps.	Mutual Savings & Finance Cos.	Credit Unions
Investment limit in a single company: not in excess of 10%[25] of the total outstanding shares of a single company	Total investment limit: not in excess of 40% of its equity capital	Investment limit in beneficiary certificates and mutual funds that are invested in stocks up to 30% of trust assets; not in excess of 30% of the sum of cash, deposits and securities.
Investment limit in a major shareholder or the person having a special relationship: not in excess of 5% of its total capital	Investment limit in a single company: not in excess of 10% of its equity capital within 10% of the outstanding shares of a single company	
Investment limit in unlisted valuable instrument papers sold by major shareholders or the person having a special relationship: not in excess of the smaller amount between 5% of a MBC's total capital and 10% of the paid-in capital of the company eligible for investment	Investment limit in a company under the same group of the MSFC: not in excess of 5% of its equity capital Investment limit in stock certificates or certificates of capital contribution issued by another MSFC; not in excess of 80% of its equity capital	

Public Disclosure of Financial and Prudential Information

Currently, relevant acts on non-bank financial institutions require companies to disclose or publicly release their balance sheets as of the book closing date on an annual basis. They are also obliged to disclose their income statement for the current fiscal year, as well as the consolidated financial statement in the form prescribed by the FSS.

The FSS has reinforced the mandatory disclosure rules for management performance to ensure that the general public, especially depositors and shareholders, are in a better

[25] This ratio will be increased up to 20% from January 2001.

position to monitor and evaluate non-bank financial institutions. The rules require non-bank financial institutions to disclose their performance on both a regular and random basis. Matters for regular disclosure are mainly related to a non-bank financial institution's performance for the fiscal year, including items relating to soundness, profitability, productivity, sources and uses of funds, etc.

Evaluation System

The CAMEL evaluation system, the management evaluation system used for banks, has been introduced for non-bank financial institutions including MBCs from fiscal year 2000. The FSS reflects the results of management analyses and ratings in implementing supervisory and examination measures on non-financial institutions. However, the CAMEL system has not been fully implemented for non-bank financial institutions other than MBCs.

The CAMEL evaluation system is an acronym for five specific items, including "Capital Adequacy", "Asset Quality", "Management", "Earnings", and "Liquidity". Each of these items is rated on a scale of one through five, with "1" representing the highest and "5" the lowest level of operating performance.

Prompt Corrective Action (PCA)

The FSC/FSS has adopted a concrete system for activation of the prompt corrective action (PCA) measures at MBCs and MSFCs since 1999. When the BIS capital ratio or overall evaluation result of MBCs and MSFCs falls below the minimum criteria, the FSC/FSS can take prompt and appropriate actions to correct the problems. Therefore, an ailing MBC or an MSFC that receives PCA measures must submit rehabilitation plan to the Governor of the FSS within one month after receiving the recommendation or request.

If a MBC or MSFC receives a *Management Improvement Recommendation*, it will be subject to improvement of organizational structure; establishment of specific allowances; restrictions on investments into fixed assets, entry into new business area, new investments, or profit dividends; a reduction or increase of its capital; and a reduction of non-performing assets.

If a MBC or an MSFC receives a *Management Improvement Request,* it will be subject to possible closure or consolidation of operating offices, a freeze on new investments, a

reduction of risk assets, control of deposit interest rates, change of senior management and external auditors, suspension from some business areas, and merger with or acquisition by other financial institutions.

If a *Management Improvement Order* is enforced, the non-bank financial institution receiving the order will be subject to a write-down of its stocks, suspension from the duty of top management, appointment of a receiver, merger with or acquisition by other financial institutions, suspension from operating business for up to six months, request for revocation of its banking license, etc.

Table 16

PCA Enforcement Criteria

PCA	MBCs (MSFCs)
Management Improvement Recommendation	• If BIS capital ratios < 8% (4%), or • If an MBC's "asset quality" or "capital adequacy" is evaluated as below the 4th grade (marginal), though it gets above the 3rd grade (fair) or higher from the Management Status Evaluation
Management Improvement Requirement	• If BIS capital ratios <6% (2%), or • If an MBC's grade of Management Status Evaluation is the 4th grade (marginal) or lower
Management Improvement Order	• If BIS capital ratios <2% (1%), • If a financial institution falls into the categories of distressed financial institutions, or • If normal operations of an MBC are hindered and it does not or can not implement its management improvement plan, even though it has been urged to do so.

On-site Examination and Off-site Surveillance

On-site Examination

On-site examinations are divided into two categories; regular examinations (full-scope examinations) and target examinations (partial examinations). Regular examinations are conducted comprehensively over the entire operation of a non-bank financial institution. All head offices of individual non-bank financial institutions are subject to

regular examinations and some branches are selected to undergo regular examinations on every aspect of their business. Target examinations are carried out on certain offices or certain parts of business in order to prevent financial incidents and firmly establish financial order when the Governor of the FSS determines that such examinations are necessary in view of his analysis of an institution's management status.

Examiners usually focus their attention on the following aspects:

- soundness of assets;
- compliance with the relevant rules and regulations;
- adequacy of internal control systems;
- fraud, embezzlement, and other financial irregularities;
- accuracy of the statistical figures and reports submitted; and
- information collection.

During the examination, the FSS evaluates management status and checks risk management (with risk management checklists) according to examination policies focused on risk-focused supervision. Following its evaluation, the FSS recommends appropriate measures including prompt corrective actions, etc.

In order to enhance the effectiveness of on-site examinations, the FSS also receives business reports regularly from each non-bank financial institution, analyzes the current status of its management, and gathers available preparatory information. After the examination, the FSS evaluates the management status of a non-bank financial institution, such as the quality of its assets and reserve holdings and adequacy of its internal controls. It then recommends appropriate measures to cope with problems that have come to light during the examination.

Off-site Surveillance

The FSS undertakes off-site surveillance of non-bank financial institutions as well as on-site examinations. Each of its examination departments appoints an examiner and an examining team to take charge of each financial institution to enhance the off-site review. Off-site surveillance is mainly accomplished through the ordinary surveillance system that operates to monitor the soundness of a NBFI's management.

In addition, off-site surveillance is also partially accomplished through the analysis of other reports and documents. The FSS receives Call Reports from each NBFI except Credit Unions[26]. The Call Reports should include financial information regarding assets

[26] In case of credit unions, the National Credit Union Federation collects reports from each

and liabilities, and general information such as the number of employees and branches. Examiners check the reliability of Call Reports during their on-site examinations. Other than the analysis of NBFI's call reports, the following methods are also used:

- analysis of all reports submitted by NBFIs periodically;
- selection of major business data and establishment of early warning system for problem of NBFIs;
- regular discussions and negotiations with management of NBFIs; and
- collection of information on NBFIs that are involved in any financial incidents

The FSC/FSS can use the results of off-site surveillance when they conduct supervisory actions, such as recommending (requiring or ordering) management improvement, calculating management status evaluation rating, or setting up examination plans for problematic NBFIs and their areas of weakness.

Management Guidance and Management Control

In order to normalize the operations of ailing MSFCs and credit unions, the FSC can provide management guidance and management control.

Management Guidance of MSFCs

In cases where MSFCs have extended such illegal or non-performing loans as in the following cases, the FSC can issue management Guidance.

- where the sum of loans to a single borrower exceeds 100% of the equity capital of an MSFC;
- where the sum of loans to a capital contributor exceeds 10% of the equity capital of an MSFC;
- when a management official of a MSFC has received disciplinary measures involving dismissal or suspension from office as a result of outside management status examinations;
- when need for management guidance is acknowledged as a result of analysis and evaluation; or
- when an MSFC is subjected to prompt corrective action.

Furthermore, management guidance measures may be enforced in any of the following cases:

member credit union, and submits the aggregated report to the FSS.

- where the sum of loans to a single borrower or the total amount of bad loans is within 30% of the equity capital of an MSFC;
- where loans to capital contributors have been totally redeemed;
- where the FSC has appointed an administrator to an MSFC which has received a Management Improvement Order as a result of management status evaluation.

In principle, management guidance is carried out by stationing FSS staff at the head office or branches of problematic MSFCs. However, a written guidance order can be utilized in cases where the FSS acknowledges that a MSFC under management guidance is unlikely to engage in illegal or unsound management practices after the replacement of its leadership, or has taken security measures for credits such as securing collateral on illegal or bad loans.

Management guidance is carried out for a period of six months. When a MSFC fails to satisfy the requirements for terminating management guidance, the FSC may extend the management guidance period by an additional three months.

Management Control of MSFCs

In order to protect depositors and ensure minimum losses at MSFCs, an administrator who is appointed by the FSS is empowered to conduct the business of an MSFC under management control, and to manage and dispose of its property in the following cases.

Requirements for Management Control

- when it is deemed that an MSFC cannot proceed with management normalization on its own, because examinations have revealed that the MSFC has illegal or bad loans that threaten to erode its capital, and usual methods cannot redeem them in a short period of time;
- when the amount of bad loans to a single borrower exceeds 100% of equity capital;
- when the total loans to a capital contributor exceeds 100% of equity capital;
- when the sum of the above two cases exceeds 100% of equity capital;
- when, in cases falling under reasons for revocation of business licenses, a need for management control is recognized for the protection of depositors; or
- when a need for correction through management control is recognized because it has received prolonged or repeated management guidance, or has violated relevant Acts and received a correction order but has failed to institute corrective measures for a considerable period of time.

A MSFC should, when undergoing management control, make public notification of the

fact within one day of the action and, from that time, the payment of all liabilities, the performance of officers' duties and transfer of stockholder name is wholly suspended.

The MSFC may be subject to any of the following scenarios: proceed with management normalization on its own or by contract transfer to a third party, transfer its business or stocks to other institutions, or declare bankruptcy.

Management Control of Credit Unions

Requirements for Management Control

- when a credit union is deemed to have extended illegal or bad loans, and cannot pursue normalized operations on its own according to the results of an investigation by the FSS;
- when a credit union extends bad loans exceeding its equity capital, due to excessive loans to a single borrower, leading to losses that prevent independent self rescue measures; or
- when the Chairman of the Federation proposes the need for management control after internal analyses & evaluations or investigations

The administrator of a credit union under management control is authorized to execute business orders, manage and dispose of its assets with representative rights, while existing management officials are subject to a suspension of their management rights.

Other Regulatory Tools

Corporate Governance

Recently, corporate governance regulations for MBCs have been enhanced significantly through the introduction of outside directors, audit committees and compliance officers. These improvements will be also applied to MSFCs and CSFC with amendments of relevant laws.

Outside Directors: The Board of Directors of an MBC must include standing and outside directors, and the number of outside directors should be not less than three directors and account for at least 50% of the total number of directors.

Audit Committee: In January 2000, the auditing system was strengthened, and MBCs are now required to establish an audit committee, of which no less than two thirds of the

total members should consist of outside directors.

Internal Controls: MBCs should prepare and enforce internal control regulations for its management officials. Their adherence to these regulations are subject to examinations and, in cases of violations, MBCs must retain at least one compliance official whose job is to prepare and report any violations to the auditing committee.

2. Securities Sector

A. Securities Companies

Securities companies play the key role of introducing and distributing securities issues to investors in the primary market and functioning as dealers and brokers of securities trading. Due to their extensive role and influence in the financial system, securities companies are heavily regulated under the Securities and Exchange Act. Additionally, strong regulation of securities companies is needed to ensure the stable growth and development of capital markets as well as the integrity of securities companies.

Type of Securities Business

Both securities and securities-related businesses are permitted and any company desiring to engage in such business must gaining prior approval from the FSC. Securities companies cannot freely engage in the businesses of other financial sectors, such as banking, but special exceptions are granted on a case-by-case basis. Presently, three main types of securities business are offered as follows:

- *Dealing*: business of buying and selling securities
- *Brokerage*:
  - business of buying and selling securities on consignment;
  - business of acting as an intermediary or agent with respect to the purchase or sale of securities; or
  - business of acting as an intermediary or agent with respect to an entrustment of transactions to be executed on a securities market, an association brokerage market, or a similar market in a foreign country
- *Underwriting*:
  - business of underwriting securities;
  - business of conducting public offerings of outstanding securities; or
  - business of arranging a public offering of new or outstanding securities

Securities companies granted permission from the FSC are permitted to concurrently conduct the following businesses:

- *Credit extension*: business of loaning funds or securities to a customer
- *Securities savings*:
  - business of holding of securities following the sale of securities on an installment basis
  - business of selling and holding securities following the collection of funds in advance from customers
  - business of holding of securities within the scope of a customer's deposit after a customer purchases securities at the KSE or the KOSDAQ market

In addition to the above businesses, securities companies are also allowed to concurrently conduct the following businesses under the approval from the FSC:

- futures trading business that entails trading of stock certificates or index-based futures (based on underlying stock certificates);
- investment advisory services;
- guarantee payment of corporate bonds;
- proxy collection of subscription deposits during public offerings on behalf of a Securities Finance Company; and
- overseas brokerage businesses.

Moreover, securities companies are also permitted to conduct the following incidental businesses in the case of a business that is related to the securities business or a business that is operated by using the manpower, assets, and facilities of the securities company:

- evaluating stocks;
- proxy and intermediary role in M&As;
- dealing or intermediation of dealing of CDs;
- leasing real estate or vault; and
- leasing securities owned by a brokerage, etc.

Entrance Regulation

Licensing System for Securities Businesses

A securities business license must be obtained from the FSC, in accordance with Article 28 of The Securities and Exchange Act (hereinafter referred to as "the Act") in order to conduct securities business. Under the current system, only corporations are eligible to apply for the securities businesses. To apply for a securities business license, various capital requirements must also be met.

The scope of securities business that a company may be licensed for depends on the amount of paid-in capital. Under the Act and the Presidential Decree, the minimum paid-in capital of any securities company that engages in securities businesses is as follows:

- in the case of all three businesses: 50 billion won;
- in the case of brokerage and dealing: 20 billion won;
- in the case of only brokerage: 3 billion won; and
- in the case of only IDB (Inter-Dealer Broker): 2 billion won.

A stock corporation that wishes to gain approval for securities business must submit necessary documents such as trade name, areas of business operation, the Articles of Incorporation, business plan and income projection for two years, etc. After a stock corporation submits the documents, the FSS[27] reviews applicants' capital status, the adequacy of facilities and manpower to support its business plan, soundness of financial status, and prospects for profitability. Also, the FSS reviews whether applicants have sufficient knowledge and experience necessary for conducting securities business and if its business plan is appropriate and sound.

If a foreign securities company intends to obtain permission for establishing a branch office or other business office in order to conduct securities business in Korea, it must first obtain permission from the FSC by the type of business. In accordance with §28-2, operating funds for a branch or business office must be equal to or greater than one billion won. In addition, the operating fund varies according to the scope of its business. A foreign securities company that has not obtained a license for the establishment of branch office or business office is prohibited from conducting securities business with domestic residents. In addition, the FSC, when it intends to grant permission on securities businesses, reviews whether a foreign securities company complies with the criteria falling under each of the following items:

- for the protection of investors, a foreign securities company must have adequate experience in securities business in its home country;
- its property status and business activities should be globally recognized; or
- its branch office must have sufficient business funds to engage in the business by the type for which permission is obtained

"Fit and Proper" Test on Officers

Any person who falls under any of the following items cannot become an officer of a

[27] In accordance with §206-7 of the Act, on behalf of the FSC and the SFC, the FSS carries out the practical matters regarding such as registration of securities issues, examination securities-related institutions, investigation on unfair practices, supervision on securities transactions, etc.

securities company, and any officer of a securities company who falls under any of the following items will face removal from office:

- a minor, an incapacitated person or semi-incapacitated person;
- a bankrupt person who has not been reinstated;
- a person who has been sentenced to punishment more severe than imprisonment without prison labor or to punishment more severe than the imposition of a fine, violation of any foreign statutes related to securities or other finance-related laws corresponding to the Act, and for whom 5 years have not elapsed since execution of such punishment (including cases where the execution of such punishment is deemed to have been suspended or exemption from such punishment);
- a person who has been sentenced to a punishment more severe than imprisonment without prison labor and received a suspended sentence;
- any person who was an officer or an employee of a corporation or a company whose license or authorization, etc., was cancelled pursuant to the Act, any foreign securities statutes or finance-related Acts, and for whom 5 years have yet to elapse from the date on which the license or authorization of such corporation or such company was cancelled; and
- a person who was discharged or dismissed from a securities company, and for whom 5 years have not elapsed since the date of such discharge or dismissal under the Act, any foreign securities statutes or any other statutes that are related to finance.

Prudential Regulations

Equity Capital Ratio

The prudential regulation of securities companies is focused on the equity capital ratio. The ratio is represented as the net operating capital divided by total risk amount and is used as the index to evaluate the liquidity of securities companies and their ability to repay debt.

$$\text{Equity Capital ratio} = \frac{\text{Net Operating Capital}}{\text{Total Risk Amount}} \times 100$$

Securities companies are required to maintain an equity capital ratio above 100%[28] to

[28] In accordance of the Regulation on Securities Business, the minimum equity capital ratio is

avoid insolvency in cases where large losses are incurred due to deterioration of the operational situation or environment. The main composition factors of the equity capital ratio are net operating capital and total risk amount (See the table below). The former consists of net worth, deduction items and addition items. The latter consists of total market risk, counter-party risk, base risk and adjustment.

Table 17

Detailed Items of Equity Capital Ratios

Classification	Items
Net Operating Capital	
Net Worth	
Deduction Items	- Payment in advance - Fixed assets - Affiliated bonds - Subsidiary securities company's overseas bond - Mark-to-market losses
Addition Items	- Bad debt reserve - Subordinated borrowing - Lease payable - Mark-to-maket gain
Total Risk	
Total Market Risk	- Bond risk - Stock risk - Beneficiary risk - Acceptance risk - FX rate risk - Option risk - Other risk
Counter-party Risk	- Guarantee risk - Credit service to customer risk - Other credit risk - Stock borrowing/lending risk - REPO risk - Overdue receivable risk - Derivatives risk
Base Risk	[General expenses – Depreciation – (interest expense-interest income)] × 25
Adjustment	- Credit concentration risk - Risk deduction by hedging

required to maintain over 100%, and yet, in practice, the securities companies should keep the ratio over 150%, otherwise, the PCA will be triggered by the level of the ratio.

The FSS can take measures such as prompt corrective action against any securities company that fails to meet the condition of equity capital ratio. The management improvement recommendation, the management improvement requirement, and the management improvement order may be taken in cases where the equity capital ratio is below 150%, 120%, and 100%, respectively.

Reserve for Securities Trading

A securities company must establish a reserve for securities trading in proportion to the total value of traded securities and profits from transactions (including gains from revaluation of securities as determined by the FSC). This consists of a reserve for securities trading losses and a reserve for securities trading liabilities. The reserve should not be used for any purpose other than to compensate for losses incurred from securities transactions; however, in cases where the FSC permits other uses for the reserve, a securities company may use the reserve for other purposes.

Reserve for securities trading loss: A securities company must accumulate a reserve for securities trading loss to an amount equivalent to 60% of the excess amount in the case securities trading gains (including securities valuation gains to be determined by the FSC and, in the case of securities option trading, trading gains resulting from the exercise of securities options) exceed securities trading loss and valuation loss during the operation period concerned for such securities company.

Reserve for securities trading liability: A securities company must accumulate a reserve for securities trading liability, up to the amount equivalent to the ratio determined by the FSC by the class of securities and type of trading, within 1/10,000 (in case of government bonds, municipal bonds, bonds issued by a corporation established under a special law and corporate bonds, within 1/100,000 of the total transaction amount of such securities company) of the total amount of transactions that have been entrusted to such securities company by its customers during the operation period concerned. At present, in case of stock index futures and options, 3/100,000 of the total transaction amount should be set aside.

Asset Classification and Provisioning

A securities company is required to evaluate the quality of their assets into five categories: Normal, Precautionary, Substandard, Doubtful, and Estimated Loss, and set aside an adequate amount of provisions according to the evaluation. The minimum provisioning ratio is similar to that for banks.

Table 18

Five Categories of Asset Classification

Categories	Minimum Provision Ratio
"Normal"	0.5%
"Precautionary"	2%
"Substandard"	20%
"Doubtful"	75%
"Estimated Loss"	100%

Soundness of Asset Management

Securities companies are prohibited from engaging in any of the following activities:

- the act of owning securities issued by the largest shareholder (referring to a person who, together with any specially related persons, holds the largest number of stocks on the basis of the total number of stocks with voting rights of a securities company) or the major shareholder of a relevant securities company (referring to officers, employees or major stockholders who hold stocks or contribution certificates equal to 10% or more of the total number of voting stocks issued and outstanding or contributions for their own account);
- the act of offering monies or credit to the largest shareholder, major shareholder, or an affiliate company of a relevant securities company;
- the act of directly or indirectly (warranting) guaranteeing the repayment of debts for other persons;
- the act of owning stocks, bonds or commercial papers issued by the largest or major shareholder, or an affiliate company of a relevant securities company in excess of 8% of its total equity capital; and
- any act that may harm the sound management of assets of a securities company.

Management Evaluation

On January 1999, the FSS introduced management evaluation of securities companies to conduct comprehensive evaluation on the management, financial situation, and compliance of the companies. The FSS comprehensively and systematically analyzes,

evaluates, and supervises the property and business status of a securities company in order to judge management and financial soundness.

The management status of securities companies is evaluated through an examination of the following four items:

- capital adequacy;
- financial soundness;
- risk management; and
- internal controls.

During the periods between on-site examinations, evaluations are conducted only on items for which statistical evaluation is possible among the above categories. The management evaluation is targeted on the head offices of securities companies, and the evaluation results are reflected in the application of supervisory and examination measures on securities companies. The ratings of evaluation are classified into five grades:

- first grade (strong);
- second grade (satisfactory);
- third grade (less than satisfactory);
- forth grade (deficient); and
- fifth grade (critically deficient).

Prompt Corrective Action (PCA)

The FSS can take the prompt corrective actions against ailing securities companies in a step-by-step manner as follows.

Management Improvement Recommendation: The FSS will recommend that a securities company take necessary measures for management improvement in cases when the equity capital ratio as of the end of half year or fiscal year falls below 150%. The FSS may also recommend necessary measures in cases where, as a result of management evaluation, the overall rating is the third grade (less than satisfactory) or higher, but the rating of capital adequacy is the fourth grade (deficient) or lower. Lastly when the FSS determines that the above criteria cannot be met due to a financial incident or occurrence of non-performing assets, a recommendation will be issued.

Necessary measures include the following:

- improvement of manpower and organization management;
- curtailment of expenditures;
- efficient management of branches;
- disposition of non-performing assets;
- restriction on any practices causing a decrease in net capital;
- increase or decrease in pain-in capital; and
- freeze on new investments

Management Improvement Requirement: The FSC requires that securities companies subject to management improvement requirements take necessary measures for management improvement in cases where the equity capital ratio as of the end of half year or the fiscal year falls below 120%. The FSC will also require that necessary measures be taken in cases where the overall rating is the fourth grade (deficient) or lower as a result of the management evaluation. Also, when the FSC determines that the above criteria cannot be met due to a financial incident or the occurrence of non-performing assets, a requirement is issued.

Necessary measures for management improvement refer to part or all of the following items:

- restrictions on holding high risk assets and disposition of assets;
- closure, consolidation or restrictions on opening places of business offices;
- curtailment of organization;
- disposal of subsidiaries;
- demand for change in officers' duties;
- suspension of part of business; and
- measures taken in case of management improvement recommendation.

Management Improvement Order: The FSC orders securities companies to take necessary measures for management improvement in cases where the equity capital ratio as of the end of half year or the fiscal year falls below 100%, or in the case where the ratio of assets to liabilities falls short of 100%.

Necessary measures refer to the following items:

- partial retirement of stocks (including retirement of all stocks owned by some stockholders) or combination of shares;
- suspension of business execution by officers and appointment of an administrator;
- merger;
- assignment of all or part of business;
- acquisition of the securities company concerned by a third party; and

- measures taken in the case of management improvement requirement.

Table 19

Criteria for Prompt Corrective Action

PCA	Criteria for PCA
Management Improvement Recommendation	Equity capital ratio<150%
	Overall rating: the third grade (less than satisfactory) or higher, but rating of capital adequacy: the forth grade (deficient) or lower
Management Improvement Requirement	Equity capital ratio<120%
	Overall rating: the fourth grade (deficient) or lower
Management Improvement Order	Equity capital ratio<100%
	Assets to liabilities ratio<100/100

A securities company that has received a management improvement recommendation, requirement or order must submit to the FSS a management improvement plan including the management improvement recommendation, requirement, or order within 2 months after such measure is taken[29].

The FSC makes a decision whether to approve the plan submitted by a securities company that has received a recommendation. The FSC also must decide whether to approve the plan submitted by a securities company that has received a management improvement requirement or order within 1 month after such plan is received. If a management improvement plan is deemed to be not feasible, the FSC/FSS may reject the plan.

The period for implementing the management improvement plan by a securities company that has received a management improvement recommendation or order must be within 6 months or within 1 year from the approval date, respectively. The period for implementing the plan of a securities company that has received a management improvement order is determined by the FSC. A securities company that has obtained approval for its management improvement plan must submit to the FSS a quarterly report on the implementation results of such plan within 10 days from the end of each quarter. A securities company that has implemented the management improvement plan must also submit to the FSS the implementation results of such plan without delay.

[29] Any securities company that receives a management improvement order is required to submit a management improvement plan by an earlier deadline to be determined by the FSC.

The FSC may, when it deems that a securities company has failed to achieve management normalization due to the non-fulfillment of the major matters of the management improvement plan concerned within the implementation period, take necessary measures against the securities company. Such measures include suspension of all business operations, M&A, transfer of all or part of business, recommendation for dismissal of officers, and other measures necessary for the protection of investors.

On-site Examination and Off-site Surveillance

The FSS conducts examinations on securities companies on an on-site and off-site basis. During the examinations, the FSS inspects the business activity and financial condition of a securities company and confirms its observation of relevant regulations.

On-site Examination

On-site examinations are conducted through visits by examiners to securities companies. Such examinations are conducted on an annual basis, but the frequency of the examinations is flexibly operated, depending on the seriousness of off-site surveillance results. The number of examiners varies from five to ten examiners according to the size of the examined securities companies.

In addition, chief examiner or examiners often conduct interviews with management and officers of a securities company in order to identify facts and to discuss management condition. Examiners then reflect the results of the interviews in their management status evaluation.

After examination, the chief examiner prepares a report that sums up the results of an examination and delivers the it to the director of the relevant FSS department. The chief examiner also prepares an examination statement and reports major inspection findings to the Governor of the FSS.

Off-site Surveillance

Off-site surveillance consists of analyzing the securities companies' business results, examining financial statements and detecting any business problems of by collecting information on their business activities. Detailed methods include the following:

- analysis of business reports that are periodically reported by securities companies;

- examination of all reports submitted by securities companies periodically;
- check financial data through IT system connected with securities companies
- selection of major business data and establishment of early warning system to detect problems at securities companies;
- use of interview system with management of securities companies; and
- collection of information relevant to securities companies involved in financial incidents.

The FSS can use the results of off-site surveillance in devising and applying supervisory actions, such as recommending (or requiring, ordering) management improvement, adjusting management status evaluation ratings, or reflecting examination planning and major examination items, for problematic securities companies and their areas of weakness.

Other Regulatory Tools

Corporate Governance

Appointments of Outside Directors: Any securities with total assets of at least 2 trillion won as of the end of the latest fiscal year company (hereinafter referred to as "major securities company") must appoint outside directors to its board of directors, and the number of outside directors should be at least half of the total number of directors. In this case, at least three outside directors must be seated on the board of directors.

Securities companies should establish a committee ("outside director candidate nominating committee") to recommend candidates for outside directors. In this case, outside directors shall comprise at least half of the total members of the outside director candidate nominating committee. When a general meeting of shareholders of the securities company intends to appoint outside directors, it must appoint such persons from among the candidates recommended by the outside director candidate nominating committee.

Any person falling under any of the following items is prohibited from becoming an outside director of a securities company, and such a person must be dismissed as an outside director if found to fall under any of the following items:

- a person who together with any specially related persons holds the largest number of stocks on the basis of the total number of stocks with voting rights of a particular securities company;
- a person that has a special relationship with the largest shareholder;

- the major shareholder;
- a person who was an officer or an employee (referring to a person who worked full-time) of the concerned company or its affiliate, or worked as an officer or employee for the concerned securities company within the preceding two years
- the spouse or relative of an officer of the concerned company;
- an officer or employee of a corporation that has an important business relationship with the relevant securities company, a competitive relationship or a cooperative relationship with such securities company or was an officer or employee for such corporation within the preceding two years;
- officers or employees of a company in which an officer or employee of the concerned company was a non-full-time director; and
- a person who has difficulty in faithfully performing their duties as an outside director or can affect the management of the company.

Moreover, when the resignation or death of an outside director makes it impossible for outside directors to fill half of the members of the board of directors at a securities company that is required to have a board comprised of at least half outside directors, the issue will be resolved at the first general meeting of shareholders convened after the occurrence of such an event.

Audit Committee: Any major securities company must establish an audit committee and not less than two thirds of the total members of the audit committee must be comprised of outside directors.

Compliance Officer: A securities company must appoint or dismiss a compliance officer through the resolution of board of directors (the number for approval is at least 2/3 of the total number of directors). A foreign securities business branch must also appoint or dismiss a compliance officer; however the branch can appoint or dismiss a compliance officer without the resolution of the board of directors. The compliance officer's qualifications state that he or she must be a person who has at least 2 year's experience in the operation of a financial institutions, is a CPA or a attorney who has engaged in relevant businesses for over 2 years, or is a person who holds a Master's degree or higher in a finance-related field and has worked at a research institution. In addition, a compliance officer cannot conduct securities business or its accompanying business in the process of the execution of his or her duty. When a securities company appoints or dismisses a compliance officer, the company must report the fact to the FSS and the Korea Securities Dealers Association (KSDA). Additionally, a securities company must respond faithfully to the sources and information that a compliance officer requests in the conduct of his or her duty.

Prohibited Activities

Prohibition of Unfair Solicitation: A securities company, its officers and employees, are prohibited from engaging in any of the following activities:

- soliciting securities transactions by promising to a customer to assume all or part of the losses incurred as a result of the transaction concerned;
- providing, directly or indirectly, any benefit that has a property value to a customer in relation to the underwriting business of securities for the purpose attracting customers, or to improperly use superior position in transactions to restrict the business activities of customers; and
- other acts relating to the issuance, purchase sale or other transactions of securities that are detrimental to the protection of investors or fairness of transactions, or undermining the credibility of the securities industry.

Prohibition of Arbitrary Purchase and Sale: Officers and employees of a securities company must not, unless they have been entrusted to, engage in purchase and sale transactions of securities, for a customer or as their agent, to engage in purchase and sale transactions of securities with property deposited by customers.

Prohibition of Unfair Demands on Securities Company: No person should unfairly receive monies, services or any other financial interest from a securities company, its officers and employees, in return for the payment of a commission relating to the business of a securities company, or request a securities company or officers and employees of the company to furnish them or a third party with such monies, service or other financial interests.

Restrictions on Officers' Securities Transactions: No officer or employees of any securities company shall make or entrust securities transactions for their own account in any person's name except for securities savings through fixed payroll deduction plans and for other cases as prescribed by Presidential Decree.

Restrictions on Officers' Engaging in Other Business: Where the interests of a full-time officer of a securities company conflicts with those of customers or threatens to impair the sound management of the securities company, the officer can not engage in the regular business of another company or undertake any business of another company.

Separate Deposit of Customer Deposit Money

A securities company that engages in both brokerage and dealing should deposit customer deposit funds separately from its own property in a securities finance corporation ("depositing agency"). Where a securities company deposits customer deposit money in a depositing agency, it must specify that the money is the customers' property.

Moreover, a securities company that has received customer deposit money should not transfer or offer as security customer deposit money deposited in a depositing agency except in special cases, and no person can claim such money.

A depositing securities company must, in any of the following cases, withdraw the customer deposit money deposited in a depositing agency and preferentially pay it out to customers:

- when it resolves to discontinue its business;
- when it receives an order for suspension of business;
- when it has its license revoked;
- when it resolves to dissolve itself; and
- when it has been declared bankrupt

In this case, the securities company concerned should publicly announce the payment time and place for redemption of customer deposits and other matters relating to the payment of customer deposit funds in two daily newspapers.

In addition, a depositing agency should manage customer deposit monies according to the following methods:

- purchase of Government and municipal bonds;
- purchase of bonds whose payment is guaranteed by the Government, local governments or financial institutions; and,
- other methods recognized as being capable of safely managing customer deposit money

B. Collective Investment Scheme

a. Investment Trust (Management) Company

Overview

In the late 1960s, as the Korean economy was undergoing rapid development and modernization, it was recognized that the nation needed a more developed capital market that could facilitate long-term, stable financing of large-scale industrial and

infrastructure projects. In order to develop a more sophisticated capital market, the government established various institutions and introduced new and amended laws and regulations. As part of this process, the securities investment trust industry came into being.

The securities investment trust means a trust in which a trustor entrusts a trustee with funds (trust property) received from investors for the purpose of investing such funds in securities, etc., and has trustee invest and manage the funds in such specified securities as the trustor instructs, and divides beneficial rights thereof so that investors can acquire them (§2 of the Securities Investment Trust Business Act).

There are two categories of companies that are involved in the management of contractual-type investment trusts. The first are Investment Trust Companies (ITCs), which are authorized to provide all services related to fund business. The second are Investment Trust Management Companies (ITMCs), which are only allowed to manage the trusted assets and entrust all sales-related activities to distributors.

In accordance with the Securities Investment Trust Business Act (SITBA), ITCs are authorized to establish and manage a trust, sell its units in the form of beneficiary certificates, and pay redemption amounts as well as dividends of a trust. With announcement of the long-term development plan for the investment trust industry in 1995, it was determined that such an overly diversified business practice should be gradually replaced. Fund managers established after 1996 are restricted to the management of trust assets and are required to entrust all sales-related businesses to distributors including securities companies.

According to the plan, ITCs established before 1996 are, in the long-term, required to gradually separate its sales and management functions and to form two companies, namely a parent securities company and a subsidiary ITMC.

Legal Structure

The legal structure of a contractual-type investment trust is configured when a management company signs a custodial agreement with a trustee company pursuant to a Securities Investment Trust Deed approved by the FSC. After the Manager receives subscriptions from investors and deposits the cash or securities with the Trustee, the Manager may issue the relevant number of units to the investors.

The investment trust is constituted on a triangular relationship among three parties: the Manager, the Trustee, and the Beneficiary. Further details are as follows:

- The Manager and the Trustee, as parties to the custodial agreement, are respectively responsible for the management and safe-keeping of the trust assets. Accordingly, they are in a legally-binding relationship of mutual cooperation as well as acting as a "check" on each other. Both the Manager and the Trustee are deemed to hold a position of trust in relation to the Investors. Separation of the management and custodial functions between the Manager and the Trustee is necessary to protect the interests of the Investors by requiring the parties to ensure that the other party is operating in compliance with the provisions of the Trust Deed and related laws.

- The Manager and the investor are substantive parties to the juristic relationship of the trust contract. The investor is the substantive trustor and the beneficial owner of the assets of the investment trust, while the Manager is the substantive trustee vis-à-vis the investor. The Manager, in turn, entrusts the custodial and other administrative functions to the Trustee. As a result, the structure is an investment trust that consists of two trust contracts. In the case of ITMCs, a third party sales company is the substantive party to the sales contract. The sales company is responsible for the sales and redemption of the beneficial certificates.

- The Trustee and the investor have little direct contact or legal relationship. The Trustee, as the nominal keeper of the trust assets, may influence the trust assets only to the extent necessary for the proper administration and safekeeping of the assets and the Investor, in normal circumstances, may not assert any direct right or claim to the Trustee. Nevertheless, when the FSC declares that distributor and the Manager is insolvent and unable to undertake the redemption, the investor is entitled to demand redemption directly from the Trustee.

Thus, while there exists a legal trustee relationship between the Manager and the Trustee, the primary trust contract legally exists between the Manager, who performs the duties as the active manager of trust assets, and the Investor who is the beneficiary and the proprietor of the underlying assets of the trust contract.

Entrance Regulation

Any person or entity that intends to carry out the business of a management company

(Investment Trust Management Company) should obtain a license from the FSC[30] and, at present, it should be in the form of a stock corporation.

Article 9 and 11 prescribe relevant requirements of conducting the business of management companies. Licensing requirements of a management company are as follows:

- paid-in capital of at least 10 billion won;
- 7 or more operation experts and necessary personnel to implement the business of the management company;
- physical facilities including computer equipment and sufficient space;
- business plan is proper, feasible and lawful; and
- any major investor is required to have sufficient investment capability, sound financial standing and good social credibility.

If a foreign management company that is engaged in the business of a management company in a foreign country pursuant to foreign statutes or subordinate statutes desires to establish a branch office or a business office to engage in the business of a management company in Korea, it should obtain a license from the FSC. In accordance with §42 of the SITBA, licensing requirements of a foreign management company are as follows:

- the operating fund of the domestic branch office or other business office is 3 billion won or greater;
- sufficient personnel, 5 or more operation experts, and physical facilities, including computer equipment, to carry out the business of the management company;
- an appropriate and sound business plan;
- an appropriate property condition and the financial capability of the business to carry out the business operations of such management company, and international good standing; and
- Presently conducting a management company in accordance with foreign statutes or subordinate statutes

Where a foreign management company desires to sell beneficiary certificates that are issued in a foreign country under foreign statutes or subordinate statutes (foreign beneficiary certificates) in Korea, it should report to the FSC in accordance with §42-2 of the SITBA.

[30] In accordance with §58-2 of the SITBA, on behalf of the FSC, the FSS carries out the practical matters regarding such as the approval of terms and conditions of the trust, the registration of the selling company, etc.

Requirements of a foreign management company that intends to sell foreign beneficiary certificates in Korea are as follows:

- greater than 5 trillion won in assets under management as of the end of the latest business year;
- amount deducting the total liabilities from the total assets in the balance sheet as of the end of the latest business year is over the paid-in capital; and
- no record of punishment such as fine or other penalty, or of disposition of business suspension or license revocation in Korea or in foreign countries during the latest 3 years.

Regulation on the trust property

Approval on Terms and Conditions of Trust

If a management company is to establish, or to modify terms and conditions of the trust, it should obtain approval in advance from the FSC according to §22 of the SITBA. If a management company establishes or modifies the standardized terms and conditions of the trust as prescribed by the FSC, or makes terms and conditions of the trust identical to previously approved ones, the approval procedure is replaced with the report to the FSC.

A management company may terminate a trust contract with the approval of the FSC. In this case, a management company may give securities, etc., that are trust properties to the concerned beneficiaries as prescribed by the terms and conditions of the trust. A management company may terminate part of the trust if the issued beneficiary certificates remain unsold or a beneficiary requests the redemption of beneficiary certificates.

A management company should declare to the FSS if the amount of the trust principal becomes less than 10 billion in the case of bond-type trust or hybrid-type trusts, and 5 billion in the case of stock-type trusts as a result of the partial cancellation of trust.

Compilation and Distribution of Prospectus on Investment Trust etc.

Any management company should, where it intends to solicit the acquisition of beneficiary certificates, compile an explanatory statement on the investment trust to furnish in advance to the FSC in accordance with §27 of the SITBA. Any management

company or selling company, in soliciting the acquisition of beneficiary certificates, should furnish prospective buyers with the prospectus on investment trust and explain its major contents to them.

Any management company or selling company may, if necessary, use a profile prospectus on the investment trust summarizing major points of the prospectus on the investment trust. In this case, when any prospective buyer furnished with a profile prospectus on the investment trust acquires beneficiary certificates, that person should be furnished with the prospectus on investment trust.

Any management company should compile a report on the operation of the trust property to supply it to the corresponding beneficiaries of the trust property more than once every 6 months.

Fund Manager

In order to increase specialization and to protect beneficiaries in investing and operating investment trust property in securities, a management company should secure 7 or more fund managers as its full time officers and employees.

A management company should register the matters concerning the fund managers with the Korea Investment Trust Companies Association. The fund manager should have qualifications as described in the following items.

- a person who has worked for securities-related institutions for 3 years or longer, and has experience in the operational business of trust property or discretionary investment services for 2 years or longer;
- a person who holds a Masters degree or higher in the securities-related field, such as in business administration, economics, etc., and has experience in operational services at securities-related institutions for 2 years or longer;
- a CPA who has experience in the operation service at securities-related institutions for 2 years or longer;
- a person who has experience in the operation of trust property for 2 years or longer at a foreign financial institution specializing in the operation of trust property, whose assets under management are 10 trillion won or more; or
- a person who has passed an examination to qualify as a fund manager, which is recognized by the MOFE.

Valuation of Trust Property by the Mark-to-Market Method

A management company should publicly disclose the base price of the beneficiary certificates on a daily basis. The base price of beneficiary certificates is valued according to the market value and is the price dividing the total value of the trust property recorded in the trust account ledger as of the date preceding the date of public notice subtracting total liabilities and trust stabilization reserve fund, by the total number of outstanding shares of beneficiary certificates as of the date preceding the public notice date.

In order to convert the knowledge of investment trust from savings products to investment products, to prevent transfer of trust property's losses to losses of a management company, and to develop the secondary bond market, the FSC established the mark-to-market valuation method for bonds of trust properties in November 1998. The system was applied to new funds that were established after that date. From July 2000, the mark-to-market system was fully applied to all bonds and all funds except MMF as follows:

- *Valuation of listed stocks:* Listed stocks are valued at the closing price of the valuation date quoted in the stock exchange concerned. However, in case such price on the valuation date is not quoted, the closing price quoted retroactively from the valuation date is applicable.

- *Valuation of non-listed stocks:* Non-listed stocks are valued at the acquisition price. However, those quoted in the KOSDAQ should be valued at the closing price on the valuation date. In case such price on the valuation date is not quoted, the closing price quoted retroactively from the valuation date is applicable.

- *Valuation of stock index futures and options:* Stock index futures are valued at the futures settlement price of the valuation date to be released by the KSE. Stock index options should be valued at the base price of margin requirement of the valuation date to be released by the KSE.

- *Valuation of beneficiary certificates:* Beneficiary certificates are valued at the base price of the valuation date to be publicly announced or notified by the management company that has issued such beneficiary certificates.

- *Valuation of listed bonds:* Listed bonds, whose prices have been quoted in the KSE more than 10 days per month for 3 consecutive months retroactively from the immediately preceding month of the month to which the valuation date of such securities belongs, should be valued at the closing price of the valuation date.

- *Valuation of non-listed bonds:* Non-listed bonds are valued by the standard current yield publicly announced every day by the KSDA, taking into consideration the remaining period, and then converting the adjusted yield into the price by adding the spread for the selling risk. They may also be valued on the basis of price information provided by the person designated as the bond evaluation institution by the FSS. In this case, the evaluation method that the management company applies should maintain consistency.

- *Valuation of dishonored claims, etc.*: Dishonored claims, etc. should be evaluated in consideration of the collectibility of principal and interest of such dishonored claims, etc. In case such claims cannot be collected, the portion in the trust property concerned should be amortized more than 50% of the principal.

A management company may also establish and operate a securities valuation committee as an internal organization to calculate spread, value bonds to which the standard current yield is not applicable or designated valuation institution do not provide price information, etc.

Restriction on the Management of the Trust Property

For the purpose of ensuring the public interest and protecting beneficiaries, the FSC may order the dispositions to any management company that commits the following activities deemed detrimental to the fair trade of securities, etc:

- an activity using the trust property to the benefit of a person other than the beneficiary;
- an activity engaging in a trade under unfair conditions significantly different from the ordinary trading terms and conditions;
- an activity in which a person engages in short sale with the intention of increasing the commission on sales of a related securities company;
- an activity in which any person acquires securities, etc., remaining after a related securities company takeover;
- an activity in which any person sells and purchases the stocks, etc., of an enterprise for which the related securities company acted as the manager company with the intention of market making for such stocks, etc; and
- activities of trading securities every month in excess of 20% of the total trading volume of the securities that belong to the trust property and own property, through the respective related securities company.

Regarding investment policy, a management company also should not give a trustee company the following instructions according to §33 of the SITBA:

- investing in the same securities in excess of 10% of the total asset value of each trust property. In this case, securities except stocks from among securities issued by the same company should be deemed to be the same items;
- investing in excess of 20% of the total number of stocks issued by the same company based on the total asset value of the trust property operated by a management company;
- investing in excess of 10% of the total the number of stocks issued by the same company based on the total asset value of each trust property operated by a management company;
- acquiring any beneficiary certificates issued or stocks issued by a securities investment company in excess of 5% of the total asset value of each trust property;
- acquiring as trust property any proprietary property of the management company or any securities of a person having such special relation with the management company;
- acquiring or lending as proprietary property any securities that are the trust property of the management company, or selling or lending them to any specially related persons;
- trading any securities with the intention of benefiting a particular trust property at the sacrifice of another trust property;
- an act in which a management company makes an investment in the total stocks issued by the affiliates in excess of 7% of each trust property;
- an act in which a management company makes an investment in the securities, excluding the stocks, issued by all affiliates with its total trust property in excess of the amount equivalent to the investment ratio to such management company by all affiliates. In this case, the amount equivalent to the investment ratio to the management company concerned by all affiliates should be the amount multiplying the ratio obtained from dividing the number of the voting stocks of such management company held by all affiliates by its total issued voting stocks by its equity capital;
- an act of acquiring securities, etc., by a person who virtually controls a management company and selling company which sold beneficiary certificates more than ratio as prescribed by the FSC that a management company issued, its affiliates in excess of 10% of each trust property. And act of acquiring securities which major investors of a management company issued;
- an act of making cross investments in securities, etc., through a contract or collusion with a third person by a management company belonging to a large conglomerate group; and
- an act of call loaning to a selling company which sold beneficiary certificates

more than ratio as prescribed by the FSC that a management company issued, its affiliates in excess of 10% of the total asset value of each trust property and major investors of a management company.

Where any investment is unavoidably made in excess of the investment limit due to the causes which include the price fluctuation of securities, etc., that are the trust property and the partial termination of the trust property, such investment should be deemed to be made consistently with the investment limit. In this case, the management company concerned should make such investment consistent with the investment limit within 6 months.

A management company should not instruct its Trustee to the following:

- to provide call-loan via Call Broker Company or purchase the commercial paper that Securities Finance Corp. issue for the purpose of borrowing of a management company and its special affiliates;
- to support money to other management company through call-loan or purchasing the CP of the Securities Finance Corp. for the consideration of the borrowing from the trust property of other management company through call-loan or purchasing the CP of the SFC; and
- to use unlawful method to avoid indirectly the prohibition mentioned above

A management company should not instruct its trustee company to acquire in the trust property privately-placement bonds, that are with the credit rating of Credit Evaluation Institution is less than A level. In the case of acquiring private placement bonds issued by the KSE-listed or the KSDA-registered companies with credit rating over A level, however, the acquiring limit is 3/100 (in the case of private placement bonds of the special affiliates, 2/100) of the trust property.

Exercising of Voting Rights concerning Trust Property

A management company falling under any of the following categories should exercise its voting rights in order to ensure that no influence has been exercised in resolutions by holders of stocks that remain after subtracting the number of stocks equivalent to the trust property from the number of stocks participating at such shareholders' meetings (shadow voting).

- where a person falling under each of the following intends to incorporate a corporation that has issued the corresponding stocks that are trust property into their affiliates
  - a management company and special related persons, co-holders
  - a person who exercises virtual control over a management company and a

selling company that sold beneficiary certificates in excess of the ratio as prescribed by the FSC that a management company issued, and major investors of a management company.

- a corporation that has issued stocks that are the corresponding trust property and is entered into a relationship falling under any of the following items with the corresponding management company
  - where a relationship with an affiliate exists
  - where a relationship effects the exercising of virtual control over a management company

However, a management company should exercise voting rights of the trust property in good faith in cases in which it clearly expects to incur a loss to trust properties due to a merger of corporations issuing stocks that are the trust property of the management company, transfer or takeover of business, appointment of officers, or other equivalent matters.

On the other hand, a management company should not exercise voting rights of stocks if the stocks belonging to the trust property are acquired in excess of the limit, etc., and if stocks of the corporation that issued stocks belonging to the trust property are acquired by a management company under the terms and conditions of the trust.

Where a management company exercises voting rights of matters relating to changes in its management rights such as a merger, transfer or takeover of business, or appointment of officers, it should give public notice under the following conditions.

A management company should, when it publicly announces the exercise of its voting rights, announce the details of such exercise 5 days prior to the stockholders' meeting through the KSE or the KOSDAQ.

However, in case a corporation that has issued the stocks with which such voting rights are to be exercised is not a listed or registered corporation, the management company should disclose the details of such exercise at its business offices for public perusal.

A management company should, when it is unable to make public announcement within 5 days prior to a stockholders' meeting because details of agenda thereof are not fixed by then, publicly announce this fact before the date of the stockholders' meeting, and announce the details of such exercise within 5 days from the stockholders' meeting.

Report or Public Notification on Trust Property

A management company should submit quarterly business reports and an annual

operational report to the FSC and the Korea Investment Trust Companies Association. The FSC and the Korea Investment Trust Companies Association should make the documents available to the public. The Investment Trust Association should compare the results of operation including the details of changes in net asset value for each trust property and make public notification of the results.

Financial Audit of Trust Property

Any management company should undergo a financial audit by an auditor with respect to each of its trust properties within 2 months from the expiration date of the trust period. However, this does not apply to privately placed investment trusts and funds of which total assets of the trust property are less than 10 billion at the end date of the trust period.

The FSC, where it deems necessary to protect the public interest or investors, may order the auditor to furnish data, file a report and take other necessary measures with respect to the financial audit of the trust property.

Any auditor that fails to record important matters of its audit report or falsely enters such important matters, thereby causing damages to beneficiaries using the audit report, is liable for compensation to such beneficiaries for any damages. In this case, if an auditor is a member of an audit team, persons who have participated in the audit bear joint liabilities to compensate for damages.

Management Evaluation

Management evaluation refers to the FSC's comprehensive and systematic analysis and evaluation of the status of the properties and business affairs of a management company to judge the management and financial soundness of such management company.

The management evaluation is conducted through examination, and the current status of the company subject to evaluation is evaluated according to the following items.

- appropriateness of capital;
- soundness of assets and liabilities;
- administration;
- profitability;
- liquidity;
- appropriateness of trust property management; and
- risk management.

During the period in which examinations are not conducted, evaluations are conducted only on items whose quantitative evaluation are possible among the evaluation items, and in principle, should be done semi-annually. The FSC should, when it has conducted the management evaluation, classify such results into 5 grades: first grade (excellent), second grade (good), third grade (fair), fourth grade (weak), and fifth grade (risky).

The FSC may utilize the results of management evaluation on management companies for supervisory and examination affairs and request management companies to submit materials necessary for the management evaluation.

Other Regulatory Tools

Corporate Governance

Outside Directors : Outside directors are persons who have not worked for such management company as managing directors. Any management company of which the total amount of trust assets is greater than 6 trillion won at the end of the latest business year should appoint not less than 3 outside directors. In this case, the number of outside directors should not be less than half of the total number of directors.

Any management company should also establish an outside director candidate nominating committee to recommend candidates for outside directors in accordance with the Commercial Code. In this case, outside directors should comprise at least half of the total members of the outside director candidate nominating committee.

When it becomes impossible for a management company makes to meet the requirement for half of the members of the board of directors to be comprised of outside directors due to the resignation, death, etc. of an outside director, the issue should be resolved at the first general meeting of shareholders convened after the event.

Audit Committee: Any management company with total trust assets of more than 6 trillion won at the end of the latest business year should establish an audit committee. Not less than two thirds of the total members of the audit committee should consist of outside directors. Any members of the audit committee who are not outside directors should not be persons who can affect the management of the company.

Where the management company is unable to fill the fixed number of outside directors of the audit committee due to such causes as resignation or death, etc., of an outside director, the issue should be resolved at the first general meeting of shareholders

convened after the occurrence of such an event.

Compliance Officer: The compliance officer is a person who monitors whether the internal control standards are being observed, and is assigned to inspect and report any instances when a person commits a violation of the internal control standards. Management company should appoint at least one compliance officer.

If a management company intends to appoint or dismiss a compliance officer, it should be passed by a resolution of the board of directors. When a management company appoints or dismisses a compliance officer, it must report the fact to the FSC and the Korea Investment Trust Companies Association.

The compliance officer should carry out duties with due diligence and cannot carry out the following duties.

- operating business of management company' s own proprietary property
- management of trust property, sales of beneficiary certificates and other incidental business
- concurrent financial business

If a compliance officer asks for the submission of data or information to officers and employees relating to his own duties, the management company should make its officers and employees meet the request of the compliance officer faithfully and promptly.

The management company should not assess a disadvantage of personnel matters to compliance officer who was before for the reason of relating to his own duties.

Internal Control Standards

The internal control standards of a management company refer to the basic procedures and standards for officers and employees to follow when they perform their duties in order to observe the relevant statutes, soundly manage its assets and protect investors. All management companies should set internal control standards.

If a management company intends to set or revise internal control standards, the board of directors should approve the action. The Financial Supervisory Commission can recommend the revision of internal control standards to prevent recurrence of violations of statutes or subordinate statutes for the management company that violated statutes as a result of examination of the FSS.

Regulation on the Management Companies' Own Property

Classification of Asset Prudence: A management company should periodically classify the quality of its assets (loans, other receivables, accrued income, advance income, dishonored bill receivables and dishonored bonds) into 5 categories – normal, precautionary, substandard, doubtful, estimated loss, and accumulate and maintain proper loss allowances.

A management company should properly assess the estimated withdrawal value of debts classified under the substandard level according to the separate criteria determined by the Governor of the FSS at the end of each quarter. The amount that a management company should accumulate at the end of each quarter should correspond with the following ratios:

- Normal : 0.5/100 of book value;
- Precautionary : 2/100 of book value;
- Substandard : 20/100 of book value;
- Doubtful : 75/100 of book value; and
- Estimated loss : 100/100 of book value.

Restriction of Securities Possession: A management company cannot possess securities, but if obtained from trust properties to apply for redemption of beneficiary certificates, should dispose of the securities within 6 months from the obtaining date.

Management Disclosure: A management company should publicly disclose the matters to be determined in each of the following items within 4 months from the balance sheet date. However, the disclosed materials of settlement for the first half-year should be disclosed within 2 months from the closing date.

- Organization and manpower;
- Finance and income;
- Fund supply and operation;
- Management indices which show prudence, profitability, and productivity; and
- Matters that may greatly influence the management of a management company such as management policy, risk management, etc.

A management company should, when it experiences cases involving a major loss or financial accident that damages or may damage its management soundness, publicly disclose the relevant details.

When a management company makes a false disclosure or omits material facts with respect to the disclosed matters, the FSC may request such management company to make a corrective disclosure or re-disclosure.

b. Securities Investment Company (Mutual Fund)

Overview

Corporate-type investment funds were introduced in Korea in December 1998 while contractual-type investment funds have a long history dating back more than 30 years. Contractual-type investment funds had a market share of 98% of the total outstanding amount of investment funds as of the end of August 1999, indicating the importance of the industry. Notwithstanding the belated introduction of corporate-type investment funds in late 1998, the product has enjoyed conspicuous growth and its market share has continued to expand.

The securities investment company refers to companies established for the purpose of distributing profits gained from investing its assets in securities, etc., to its stockholders. (§2, the Securities Investment Company Act)

For corporate-type investment funds, only closed-end type funds (which are closed for redemption before the liquidation date scheduled at the time of establishment and not allowed issuing additional shares after the initial establishment) have been introduced. Open-end type investment vehicles are expected to be introduced in the coming year (2001).

Legal Structure

The juridical structure of a corporate-type investment fund (SIC) is configured when the fund is established as a legal entity of the Commercial Code. An activated SIC may invest in securities after registering with the FSC. Since an SIC is a paper company composed of cash or securities, it does business by contracting with independent companies for services such as the management and safekeeping of the assets and sales of the shares. A SIC sells its shares through distributors as defined in the SITBA to investors and the investors hold the position of stockholders by buying the shares.

Details on the outsourcing procedures of an SIC in juridical terms are:

- SICs entrust management of the assets to an FSC-registered SIC manager in compliance with the Securities Investment Company Act by contract. The designated SIC manager manages the entrusted assets by the contract under the governance of the Securities Investment Company Act, the ordinance, and the implementing decree; however, in practice, it is usual that the SIC manager

establishes the SIC as the sponsor and becomes an actual principal of the contract. SICs execute their sales business by making a contract with sales agents (normally securities companies or banks) to recruit investors and another contract with a separate asset custodian (currently restricted to banks) to safeguard the assets. They also entrust a company (usually the SIC manager) with general administration to keep the transaction accounts and to handle paper work including the issuance of the shares. Exceptionally, SIC managers can sell the shares of SICs they themselves manage.

- An SIC has decision-making organs and implementing bodies, such as a general meeting of stockholders, a board of directors, executive directors, supervisory directors, an auditor, etc. Investors make the ultimate decision on the operation of the SIC by voting at the general meeting of stockholders and the executive directors together with the supervisory directors comprise the board of the directors as the main organ of decision-making. The executive directors undertake the general administration of the company while the supervisory directors act as supervisors. The auditor is required to be an independent Certified Public Accountant at an accounting firm and checks the company's financial statements.

- The management of the assets of a SIC should be undertaken by an FSC-registered SIC manager. A SIC manager must meet certain criteria. An SIC manager should be a joint-stock company of the Commercial Code with a paid-in capital in excess of seven billion won, should have more than five KITCA-registered fund management staff, and should satisfy the financial soundness guideline of the FSC. Exceptionally, a private placement fund can be set up and operated by the SIC itself without entrusting the management to an SIC manager. Such a fund does not need to comply with the investment restrictions on investment into single investment items and single company's stock. A private placement fund should always have less than 50 investors and no public offering is permitted.

Entrance Regulation

Establishment

A securities investment company should be a stock corporation and there should be at least one or more promoters of a securities investment company. Any person who falls under one of the followings cannot be a promoter.

- a minor, an incapacitated person, or a quasi- incapacitated person;
- a bankrupt person who has not been reinstated;
- a person for whom 5 years have not elapsed since the completion or exemption of the execution of punishment after being sentenced to an imprisonment or heavier penalty, or a fine or heavier punishment under Securities Investment Company Act and other financial statutes or subordinate statutes;
- a person who is sentenced to a suspension of execution of an imprisonment or heavier penalty and whose probation period has not expired;
- a person who was an officer or an employee of a corporation or a company whose business license, authorization or registration, etc., was cancelled in accordance with Securities Investment Company Act and other financial statutes or subordinate statutes (limited to any person who was directly or correspondingly responsible for the cause of the cancellation of such license, etc.) and for whom 5 years have yet to elapse from the date of the cancellation of such business license, authorization or registration against such corporation or such company; and
- a person for whom 5 years have not elapsed since the date of dismissal or removal from that person's office due to a violation of Securities Investment Company Act and other financial statutes or subordinate statutes.

Promoters should prepare the articles of incorporation and record their names and seal or sign thereon. The minimum net asset amount should be 200 million won or more.

Any securities investment company should, when it intends to issue stocks at the time of its establishment by public offering, not issue them unless an issuer thereof submits to the FSC the registration statement regarding the securities concerned and such statement is accepted thereby.

Registration

When a securities investment company intends to engage in the business under the Securities Investment Company Act, it should register with the FSC. Also, when a securities investment company intends to make a registration, it should submit a registration statement and its documents to the FSC. Any securities investment company should be prohibited from public offering new securities and outstanding securities without any registration.

Any securities investment company that intends to make a registration should satisfy the following requirements.

- lawful establishment under the Securities Investment Company Act;

- the capital of 400 million won or more at the time of the registration application;
- directors and auditors not fall under the disqualification conditions respectively;
- an asset management company, custodian, distributor or general administration trustee company that has concluded a business entrustment agreement be in conformity with the provisions concerned and not be in a period where its business has been suspended;
- the contents of the registration statement not be against to the Securities Investment Company Act or the orders thereunder; and
- not be any false or omissions in the registration statement.

When a securities investment company that has made an application for registration meets the requirements for registration, the FSC should enter it in its registration book and notify the fact, without any delay, to the stated securities investment company.

The FSC may, in case a securities investment company that has made an application for registration fails to meet the requirements for registration, reject the registration, and may, in case there are incomplete matters in the registration statement, request that such application be completed within a specified period of time. In this case, the FSC should, without delay, notify such securities investment company by a letter specifying the reason. The FSC should maintain a registration book of securities investment company for public inspection.

In case there is any change in the registered matters, a securities investment company must make a registration of the changed matters within 2 weeks thereafter with the FSC.

Any foreign asset management company should, when it intends to establish branches and other offices so as to engage in the business of asset management in Korea, register thereof with the FSC. The requirements of foreign asset management company are followings.

- It should satisfy the registration requirements of the domestic asset management company; and
- The operating fund of the branch, etc. should be one billion won or greater, and the fund managers should be 3 persons or more

In case a foreign securities investment company intends to sell the stocks issued in foreign countries in accordance with foreign statutes in the domestic markets, an asset management size of the foreign asset management company which manages the assets of such a foreign securities investment company should be more than 7 trillion won as of the end of the latest business year.

Prudential Regulation

Restriction on the Asset Management

A securities investment company should invest and manage its assets by a method falling under one of the followings:

- purchase and sale of securities, etc;
- deposits with financial institutions or extending short-term loans with a maturity of not more than 30 days; and
- futures trading or overseas futures trading.

In the case of futures trading or overseas futures trading, its margin should not exceed 15/100 of the total asset amount of securities investment company.

No securities investment company should manage its assets by any means falling under one of the followings:

- investment in the same issue of securities exceeding 10/100 of the total asset amount. In this case, the securities, excluding stocks among the securities issued by the same company, should be deemed the same issue;
- investment exceeding 10/100 of the total number of stocks issued by the same company;
- acquisition of the securities issued by the principal stockholders of the securities investment company concerned in excess of 10/100 of the total asset amount; and
- acquisition of the beneficiary certificates and of the stocks issued by other securities investment companies in excess of 5/100 of the total asset amount of the securities investment company concerned.

Any securities investment company should not borrow money, guarantee debt or furnish collateral. Provided, that it may borrow money in the cases from those that do not raise any concerns as to the possibility of posing a threat to the interest of stockholders. In the case of borrowing money, the total amount of the borrowing funds should not be in excess of 10/100 of the total asset amount at the borrowing time.

Any securities investment company should not make transactions with a person falling under one of the followings:

- directors of the securities investment company concerned; and

- the asset management company that has been entrusted with the business of the securities investment company concerned.

Prohibition on Use of Undisclosed Asset Operation Information

Any officers of a securities investment company and the officers and employees of an asset management company that engage in the business of managing assets of a securities investment company should be prohibited from performing any act of trading securities, etc., by using undisclosed information pertaining to the asset management of such securities investment company or allow other persons to use such information.

Regulation on Organization of the Securities Investment Company

Stockholders' Meeting: A stockholders' meeting of a securities investment company should be convened by the board of directors. A securities investment company may, in the case of convening a stockholders' meeting, substitute the notice of convening a meeting provided in the Commercial Code to the stockholders who own 1/100 or less of the stocks issued by the said securities investment company.

Any stockholder who does not attend a stockholders' meeting may exercise their voting rights in writing. Any securities investment company should, when it notifies the convening of a stockholders' meeting or when there is a request from stockholders, deliver thereto the form needed to exercise their voting rights in writing. Any stockholder who intends to exercise their voting rights in writing should submit to the securities investment company the form in which the voting rights are exercised one day prior to the scheduled date of a stockholders' meeting.

Directors and Board of Directors: Directors should be classified into executive directors and supervisory directors. The number of supervisory directors should be more than the number of executive directors.

Any person falling under any one of the disqualification conditions of the promoters should not be an executive director.

Any person falling under any one of the followings should not be a supervisory director.

- any person falling under one of the disqualification conditions of the promoters;
- promoters of the securities investment company concerned;
- in case a person and a person having a special relationship with such a person

possess stocks in excess of 10/100 of the total stocks issued by the securities investment company concerned, the person and the specially related persons;
- any specially related persons to an asset management company or distributor;
- any person whose remuneration is regularly paid by an asset management company;
- any director of a securities investment company who holds office as a director of another corporation and also is a full-time officer or employee of such corporation; and
- the spouse or lineal ascendants and descendants of an executive director.

Executive directors administer the business affairs of a securities investment company and represent such securities investment company. Executive directors should report the progress of business accomplished to the board of directors at least once every three months.

Supervisory directors supervise the business management by executive directors, and, when they deem it necessary for executing their duties, request the auditor to submit an audit report.

Supervisory directors may request the executive directors and the asset management company, custodian, distributor, or general administration trustee company that is entrusted with the business of such securities investment company to submit a report concerning the business and property status related to such securities investment company. Any person who is requested from the supervisory directors should comply with such a request unless there is a special reason.

A board of directors' meeting of a securities investment company should be convened by the executive directors or supervisory directors.

An asset management company that has been entrusted with the asset management from a securities investment company should report the details of the asset management, etc., to the board of directors of such securities investment company every 3 months. The board of directors should evaluate the details of the asset management, etc. reported, and should report the evaluation results to its stockholders' meeting at least once a year.

Auditor: The auditor, elected in a shareholders' meeting, should be a certified public accountant who belongs to an accounting corporation. An auditor may, when necessary for performing its duty, request an asset management company, custodian, distributor or general administration trustee company that the securities investment company concerned has entrusted with its business to report the accounting related to the business affairs of such securities investment company. Any person who receives a request from the auditor should comply with such request, unless there is a special reason.

An auditor should, when the auditor determines that the executive director has violated any status or subordinate statutes or the articles of incorporation with respect to the performance of their duties or that they might cause significant losses to the securities investment company concerned, promptly report it to the supervisory directors.

Supervision on the Related Institutions

Asset Management Company: A person who intends to conduct the business on asset management upon entrustment from a securities investment company should register thereof with the FSC.

A person who intends to register as Asset management company should meet the following requirements.

- a stock corporation under the Commercial Code
- 7 billion won or greater paid-in capital
- 5 persons or more specialized fund managers among the officers and employees who work full-time
- officers not fall under any disqualification condition
- the assets exceed liabilities in the balance sheet of the preceding fiscal year

Any asset management company should register the matters on the specialized fund managers with the Korea Investment Trust Companies Association.
Any asset management company should, when it intends to engage in the asset management business in foreign countries, make a declaration thereof to the FSC.

An asset management company should not invest in securities its proprietary property except followings:

- cases where it is unavoidable for the exercise of rights, such as exercise of security right
- cases where the promoters at the time of establishing the securities investment company acquire the stocks of such securities investment company
- cases where the promoters at the time of establishing the securities investment company concerned underwrite within 10/100 of the stocks newly issued by such securities investment company after its establishment
- cases where the asset management company acquires the entrusted SIC's own securities corresponding to the rule prescribed by the FSC

An asset management company should not conduct practices falling under one of the

followings with respect to the asset management business that is entrusted by a securities investment company:

- guaranteeing or promising the realization of a certain amount of profits to the securities investment company that entrusts the asset management business
- compensating all or part of the losses incurred as a result of the management of assets entrusted or to promise the compensation of such losses to the securities investment company that entrusted the asset management business
- seeking profits for the person himself/herself or a third party by utilizing the assets whose management is entrusted by a securities investment company, etc.
- direct acquisition of the securities, etc. owned by the distributor which has been entrusted with a public offering or secondary distribution of the stocks issued by the securities investment company which has entrusted the management company concerned with the asset management, etc.

Custodian: A securities investment company should entrust a custodian with the custody of its assets and the business related thereto. Custodian should be trust companies or financial institutions that engage in the trust business under the Trust Business Act.

No custodian should conduct trading by using the assets entrusted by a securities investment company for its proprietary property. Any custodian should administer the assets entrusted by a securities investment company separately from its proprietary assets or the assets whose custody is entrusted by a third party. Any custodian should deposit securities, among the assets whose custody is entrusted, with the Korea Securities Depository.

Distributor: A securities investment company should entrust a distributor, selling agent, with the business relating to a public offering or secondary distribution of the stocks issued thereby. A person who intends to conduct business relating to a public offering or secondary distribution of stocks upon entrustment from a securities investment company should fall under one of the followings and should register with the FSC.

- securities companies
- management companies
- asset management companies
- other financial institutions

General Administration Trustee Company: Any person who intends to carry on the business of a general administration trustee company upon entrustment from a securities investment company should register thereof with the FSC. Any person who intends to register with the FSC should meet the requirements falling under each of the followings.

- It should be a stock corporation or a corporation engaged in the business of changing the registry entry;
- Its paid-in capital should be not less than 2 billion won or greater;
- It should have professional personnel in conformity with the standards among its full-time officers and employees;
- It should have physical facilities including computer facilities;
- Among its officers, there should not be a person falling under disqualification condition of the promoters; and
- It should not be an asset management company

A general administration trustee company should, when the activity of managing assets by an asset management company is in contravention of relevant statutes or the content of an investment prospectus, demand the withdrawal, alteration or correction of such activity.

Securities Investment Company for Corporate Restructuring

The investment limits of asset does not apply to a securities investment company for corporate restructuring satisfying the requirements in the followings:

- In case it invests in securities newly issued through capital increase or issuance of corporate bonds, securities acquired by the financial institutions through transferring their loans to the corporation concerned into the capital investment thereto, for which 6 months have not elapsed since the acquisition, from among those issued by corporation that do not belong to large conglomerate groups, and the ratio of investment in such securities exceeds 50/100;
- The duration period of business after its establishment should be longer than 3 years; and
- It should not be an open-ended securities investment company.

A foreign asset management company satisfying the registration requirements of the domestic asset management company may, without establishing its branches and other offices, receive an entrustment of asset management from the securities investment company for corporate restructuring.

Any foreign asset management company should, when it manages the assets of a securities investment company for corporate restructuring, designate an agent in Korea in order to maintain a communication channel with the FSC.

Other Regulatory Tools

Corporate Governance

Internal Control Standards: An asset management company should observe relevant statutes, manage its assets in a sound manner and establish basic procedures and standards to be followed by its officers and employees, when they perform their duties.

Compliance Officer: An asset management company should monitor whether its internal control standards are observed and appoint not less than one person assigned to investigate any violation of the internal control standards and report the results to the auditor.

Regulations of the Disclosure

Prospectus: A promoter should prepare the application form for stocks and provide it to the persons intending to subscribe for underwriting of the stocks to be issued at the time of establishment. Any promoter who intends to solicit subscriptions to underwrite stocks to be issued at the time of establishment should draft a prospectus and file it in advance with the FSC. Any promoter that solicits subscriptions to underwrite stocks to be issued at the time of establishment should provide prospective underwriters with a prospectus filed with the FSC and provide an explanation of major points. Any promoter, if necessary, may use a profile prospectus consisting of a summary of the major points of the prospectus filed with the FSC to solicit subscriptions to underwrite stocks.

Business Report, etc.: Any securities investment company should file a monthly business report and annual report with the FSC and the KITCA, and should maintain the business report and annual report, and deliver copies of such report to the asset management company and distributor for the maintenance thereof at their business offices. The Korea Investment Trust Companies Association should publicly disclose the comparative performance results, including the change in the net asset value of a securities investment company.

Report of Insufficient Net Asset Value: Any securities investment company should, when its net asset is less than the minimum net asset, report this fact to the FSC within 3 days from the date on which such insufficiency occurs. The FSC should, in case the net asset value of a securities investment company continues to remain less than the minimum net asset for consecutive 3 months, notify such securities investment company that it will revoke its registration.

c. Investment Advisory Companies

Overview

The Securities and Exchange Act was amended in 1987, permitting the operation of investment advisory business. And the Securities Investment Trust Business Law was revised in December 1995, separating the securities investment advisory business from the investment trust business.

Investment advisory companies can manage investment advisory business, providing investment advice to customers, and discretionary investment business, directly investing the customer-entrusted assets.

The investment advisory business means a business of offering advice orally or in writing, or in any other manner, with respect to the value of securities or the investment judgement on securities such as judgement on the kinds, items, quantity, price, and the classification, method and time of trading the securities. (*Article 2, the Securities and Exchange Act*)

The discretionary investment business means a business of making investments for customers after being entrusted by such customers with the whole or part of the investment judgement based on an analysis of the value, etc., of securities. (*Article 2, the Securities and Exchange Act*)

Entrance Regulation

Any person who intends to operate an investment advisory business or discretionary investment business should register their business with the FSC.

A company which intends to register as an investment advisory business with the FSC should satisfy the following requirements: *(Article 41-7, Enforcement Decree of the Securities and Exchange Act)*

- a stock corporation with its paid-in capital of 500 million won or more;
- 1 or more independent operation expert(s) out of its full time officers and 2 or more out of its full time employees; and
- no other company engaging in investment advisory business within its business group

A company which intends to register with the FSC a discretionary investment business should meet the following requirements. *(Article 41-7, Enforcement Decree of the Securities and Exchange Act)*

- a stock corporation with the paid-in capital of 3 billion won or more;
- 1 or more investment operation expert(s) out of its full time officers and 4 or more out of its full time employees;
- the amount subtracting its liabilities from its assets more than its paid-in capital as of the preceding fiscal year-end; and
- no other company engaging in a discretionary investment business within its business group.

In case the largest stockholder of a company which intends to register is a foreigner, he/she should meet the requirements falling under each of the followings: *(Article 41-7, Enforcement Decree of the Securities and Exchange Act)*

- engaging in the investment advisory business or discretionary investment business in its home country
- the amount subtracting its liabilities from its assets more than its paid-in capital as of the preceding fiscal year-end
- no record of a disciplinary measure of a warning to the company or heavier discipline from its home country's supervisory authority, or of a criminal punishment of a fine or heavier punishment during the past 3 years

A foreign investment advisory business person who intends to operate an investment advisory business or discretionary investment business in a direct manner by using a communication method, or by establishing a branch office or other business place in Korea, should register with the FSC.

In this case, the following requirements are applied:

- engaging in the investment advisory business or discretionary investment business in its home country.
- no record of a disciplinary measure of a warning to the company or heavier discipline from its home country's supervisory authority, or of a criminal punishment of a fine or heavier punishment during the past 2 years
- The minimum amount of business funds of a business office such as a branch, etc.
  - investment advisory business : 300 million won
  - discretionary investment business : 1 billion won
- appropriate investment operation experts by service

Prudential Regulation

Business Guarantee Money

The investment advisory company should deposit the business guaranty money with a financial institution under the following conditions.

- 50 million won or more in the case of the registration of the investment advisory business
- 100 million won or more in the case of the registration of the discretionary investment business
- 100 million won or more in the case of the concurrent registration of the investment advisory business and discretionary investment businesses

The investment advisory company is prohibited from transferring the business guaranty money or offering it as security except such cases as dissolution, change of business, etc.

Maintenance of Sound Business Order

An investment advisory company should, when its customer provides it with discretionary power of investment, have full information on the purpose, investment experience, degree of risk preference, estimated period of investment, etc. of such customer in writing.

An investment advisory company should not take entrustment from its customers with respect to the followings:

- designation or change of a securities company or other financial institution which takes deposition of the contracted property of discretionary investment;
- deposition or withdrawal of the contracted property of discretionary investment; and
- exercise of the voting rights or other rights of securities arising from the contracted property of discretionary investment.

An investment advisory company should not receive from customers any additional remuneration other than the fee agreed at the time of concluding the contract of investment advice or discretionary investment. When an investment advisory company intends to receive fees based on capital gains or the valuation gains, in order to prevent excessively risky transactions or dispute on fees, it should conclude the contract that

conforms to the standards determined by the FSC.

Prohibited Activities

An investment advisory company or its officers and employees should not conduct any of the followings in connection with its business:

- conducting any activities as corresponding to securities business;
- receiving a custody or deposit of money or securities from customers;
- lending money or securities to customers, or intermediating, arranging or acting as an agent for lending money or securities of the third person to customers;
- making a promise to guarantee certain profits or division of profits, or to bear the whole or part of loss with customers with respect to an investment in securities;
- giving advice without any justifiable ground for the purpose of obtaining any profit for themselves or a third person other than customers by taking advantage of fluctuations in the price of securities that result from the purchase and sale for customers who obtain such advice about such securities;
- circulating any false information and other rumors without any grounds; and
- any activities that may harm the fair transaction order and mislead an investment decision of investors.

Regulation of Similar Business to Investment Advisory Business

When a person, other than investment advisory companies, intends to conduct investment advisory business, for remuneration, by means of the periodicals, publications, correspondence, or broadcasting, etc. which are published or transmitted for the unspecified persons and can be purchased or received thereby, he/she should report to the FSC; it is empowered to the FSS.

The FSS may, when deemed necessary for maintaining order of the business similar to investment advisory business and for protecting investors, demand that the person engaging therein should submit the data on the contents, methods, etc. of business.

C. Futures Trading Companies

Overview

Futures business refers to the business of engaging in futures trading or overseas futures trading for a company's own account or on behalf of a customer or business by assuming the duties of a broker, intermediary, or agent for a customer. A futures trading company means a company that has obtained permission in accordance with relevant laws to engage in the futures business.

Entrance Regulation

According to Article 37-38 of the Futures Trading Act, any person who intends to engage in futures trading business must be a corporation and obtain permission from the FSC. A foreign corporation must also obtain permission from the FSC when it intends to open a branch or other business office in order to engage in futures trading business in Korea. The FSC can grant conditional approval futures trading business.

When an application for permission is filed, the FSC/FSS checks whether the application complies with entrance criteria including the following items:

- a corporation with paid-in capital of 3 billion won or more;
- capable of adequately protecting customers, and fully equipped with the manpower and physical facilities such as computer facilities, etc. sufficient to operate futures business;
- business plan is adequate and sound; and
- major shareholders have sufficient financial contribution ability, sound financial status and social standing or credibility.

"Fit and Proper" Test on Officers

Any person who falls under any of the following categories cannot become an officer of a futures trading company, and any officer of a futures trading company who falls under any of the following items will be subject to removal:

- a minor or a person deemed as incompetent or quasi-incompetent;
- a person who has filed for bankruptcy and has not been reinstated;
- a person who was sentenced to imprisonment without prison labor or more

severe punishment, and for whom five years have not passed since completion of or exemption from execution of such punishment;

- a person who has received a suspended sentence of imprisonment and whose probation period has not expired;
- a person who has been sentenced to a fine or more severe punishment under the Futures Trading Act, foreign laws relating to futures trading, or other finance-related laws such as the Banking Act, the Insurance Business Act, the Securities and Exchange Act, etc., and for whom five years have not passed since the completion of or exemption from the execution of such punishment;
- a person for whom five years have not passed since being discharged or dismissed under the Futures Trading Act or other finance-related laws; and
- a person who was an officer or employee of a juridical person or firm whose license or authorization for business was cancelled under the Futures Trading Act, foreign laws relating to futures trading, or other finance-related laws, and for whom five years have not passed from the date on which such cancellation was made against the relevant juridical person or company.

Prudential Regulation

Report on Net capital ratio (equity capital ratio)

A futures trading company should maintain an adjusted net capital ratio (equity capital ratio) of over 100% to ensure sound management. The adjusted net capital ratio (equity capital ratio) is represented by the percentage ratio of adjusted equity capital to gross risks as represented in the following formula :

Calculation of the Adjusted Net Capital

Adjusted Net Capital =	(The amount after deducting the total liabilities from the total assets in the balance sheet as of the base date) – (the sum of deducting items) + (the sum of adding items)

The detail of deducted items and added items are shown in the following table.

Table 20

Deducted and Added Items in Adjusted Net Capital

Classification	Detailed Items
Added Items	• Allowance for bad debts accumulated in current assets • Subordinated borrowings • Obligation under financing lease • Other profits arising from the market price valuation of the securities, etc. which are not reflected in net property
Deducted Items	• Advance payment, prepaid expenses, and prepaid income tax • Fixed assets • Claims, etc. on the person having a special relationship • An amount obtained from multiplying the losses of subsidiaries by the share owned by a futures trading company • Gains on valuation of unmarketable contracts among over-the –counter derivatives • Loss resulting from the market price evaluation of the marketable securities, etc. which are not reflected in the net property • Account receivable of customers • Overseas claims held by the domestic branch and business offices of a foreign corporation that has obtained the permission of futures trading business in Korea

Calculation of Gross Risk Amount

Gross risk amount
= Market risk amount + Counter-party risk amount + Fundamental risk amount + Credit concentration risk amount – Offset risk amount

- Market risk: the amount of losses that a futures trading company may suffer from the adverse fluctuations in stock prices, interest rates, exchange rates, etc.
- Counter-party risk: the amount of losses that a futures trading company may suffer from counter-party's non-fulfillment of redemption or settlement

obligation to itself or the third party.

- Fundamental risk: the amount losses from the incident, error, illegal or unfair business practices of its officers and employees.
- Credit concentration risk: the risk is divided by the case where a futures trading company gives credit to a single borrower and the case where owns or sells short the total stocks issued by a single borrower.
- Offset risk: the amount by which the market price risk amount has been definitely decreased through a futures trading company's short sales, hedge transactions, arbitrage, and other methods that reduce the risk systematically.

A futures trading company must prepare the report on adjusted net capital ratio (equity capital ratio) at of the end every month but the regulation will soon be amended to require a quarterly report that would be submitted to the FSS by the 15th day of the following month. In addition, a futures trading company must, in the case when its adjusted net capital ratio (equity capital ratio) falls or is likely to fall below 150%, report the fact to the FSS within 6 business days from the date on which it recognizes such fact. If the adjusted net capital ratio is expected to fall below 120%, however, a futures company must make a report within 3 business, and within 2 business days if it expects the ratio to fall under 100%. Moreover, a futures trading company whose net capital ratio falls short of 150%, in the case where its net capital decrease is over 10% compared with the end of latest month, must submit a report to the FSS within 3 business days

Ratio of Asset to Liabilities

The ratio of assets to liabilities refers to the percentage expression of value obtained by dividing assets by liabilities after evaluating the assets and liabilities at actual value. A futures trading company must prepare a report on the ratio at the end each half-year or fiscal year, and submit it to the FSS by the 15th day of the following month.

Accumulation of Liability Reserve

A futures trading company must accumulate a liability reserve to indemnify customers from any losses that may be incurred due to the default of obligations, violation of laws or negligence by its officers or employees during the course of carrying out futures business. In the case where disposable retained earnings exceed the amount corresponding to 1/1,000 of the total brokerage commissions, the liability reserve for futures trading to be accumulated by a futures trading company every fiscal year should be the amount corresponding to 1/1,000 of the amount of brokerage commission.

Moreover, the reserve cannot be used except for the cases falling under one of the following items:

- where a futures trading company indemnifies its customers for losses incurred due to violation of statutes and regulations or negligence of duties by its officers and employees; and
- where a futures trading company refunds the money that has not been used more than 3 fiscal years after accumulation of such reserve

Prompt Corrective Action (PCA)

The FSS may enforce prompt corrective action (PCA) against futures trading companies in accordance with the following steps:

Management Improvement Recommendation: The FSS can recommend that a futures trading company promptly take measures for management improvement if it should fall under any on of the following cases:

- where the adjusted net capital ratio (equity capital ratio) falls short of 150%; or
- where it is deemed certain that the ratio will fall short of the above standard due to the occurrence of a major financial incident or bad credits.

The necessary measures that may be taken include the following:

- improvement of manpower and organizational management;
- curtailment of expenditures;
- efficient management of branches;
- disposition of non-performing assets;
- restriction on practices causing a decrease in net capital;
- restrictions on entrance into new business; and
- increase or decrease in paid-in capital

Management Improvement Requirement: The FSC may require a futures trading company to take necessary measures for management improvement in the case where the company falls under one of the following items:

- where the adjusted net capital falls short of 120%; or
- where it is deemed certain that the ratio will fall short of the above standard due to the occurrence of a major financial incident or bad credits.

The necessary measures for management improvement refer to the one of the following

items:

- restrictions on holding risk assets and disposition of assets;
- closure, consolidation or restriction on opening business offices;
- curtailment of organization;
- disposal of subsidiaries;
- demand for the change of officer's duties;
- suspension of part of business;
- establishment of plan to merge or assign all or part of business;
- establishment of plan for entry in financial holding company as subsidiary in accordance with the Financial Holding Company Act; and
- measures taken in case of management improvement recommendation.

Management Improvement Order: The FSC may order the implementation of necessary measures in the case where a futures trading company falls under one of the following items:

- where the adjusted net capital ratio (equity capital ratio) falls short of 100%, or
- where it is deemed an ailing financial institutions as determined by the Act on Structural Improvement of Financial Industry

The necessary measures refer to the following items:

- partial or complete retirement of stocks;
- suspension of business execution of officers and appointment of an administrator;
- establishment of plan for entry into a financial holding company as a subsidiary in accordance with the Financial Holding Company Act;
- transfer of part or all of its business operations;
- acquisition of concerned futures trading company by a third party;
- suspension of business for up to 6 months;
- transfer of part or all of its contracts; and
- measures taken in the case of management improvement requirement.

A futures trading company that has received a management improvement recommendation, requirement or order, is required to submit a management improvement plan to the FSS or FSC[31], and must implement the plan as below. The FSS or FSC can take necessary measures against a futures trading company that has not faithfully implemented its management improvement plan.

[31] In case of management improvement requirement or order, the FSC takes the necessary action for itself

The futures trading company that has received a management improvement recommendation, requirement, or order must submit to the FSS a management improvement plan including the management improvement recommendation, requirement, or order within 2 months after such measure is taken[32].

The FSS can promptly conduct a diagnosis of management or request that a management diagnosis be conducted by an independent professional institution on a futures trading company that has received a management improvement order.

The FSC decides whether to approve the plan submitted by a futures trading company that has received a management improvement recommendation or requirement. The FSC also must decide whether to approve the plan submitted by the futures trading company that has received a management improvement order within 1 month after such plan is received. If a management improvement plan is deemed to be not appropriate or feasible, the FSC may reject the plan.

The period for implementing the management improvement plan of a futures trading company that has received a management improvement recommendation or order must be within 6 months to 1 year from the approval date, respectively. The period for implementing the management improvement plan of a futures trading company that has received a management improvement order is determined by the FSC. A futures trading company that has obtained approval for its management improvement plan must submit a quarterly report on the implementation results of the plan to the FSS within 10 days from the end of each quarter. Moreover, the FSS can take necessary measures, such as pressing implementation within a fixed period, in cases where the implementation results of a futures trading company are deemed unsatisfactory or it can be judged that the company cannot implement its plan due to a change in relevant systems or circumstances. A futures trading company that has implemented a management improvement plan must also submit to the FSS or the FSC the implementation results of such plan without delay.

The FSC may, when it deems that a futures trading company has failed to achieve management normalization due to non-fulfillment of the major items of its management improvement plan within the implementation period, enforce additional measures against the futures trading company. Such measures include business suspension, M&A, transfer of all or part of business, recommendation for dismissal of officers, and other measures necessary for the protection of investors.

[32] Any futures trading company that receives a management improvement order is required to submit a management improvement plan by an earlier deadline to be determined by the FSC.

Other Regulatory Tools

Internal Control of Financial Risks

Futures trading companies should clearly set forth the basic procedures and standards (internal control standards) to be observed by officers and employees in carrying out their duties, in order to observe the Acts and subordinate statutes, maintain sound asset management, and protect customers.

The internal control standard must contain the following items:

- matters on delegation of responsibility and organizational structure;
- matters on risk management in the process of asset management; and
- internal controls and disciplinary procedures that must be obeyed by officers and employees in the process of conducting duties.

Prohibited Activities

Prohibition of Improper Solicitation: A futures trading company, its officers and employees shall engage in any of the following activities:

- solicit execution of a contract by making a promise to compensate for all or part of losses incurred by a customer or to guarantee profits to a customer;
- solicit execution of a contract by presenting a conclusive judgment that misleads customers to believe that profits would be guaranteed;
- make an offer or engage in brokerage, etc. without executing a contract and seek *ex post facto* confirmation from a customer;
- acquire entrustment margins or brokerage commissions by using false prices or employing unjust methods in connection with a contract;
- refuse or unjustifiably delay the making of an offer or brokerage, etc. of futures trading, pursuant to a contract or the fulfillment of all or part of the obligations arising from such contracts; and
- other acts as prescribed by the Presidential Decree that are in conflict with customer protection in the acceptance of entrustment with respect to futures trading, etc., or that are harmful to fair execution of futures trading, etc.

A futures trading company and its officers and employees who engage in the above prohibited actions are liable for the damages incurred by a customer resulting from such transactions.

Trading Limits of Officers and Employees: Officers and employees of a futures

trading company may not commit an entrustment of futures trading, etc. on their account, regardless of what account name it may be under.

In addition, a futures trading company cannot accept an entrustment of futures trading, etc. whereby a customer gives the futures trading company full discretion to decide all or a part of trade terms such as type of futures trading, price, or volume.

Separate Custody of Customer Deposits

A futures trading company must comply with the matters prescribed by the FSC with respect to the management of monies or securities deposited by the customer in connection with futures trading, etc., and any other assets belonging to a customer's account, and with respect to the accounting treatment.

A futures trading company must deposit customers' monies, in connection with futures trading or any other financial property belonging to a customer ("customer deposits") separately from its own property and with a Securities Finance Corporation pursuant to the Securities and Exchange Act ("depository institution").

When a futures trading company deposits customer funds with a depository institution, it must specify that such deposits are the customer's property, and a futures trading company that has deposited customer deposits ("depository futures trading company") cannot assign or offer customer deposits as security. In addition, no person is able to set off or attach them.

Moreover a depository futures trading company must withdraw customer deposits deposited with the depository institution and preferentially pay them to customers if the futures trading company falls under any of the following cases:

- where it resolves to discontinue its business operations;
- where it receives an order for suspension of business operations;
- where it has its license or permission for business cancelled;
- where it resolves to be dissolved; and
- where it is declared bankrupt.

In addition, the depository must also operate customer deposits through such methods as the purchase of government bonds and/or municipal bonds or the purchase of bonds for which payment is guaranteed by the government, local governments or financial institutions.

A futures trading company must promptly deposit customer securities and bonds that

are entitled to be held under entrustment of futures trading or other transactions with the Korea Securities Depository.

Overseas Futures Trading

Any person wishing to carry out overseas futures trading must do so through a futures trading company.

Moreover, a futures trading company's acceptance of entrustment with respect to overseas futures trading and fulfillment of a pertinent brokerage, etc. must comply with the matters falling under each of the following items that are to be determined by the FSC:

- classification of customers, and the scope of entrusting customers' orders or brokerage;
- account types and administration of accounts;
- receipt and management of customers margins; and
- other matters on entrusting customers orders and brokerage, etc.

3. Insurance Sector

Overview

The insurance business is generally defined as the management of an insurer's property for the fulfillment of claims or benefits payment obligations on the insurance contract for fortuitous losses by collecting premiums paid by the insured, which is comprised of an unspecified number of the general public. Due to its unique traits, insurance business entails both public and social responsibilities. The insurance industry is therefore subject to strict legal regulation and supervision in order to establish a fair order in insurance transactions and to protect the general public. This is in recognition of the fact that the insured is often subject to unilateral pressure to purchase insurance policies in the form of recommendations from insurance salespersons rather purchasing policies based on an independent evaluation of the managerial or financial status of the insurance companies.

The type of supervision by regulators depends on the situation and policy of a country, but most regulators place various regulations on insurance businesses with a view to protecting policyholders and the national economy. Considering the public responsibility of insurance, Korea has also adopted a practical supervisory system that exercises stringent surveillance and regulation on the insurance industry ranging from entry into business to exit from the market.

Companies that wish to enter into the insurance business should get licenses from the FSC and FSS. The FSS guides insurance companies by establishing the standards of financial soundness, such as the solvency margin regulation, in order to monitor claims payment capability even after granting approval, and strictly supervises the overall management of insurance companies to foster a fundamentally sound and healthy insurance industry.

The FSS's major supervisory and regulatory matters relating to the insurance business are as follows:

- authorization and registration of business
  - permission of insurance business;
  - permission for concurrent operation of other business;
  - registration of insurance agents and insurance brokers.

- authorization and approval
  - approval of amendments to basic documents such as the Articles of Incorporation;
  - approval of conclusion, change and abolition of mutual agreement;
  - approval of capital reduction;
  - approval of transfer of insurance contracts and business;
  - authorization of dissolution and mergers, etc.;
  - approval of exceptions on operation of insurer's assets;
  - approval of insurer's share participation in subsidiary.

- matters to report
  - change of trade name or denomination;
  - appointment and dismissal of executive officers;
  - change of major shareholder;
  - suspension or resumption of business of the insurer's head office;
  - increase in the insurer's capital or foundation fund;
  - foreign direct investment or the establishment of an office or branch in foreign countries;
  - resolution to change the structure of the insurer's organization.

- miscellaneous matters
  - public notice of the insurer's managerial results such as financial situation and profit and loss, etc.;
  - public notice of the insurance products;
  - submission of financial statements and operation results.

Entrance Regulation

A juridical person or entity that intends to engage in the insurance business should obtain a license from the FSC, and the persons eligible to obtain such a license are limited to a stock corporation, a mutual company, and a foreign insurer. No insurance business is allowed to commence unless it has at least 30 billion won or more in paid-in capital or foundation funds. In the case of conducting insurance business as a single line insurer, 10 or 20 billion won is to be paid-in depending on the kind of the insurance line. An insurer should deposit funds for the protection of policyholders (hereinfter referred to as "protection deposits") to the FSS, and should be 30% of the paid-in capital or the foundation fund prior to commencing its business.

In case a foreign insurer intends to engage in the insurance business in Korea in a form of a branch office, such insurer should also be conducting insurance business in its home country. It should retain a least 3 billion won in paid-in capital and should deposit adequate protection deposit in accordance with the requirements mentioned above.

Prudential Regulation

An insurer should maintain a solvency margin ratio of 100% or more in order to secure capital, asset, and managerial soundness. An insurer also should classify assets such as loans and invested securities in terms of soundness and reserve bad debt allowance at a certain ratio or greater.

Solvency margin

The FSS has adopted the EU-based solvency margin method as a standard guideline for the financial soundness of insurance companies. The FSS uses the solvency margin ratio as the criteria to evaluate the financial soundness of insurance companies, and requires insurers to maintain a solvency margin ratio of 100% or more, which is calculated by dividing the solvency margin by the solvency margin standard.

$$\textbf{Solvency Margin Ratio} = \frac{\text{solvency margin (actual)}}{\text{solvency margin standard (required)}} \geq 100\%$$

- *Solvency margin (actual):* Solvency margin refers to the amount that an insurer retains in excess of its liabilities such as underwriting reserves, that is, an insurer's surplus payment capacity. The solvency margin amount is calculated by subtracting the sum of non-amortized initial expenses and intangible assets such as goodwill and prepaid expenses from the sum of the capital account such as paid-in capital, capital surplus, retained earnings and capital adjustment plus the amount of allowance for bad debts out of assets classified as "normal" and "precautionary," plus subordinated debt, policyholders' profit dividend reserve and catastrophe reserve.

- *Solvency margin standard (required):* Solvency margin standard means the minimum amount (required solvency by regulatory body) that an insurer should retain to meet its liabilities. The standard is set by the FSS. The standard applies differently to non-life insurers and life insurers depending on the characteristics of an insurer as follows.

  - *Life insurer:* The solvency margin standard of life insurers is the sum of the amount calculated by multiplying the loss reserve risk quotient (4%) to amount calculated by subtracting non-amortized initial expenses from policy reserve amount based on pure premium, plus the amount arrived by multiplying insurance risk quotient to the risk claim amount. The FSS has arranged for the calculation ratio of the above solvency margin standard amount to be phased in by increasing the standard at an interval of every 6 months from September 1999, thus arriving at the level of EU standards by March 2004.

  - *Non-life insurer:* In the case of non-life insurance, the solvency margin standard should be the sum of the amounts calculated separately by traditional non-life insurance and long term insurance. For general insurance, a premium-based amount or a claim-based amount, whichever is greater, each calculated by class of insurance, should be the solvency margin standard. For long term insurance, the solvency margin standard shall be the sum of 4% of policy reserve at the end of each year plus a premium-based amount, or a claim-based amount, whichever is greater.

Classification Standard of Asset Soundness

Insurers should regularly classify the soundness of their assets into five different categories: "normal", "precautionary", "substandard", "doubtful", and "estimated loss", and accumulate adequate allowance for bad debts. The amount of allowance for bad debts that insurers shall accumulate, pursuant to the results of classification of their asset soundness, is as follows:

Table 21

Standards for Classification and Provisioning

Classification of Soundness	Provisioning Standards
Normal	More than 0.5%
Precautionary	More than 2%
Substandard	More than 20%
Doubtful	More than 50%
Estimated Loss	100%

Evaluation System of Management Status

The evaluation system of management status, the so-called CAMEL system, for insurance companies is divided into 5 parts: Capital adequacy (solvency margin), Asset soundness, Management, Earnings (profitability) and Liquidity. The evaluation is made in terms of quantitative and non-quantitative standards. Evaluation of insurance companies is made differently from the banking and securities sectors by putting a weight according to evaluation criteria and parts. Each management status part is rated on a scale of one through five. A "1" represents the highest and a "5" the lowest level of operating performance.

The FSS will enhance the reliability of the evaluation system of management status by making all insurance companies that have operated continuously for two (2) or more years subject to on-site evaluation. Contrary to the previous evaluation of management status, evaluation results are not publicly disclosed. Instead, the results are used as internal data by the FSS for supervision and inspection and applied to prompt corrective actions such as management improvement recommendations, management improvement requirements, and management improvement orders, depending on the results of the evaluation.

Table 22

Evaluation Procedure

1st stage	*Evaluation of quantitative items: estimation of provisional evaluation grade by part * Evaluation of non-quantitative items
⇩	
2nd stage	*Determination of evaluation grade by part (1~5 grades): by comprehensively considering the analysis result of non-quantitative items and provisional evaluation grade by part
⇩	
3rd stage	*Estimation of provisional composite evaluation grade
⇩	
4th stage	*Determination of composite evaluation grade (1~5 grades): by comprehensively considering provisional composite evaluation grade and the overall management status, business capability and financial and economic condition etc

Table 23

Evaluation Factors

Classification	Quantitative	Non- Quantitative
Capital adequacy (Solvency)	-Solvency margin ratio I -Solvency margin ratio II	- Appropriateness of changing factors of solvency margin -Possibility of improvement of solvency margin in the future -Reasonableness of an insurer's policy to maintain its solvency margin -Other matters acknowledged as important
Asset soundness	- Ratio of weighted non-performing assets to assets classified under FLC - Ratio of risk-weighted assets to total assets	-Appropriateness of classification of asset soundness -Appropriateness of an insurer's retention level of risky assets -Management capability of non-performing assets -Appropriateness of loan control - Other matters acknowledged as important

Management		-Overall management status and business capability -Appropriateness of an insurer's establishment of managerial policy and implementation function -Appropriateness of risk management -Reasonableness of internal management -Compliance to rules (laws, regulations, etc) -Other matters acknowledged as important
Earnings	<Life insurance> - Ratio of earning rate on total assets to average expected interest rate - Ratio of death benefits to risk premium - Ratio of operating expenses to expenses loading <Non-Life insurance> - Earned-incurred loss ratio - Ratio of net operating expenses to earned premium - Ratio of operating income on investment to invested assets	-Appropriateness of changing factors of earning structure -Appropriateness of profit management by source of profit (underwriting profit, expense profit and interest profit): (life insurance) -Appropriateness of loss ratio management (non-life insurance) -Efforts for management rationalization such as efficient execution of expenses etc - Other matters acknowledged as important
Liquidity	<Life insurance> - Ratio of liquid assets to total asset - Ratio of cash flow to claims <Non-life insurance> - Ratio of liquid assets to total asset - Ratio of cash flow to net premium written	-Appropriateness of liquidity changing factors -Reasonableness of fund raising and its operation -Liquidity management capability - Other matters acknowledged as important

Prompt Corrective Action (PCA)

In order to prevent the insurance companies from insolvency in advance and to encourage sound management, the FSS can order insurance companies to submit a management improvement plan under the system of prompt corrective action (PCA). Under the PCA, the FSS can require implementation of management improvements by issuing management improvement recommendations, management improvement requirements, or

management improvement orders. Requirements by type and contents of measures under the PCA are as follows:

Table 24

Measures for PCA

Classification	Requirements	Detailed Action
Management Improvement Recommendation	- Solvency margin ratio: 50%~ below 100% - As a consequence of evaluation of management status, when an insurer is evaluated as level 4 (weak) or below in respect of solvency margin or asset soundness whereas its general evaluation level is level 3 (normal) or better - When an insurer is plainly expected to fall under the above requirement due to occurrence of huge amount of financial accident or non-performing loans	-Caution or warning against an insurer or directors; -Increase in, or reduction of paid-in capital; -Curtailment of net operating expenses; -Management improvement of business offices; -Restrictions on investment of fixed assets; -Disposal of non-performing assets; -Improvement of manpower and institution management; and -Prohibition of acquisition of treasury stocks; -Restrictions on dividend and policyholders' dividend; or -Restrictions of new businesses or new capital investments; -Rate adjustment advice.
Management Improvement Requirement	- Solvency margin ratio: 0%~ below 50% - As a consequence of evaluation of management status, when an insurer is evaluated as level 4 (weak) or below in its general evaluation grade. - When an insurer is plainly expected to fall under the above requirement due to occurrence of huge amount of financial accident or non-performing loans	-Closure, consolidation, or restriction on opening places of business; -Demand for change of officers; -Suspension of part of business; -Reduction of manpower and institution; -Planning of a merger, acquisition by a third party, or assignment of all or part of a business; -Restriction on holding risk assets and disposition of assets; -Resettlement of subsidiaries; -Reinsurance placement; and -All or a part of actions mentioned in the above measures for recommendation on Management improvement.
Management Improvement Order	- Solvency margin ratio: below 0% - When an insurer falls under the category of the ailing	-Retirement of part or all of the issued stocks; -Suspension of business execution of officers and appointment of insurance administrator;

	financial institutions under Act on Structural improvement of Financial Industry.	-Suspension of all insurance businesses within six (6) months; -Transfer of all or part of contracts; -Merger; -Assumption of insurance business by a third party; -Assignment of all or part of business; and - All or a part of actions mentioned in the above measures for demand on Management improvement

On-site Examination and Off-site Surveillance

On-site Examination

Like other financial institutions such as banks, insurance companies are also subject to the FSS' s comprehensive examination. On-site examinations are divided into two categories; regular examinations (full-scope examinations) and target examinations (partial examinations). Examination is usually focused on checking the following items:

- soundness of assets;
- compliance with relevant statues, decrees, regulations and instructions;
- adequacy of internal control systems;
- evidence of fraud, embezzlement, and other financial irregularities;
- accuracy of statistical returns and reports submitted; and
- information collection.

During the examination, the FSS evaluates management status and checks risk management (with risk management checklists) according to examination policies focused on management status evaluation and risk-focused supervision, and then recommends appropriate measures including prompt corrective actions etc.

In order to enhance the effectiveness of on-site examinations, the FSS receives business reports regularly from each insurance company, analyzes the current status of its management, and gathers what preparatory information is available. After the examination, the FSS evaluates the management status of an insurance company, such as the quality of its assets and reserve holdings and the adequacy of its internal controls. It then recommends appropriate measures to cope with problems that have come to light during the examination.

Off-site Surveillance

The FSS undertakes off-site surveillance of insurance companies as well as on-site examinations. Off-site surveillance is mainly accomplished through the ordinary surveillance system that operates to monitor the soundness of an insurance company's management. In addition, off-site surveillance is also partially accomplished through the analysis of other reports and documents.

The FSC/FSS can use the results of off-site surveillance when they enforce supervisory actions, such as recommending (or requiring, ordering) management improvements, adjusting the management status evaluation rating, or reflecting examination planning and major examination items, for a problematic insurance company and its areas of weakness.

Restrictions on Asset Management

An insurer's assets are formulated by the premiums paid by insured parties and are mainly composed of technical reserves to fulfill its insurance liabilities. Therefore, an insurer must consider the protection of an insured's interests during the operation of asset management in order to manage assets in the most prudential manner.

Consequently, the FSS strictly restricts the methods of asset operation and the asset operation ratio in order to ensure that insurer's assets are managed in such manners as to secure safety, profitability, and liquidity, while also protecting the insured's interest at the same time. The regulation methods of asset management of insurance companies are composed of positive methods prohibiting a certain type of asset operation according to insurance related laws and regulations.

The scope of asset operations is as follows:

- acquisition and operation of securities;
- acquisition and operation of real estate;
- loans and discounts of promissory notes;
- deposits into financial institutions;
- entrusting money, securities or real estate to the investment and trust company;
- futures trading and overseas futures trading;
- call loans;
- share participation in investment association for establishing small-to-medium size enterprises;
- share participation in investment association for venture capital business using new technology;
- share participation in corporate restructuring cooperatives;
- acquisition and operation of foreign currency; and

- investment in public interest businesses (businesses contributing to improvement of public health and welfare, or to the promotion of culture and art).

In order to prevent the extension of disproportionate support by an insurer to its own business group and to induce the spread of investment risks, the FSS regulates an insurer's investment limit and its investment categories. An insurer's limit on asset operation by subjects eligible for investment is as follows:

Approval system for insurance products

The FSS strictly regulated all insurance products to be sold after obtaining prior approval from the FSS, but repealed the approval system on insurance products as part of deregulatory measures to promote autonomy of the insurance business in July 1993. The regulation on insurance products has been converted to the "File and Use" or "Use and File" system by classifying insurance products into three categories including "File and Use", "Use and File", and "No File".

"File and Use" products are to be filed with the FSS in the case of insurance products having a substantial influence on the national economy such as auto insurance, etc. Such products are deemed approved on the date 20 days after the date of filing.

"Use and File" products are to be automatically approved through their filing with the FSS within 3 months after the sale of products (in the case of non-life insurance, within 15 days).

Products of which the contents are the same as products that are already being sold by other insurance companies after gaining approval from the FSS have been stipulated to be sold freely without procedure of "File and Use" or "Use and File" as "No File" product.

Table 25

Limit on Asset Operation of Insurance Companies

Items	Limit (based on total assets)	Remarks
Stocks	40%	
Unlisted stocks	Equity capital	
Real estate	15%	
Total limit amount to loans to non-insured	40%	
Holding of stocks and bonds of the same company, and mortgage loans thereon	10%	
Loan to the single person	3%	30 billion won plus 1.5% of the asset in excess of 1 trillion won for an insurer of which total assets exceed 1 trillion won
Holding of the same property and mortgage loan on the same collateral	5%	
Loan to the affiliation groups	2%	
Holding of stocks and bonds of the affiliation groups, and mortgage loans thereon	2%	
Loan to the same affiliation groups	5%	The affiliation groups: 60 major business groups having affiliated companies by cross liabilities etc
Holding of stocks and bonds of the same affiliation groups, and mortgage loans thereon	5%	
Holdings of foreign currency, foreign real estate and foreign currency securities	10%	
Holding of stocks issued by small and medium size enterprises (excluding venture capitalists)	1%	
Futures trading	3%	Based on customer margins
Total limit of large loan	20%	Large loans: loans exceeding 1% of an insurer's total assets out of the loans to the same person or affiliation groups respectively

Note: Based on general account

III. Supervision on Capital Markets

1. Supervision on Securities and Derivatives Markets

A. Securities Market

Primary Market

Overview

There are three main participants in the primary stock market: issuers who are seeking capital, investors who supply capital, and underwriters who distribute stocks to investors and, in the case of unsold stocks, are committed to purchase a certain portion of the stocks. Issuers provide investors with shares and raise the necessary capital. Issuers can be companies, public institutions or special entities under special laws. Investors, including public investors and institutional investors such as securities firms, investment trust companies, banks, pension funds, etc., acquire shares in return for capital.

Underwriters are comprised of three organizations: the management group, the underwriting syndicate, and the subscription agent group. The management group, composed of a lead manager and designated co-managers (a minimum of two), analyzes and determines the price of the securities, underwrites any unsold portion and stabilizes prices for newly listed ones. The underwriting syndicate, composed of companies designated by the lead manager, has the responsibility of ensuring valid and accurate securities analysis, and assess the overall state of market supply and demand. The subscription agent group, which are financial institutions designated by the lead manager, is responsible for the sale of the securities.

In the primary market, two methods are mainly used to attract investors: public offerings and private placements. In public offerings, the shares are focused on the public investors, while in private placements, a group of selected investors' purchase all of the stock that a company issues at a particular time. Also, if a company offers its shares to over 50 investors at equivalent terms and conditions, it is considered a public offering.

Bonds in Korea can be classified three main types depending on the issuer: government bonds, special public bonds and corporate bonds. Government and special public bonds are referred to simply as public bonds.

In 1999, the total value of KSE-listed bonds reached 364.4 trillion won with public and corporate bonds outstanding accounting for approximately 70% and 30%, respectively. From 1998, the issuance of bonds, especially public bonds, has increased dramatically to

finance the restructuring of the financial, public and corporate sectors.

Initial Public Offering

For public offerings, a company may sell outstanding shares and issue new shares. In each case, a company must provide more than 50 people with shares on the same terms and conditions to be considered a public offering. By going public, a company can enjoy benefits offered by the Securities and Exchange Act, which include an increase in issuance of non-voting shares, ease in stock dividends, issuing of new kinds of corporate bonds, holding its own shares and favors in issuing its corporate bonds.

However, a company going public also faces limitations in rights offering and bonus offering. In the case of rights offering, a company can increase its capital by up to 40% of capital as of the end of the two previous fiscal years. For bonus offerings, a company is restricted to 30%. These limitations were put into place in order to protect public investors.

To go public, a corporation must fulfill requirements as set by the Securities and Exchange Act and other related regulations. The requirements help provide public investors with quality shares. Minimum criteria for public offering are set out to ensure the smooth transaction of stocks and to protect investors.

Any corporation wishing to go public must first register with the FSC/FSS. The corporation, in order to facilitate the issuance of new shares, must first make a contract with a securities company to act as a lead manager a minimum of six months prior to making a public offering. A lead manager handles book building, which is the preliminary survey of prospective buyers' interest in the issue. Based on the results of book building, a lead manager and an issuer decide on a price for the share through negotiations.

Capital Increase

A corporation after its establishment undergoes the process of raising funds. Capital increases can be conducted through two methods: issuing new shares with consideration (rights offering) or issuing new shares without consideration (bonus offering).

Issuing New Shares with Consideration: Capital increases with consideration are the most commonly used method by corporations in Korea. Investors need to make a subscription payment for new shares which are offered through one of three main ways: offerings to existing shareholders, allotments to a third party and public offerings.

According to the Commercial Code, shareholders have the right, but no obligation, to purchase new shares first. If all new shares issued are not purchased during a designated

period, the company may complete the issuance by allotting the remainder to a third party.

Subscription rights of new shares may be granted to a third party that has a distinctive relationship with the issuing corporation, such as employees, business partners, suppliers, and majority shareholders. A company wishing to list on the KSE may, according to its board of directors, distribute new shares subscribed by the public, excluding existing shareholders' subscription rights.

Issuing New Shares without Consideration: Capital increases without consideration increases the total number of outstanding shares of a corporation. However, no changes occur in the shareholders' equity or total assets of the issuing companies at the time of issuance. This type of capital increase is categorized into two basic methods: transfer of reserves and stock dividends.

New shares are issued without any external cash inflows when capital surplus, retained earnings, or revaluation surplus is transferred to capital. A stock is a pro rata distribution of the corporation' s own stock to stockholders. Whereas a cash dividend is paid in cash, a stock dividend is paid in stock.

Issue-at-Market Price System: Issue-at-market price system, unlike the par value system, is a method whereby the market determines the price of a new share. Before the introduction of the issue-at-market price system in December 1983, a corporation' s capital increase was based on par value.

Issuing Corporate Bonds

For issuing corporate bonds, two methods are mainly available, depending on the size of issuer' s capital stock.

If capital stock is below 50 billion won, corporate bonds are issued through firm-commitment underwriting by one lead manager. Also, there is no need to form syndicates, or to perform roadshows or book-building. If the capital stock is 50 billion won or above, corporate bonds are issued through firm-commitment underwriting by at least three underwriting companies, including one lead manager. Each underwriting company should form a syndicate, respectively responsible for at least 20% of the entire underwriting. Also, the holding of at least one roadshow, is required and book-building must be carried out.

An issuing company usually designates a securities firm as the lead manager to take full responsibility for distributing the new issue to the public. Once agreement on the terms and conditions have been reached, the lead manager forms an underwriting syndicate of other securities houses, investment trust companies, merchant banks and commercial banks.

Secondary Market

Korea Stock Exchange Market

Listing of Stocks

To list stocks, companies must submit a listing application to the Korean Stock Exchange (KSE) in accordance with listing rules, which must be approved by the FSC.

Listing requirements are set by the KSE with regard to the size, profitability and financial condition of the issuing company, liquidity of the securities, and other pertinent factors to ensure fair price formation for investor protection and to maintain smooth trading. The KSE, after receiving the listing application, determines a company's eligibility for listing shares. If it meets the following requirements, permission for listing is then granted.

Stock Trading

To buy or sell stocks listed on the KSE, investors should place orders via securities firms. All orders including bids and offers for an individual issue are forwarded to the KSE. However, the KSE plays no role in market-making. Trading on the KSE is, on behalf of its customers, conducted by the member firms, which are under no obligation to present quotations or to buy or sell on their own account for market-making purposes.

Resident individual investors may purchase KSE-listed securities on credit extended by a securities company or the Korea Securities Finance Corporation. Margin trading is a form of a securities transaction that permits the acquisition of securities by depositing only an initial margin. Another form of margin transaction, short selling, or the sale of stocks before buying them in anticipation of a decline in share price, is prohibited to insiders, and is available for only designated securities. Some exceptions of margin trading include shares issued by a relevant broker and under surveillance and administrative stocks designated by the KSE.

A customer wishing to trade on margin must first open a margin account and deposit the required down payment as set by a securities company. Substitute securities may be used instead of cash to meet the margin requirement. One of the functions of margin transactions is to stabilize stock prices by creating temporary supply and demand for stocks. Securities firms now determine the amount of credit for margin trading, and the collateral ratio has been liberalized.

Settlement

All transactions on the KSE are cleared and settled automatically through the Korea Securities Depository (KSD), the main transfer agent and sole central depository in Korea,

on a multilateral netting basis, which is a netting service whereby the KSE determines the number of shares and the amount of funds netted for compared trades.

The settlement of securities transactions is on a book-entry basis with the KSD. This system provides the transfer of rights by a simple book-entry transfer of securities from the account of deliverer to receiver through the KSE account.

The KSE is responsible for settlement of all securities transactions occurring in the market. Therefore, it bears liability for damages incurred due to breach of contract by a member. Members, as a result, must make contributions to the Joint Compensation Fund managed by the KSE, and may be jointly liable for damages.

Funds deposited by members responsible for any damage will be used first for making compensations, with the remainder covered by funds of other members. If the Joint Compensation Fund is insufficient to cover a compensation payment, the KSE makes up for the difference through its own funds.

KOSDAQ Market

Unlike the stringent listing requirements for the KSE, the registration requirements for the KOSDAQ are much less rigid. The laxer requirements have led to the rapid growth in the registration of shares by small and medium-sized enterprises and venture businesses on the KOSDAQ market. By the end of 1999, 453 companies were registered on the KOSDAQ with a market capitalization totaling 106 trillion won, about one third the size of the KSE.

The KOSDAQ Stock Market Inc., commissioned with the sole responsibility of implementing transactions on the KOSDAQ stock market, was formed to help raise efficiency in the market. This company is jointly funded by the KSDA, its member firms, the Korea Securities Depository, the Korea Securities Computer Corporation and the Small Business Promotion Federation.

Bond Secondary Market

The secondary bond market is relatively underdeveloped in comparison with domestic stock markets. To promote and develop the bond market, however, the government has introduced or announced various measures, including mark-to-market valuation system, primary dealer system in the government bond market, delivery versus payment system, and government bond and CD futures.

The secondary market is divided into the KSE, an organized exchange, and the over-the-counter (OTC) market. The KSE market is a market for competitive trading of listed bonds. The OTC market, however, has both listed and unlisted bonds which are traded on

a one-to-one basis between individual investors and securities firms or between financial institutions.

In Korea's bond market, the OTC market is much more important and popular than the KSE. Thus, OTC trading has been traditionally the dominant form of bond trading, representing more than 95% of all bond trading, and most bonds are purchased by financial institutions or institutional investors. Currently, Treasury bond yields are regarded as the benchmark.

B. Derivatives Market

Stock Price Index Futures and Options Market

In Korea, the stock price index futures and options markets are represented by the Korea Stock Exchange (KSE) and the Korea Futures Exchange (KOFEX). In the KSE, the Korea Stock Price Index 200 (KOSPI 200) futures and options markets were established in May 1996 and in July 1997, respectively.

KOSPI 200 Index

KOSPI 200 is a market value weighted index composed of 200 underlying stocks – weighted according to total market value of their outstanding shares – accounting for over 70% of the total market capitalization. The base period and index are January 3, 1990 and 100, respectively. The calculation is as follows:

$$\text{KOSPI 200} = \frac{\text{Current aggregate market value of component stocks}}{\text{Base aggregate market value of component stocks}} \times 100$$

Stock Price Index Futures Contracts

Futures contracts are listed for expiration in March, June, September and December, the longest maturity period for each type being one year.
The last trading day of a contract is the second Thursday of each delivery month, and the first day of a new contract is the day following the last trading day of the near-term delivery month.

A futures contract size is 500,000 won times the futures price. The minimum price change is 0.05 point (25,000 won). As for the daily price limit, it is $\pm$ 10% of the previous closing price.

In addition, to KSE introduced a "circuit breaker" system in order to cope with overheating markets and to assist investors in their trading decisions amid market volatility. Under this system, when the lead month contract hits ±5% of the previous day's closing price for specified time (1 minute), and the deviation rate of the current futures price from the theoretical price is more than ±3%, the trading of all contracts are halted for next five minutes. For the 10 minutes following the cool-down period, the orders are collected and matched by call trading. The circuit breakers can be activated only one time in a trading day and can not be triggered after 14:20 p.m.

In addition, trading in the futures market is also halted if the stock market is suspended automatically for 20 minutes when the KOSPI falls by 10% or more from the previous day's closing price and the trend continues for one minute.

Stock Index Options Contracts

Options contracts are listed by the two nearest months of March, June, September and December, and the two nearest months other than any of the four delivery months.

The first or last trading day is the same as futures contracts. In addition, an options contract size is 100,000 won times the option price (or premium), with unit in points. The minimum price change is 0.05 points for price quotations greater than or equal to 3.00 points, and 0.01 point for less than 3.00 points

Korea Futures Exchange (KOFEX)

With the growing need for combined management of finance and commodity derivatives trading, the government enacted the Futures Exchange Act in December 1995. This Act included matters related to the business of futures brokerage, the operation of the futures exchange, and the surveillance system.

The KOFEX, which was established in Pusan as a legal entity in January 1999, officially commenced trading in April 1999 with four products: U.S. dollar futures and options, CD Interest Rate futures, and gold futures; later in September, a fifth product was added: Korea Treasury Bond futures.

CD Interest Rate Futures: The face value is set at 500 million won with a 91-day CD as the underlying asset. One basis point is 0.01. The value of one tick is equivalent to 12,500 won. The initial deposit per contract is set at one million won.

U.S. Dollar Futures: The minimum trading unit is set at US$ 50,000 and the minimum price fluctuation band is set at 0.2 won per dollar. Given this, the value of one tick is equal to 10,000 won. The price fluctuation band is set at 200 won per dollar.

Table26

KOSPI 200 Futures and Options Contract Specifications

	Futures Contracts	Options Contract
Underlying Index	KOSPI 200 (Korea Stock Price Index 200) (base index of 100 as of Jan. 3, 1990)	Same as left
Contract Months	Mar., Jun., Sep. and Dec.	Two near months of March, June, September and December, and the two near months not being any of the four delivery months
Last Trading Day	Second Thursday of the contract month	Same as left
Trading Hours	Monday to Friday Morning session: 09:00 –12:00 Afternoon session: 13:00- 15:15 (In the case of last trading say, 14:50)	Same as left
Contract Size	500,000 won× KOSPI 200 value	Same as left
Minimum Tick	0.05 Points (25,000 won)	Premium less than 3 points: 0.05 points Premium more than 3 points: 0.01 points
Method of Transaction	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. The orders entered during the time of opening of morning session, opening and closing of afternoon session, and re-opening after trading halt are considered entered at the same time.	Same as left
Price Change Limit	10% of the previous closing price	No daily price change limit
Type of Order and Maximum Order Size	Only limit orders are permitted and maximum quantities of bids and offers are 999 contracts per one order	Same as left
Circuit Breakers	Yes	Yes

U.S. Dollar Options: These are true options, not futures options. A dollar option grants trading rights of U.S. dollars over a certain period. This is a European-style option with the minimum contract unit set at US$ 10,000 and the minimum price fluctuation band set at 0.1 or 0.2 won according to the level of the premium.

Gold Futures: The underlying asset is gold of more than 99.99 percent purity and a 1-kilogram gold bar as the minimum unit. The minimum price fluctuation band is set at 10 won per gram and 10,000 won per kilogram.

Korea Treasury Bond Futures: The underlying asset and benchmark are government bonds with a maturity period of three years and face interest rate of 8 percent. The face value is set at 100 million won and the price is marked in percentage terms with 100 won as a benchmark. The minimum price fluctuation band is set at 0.01 of a point while the value of one tick is equivalent to 10,000 won. The initial deposit required is 2.5 million won.

In addition to the 5 products of the KOFEX, the KOSDAQ Index 50 futures will be listed in the near future according to the revision of the Enforcement Decree of the Futures Trading Act.

2. Supervision on Corporate Disclosure

The corporate disclosure system is the system used by securities issuers, and listed or registered companies to inform investors the important contents of the company such as managerial status, current, past and projected future financial performance, future business plans, etc. in a prompt and accurate manner.
By doing so, investors will be able to make rational investment decisions and a fair trading order will be maintained in the securities market.

A. Primary Market Disclosure

Registration on Securities Issuers

The following issuers should be registered with the FSC/FSS to ensure fair issuance of securities and public disclosure of key information:

- a corporation that intends to list its securities on the securities market;
- an unlisted corporation that intends to make a public offering of new or outstanding securities;
- a stock-unlisted corporation that intends to merge with another stock-listed corporation;
- an unlisted corporation that intends to have its securities traded on the KOSDAQ market; and
- a corporation under incorporation that intends to make a public offering of new securities.

However, government bonds, municipal bonds, special bonds, guaranteed corporate bonds, and beneficiary certificates are exempted from registration.

An issuer of securities who intends to register should file documents relating to the general situation, property conditions, etc., of the company with the FSC. The FSC may release the filed documents for public perusal.

Registration Statement

Where the total price of a public offering of new or outstanding securities exceeds 1 billion won or more, public offering of such securities may not be made unless the issuer files a registration statement of such securities with the FSC and the registration statement is accepted by the FSC.

If the issuer establishes the period in which the issuer is to issue securities, and files a shelf registration statement of securities to be offered publicly during the period with the

FSC that is accepted by the FSC, the issuer should not be required to separately file a registration statement for the securities to be offered publicly in such period.

Information relating to forecasted prospects for the issuer's future financial status or results of operation that fall under any of the following categories may be entered or provided in a registration statement.

- matters on the issuer's results of operation such as total sales and revenues, or other prospects on the results of operation;
- matters regarding predictions or prospects for the issuer's financial status such as amount of capital stock and fund flows; and
- matters on the issuer's results of operation or changes in financial status, and other matters related to predictions or prospects of the issuer's future.

In this case, the basis for the assumption or judgment for predictions or prospects should be specified, and a warning phrase that predicted value and actual results may differ should be specified in the entry or indication concerned.

Any issuer who offers and sells any securities without filing a registration statement should disclose matters concerning the issuer's financial status, etc. for the protection of investors.

Prospectus

When an issuer of securities makes a public offering of new or outstanding securities, such issuer should prepare a prospectus and make it available for public perusal at the head office and branches of the company issuing the concerned securities, the FSC, the KSE or the KSDA, and the places where the subscription affairs are conducted.

In the prospectus, particulars differing from the contents mentioned in the registration statement and shelf registration statement should not be mentioned, while any matters entered in the registration statement should not be omitted.

The FSS should keep the securities registration statement and the securities issuance report at fixed places for public perusal for a period of 2 years.

B. Secondary Market Disclosure

Periodical Disclosure

A stock-listed corporation, KOSDAQ-registered corporation and the issuing company

that has listed its non-guaranteed bonds, convertible bonds, bonds with warrant, participating bonds, exchangeable bonds or certificates representing pre-emptive rights should submit an annual business report to the FSC and the KSE or KOSDAQ (depending on the case) within 90 days after the end of each business year.

Where a corporation that must submit an annual business report is a company affiliated with a conglomerate group that has to prepare combined financial statements in accordance with the Act on External Audit of Stock Companies, it should submit the conglomerate group combined financial statements to the FSC and the KSE or KOSDAQ within 6 months from the end of a business year.

A corporation that must submit an annual business report should submit a semi-annual business report for 6 months from the beginning of a business year and a quarterly business report for 3 months and 9 months from the beginning of a business year to the FSC and the KSE or KOSDAQ within 45 days after the end of the period.

Ad-Hoc Disclosure

Where a listed corporation or a corporation registered with the KOSDAQ falls under any of the following categories, such corporation should notify the FSC, the KSE or the KOSDAQ of such fact or of the contents of a resolution adopted at a meeting of the board of directors without delay.

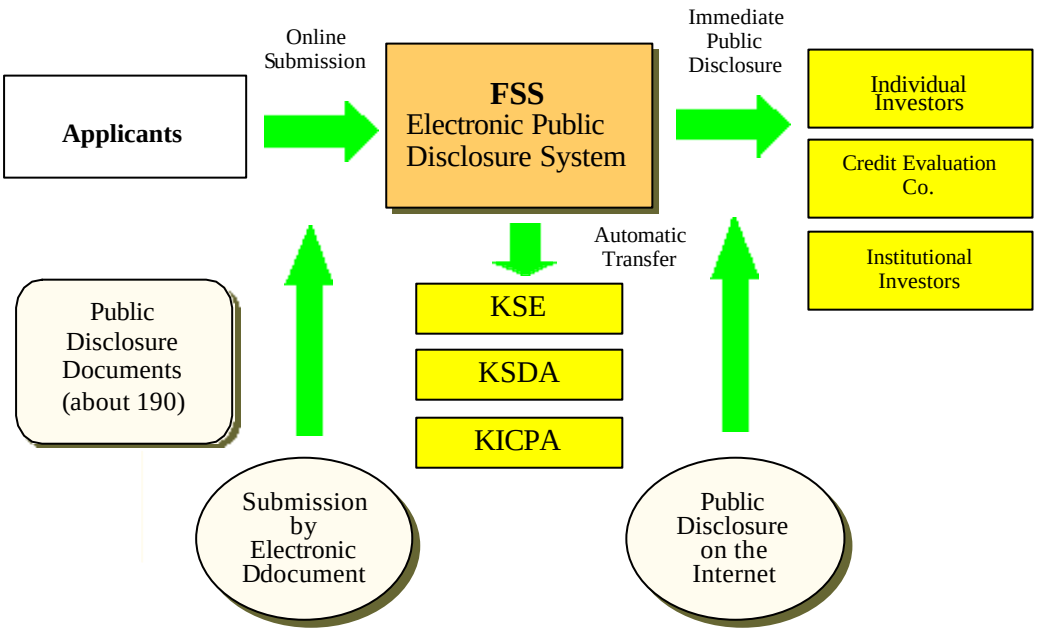
- where any issued bill or check is dishonored, or when any transaction with a bank is suspended or prohibited;
- where the corporation's business is suspended in part or in whole;
- where the corporation files a petition for the reorganization or where the reorganization procedure has actually commenced pursuant to the provisions of relevant laws;
- where the objective of the business changes;
- where the corporation suffers damages caused by a major financial incident;
- where a lawsuit that may have great influence upon the listed securities or the securities registered with the KOSDAQ is filed against the corporation;
- where causes for dissolution pursuant to the provisions of relevant status occur;
- where there is a resolution of the board of directors to increase or decrease total capital;
- where the operation is suspended or is unable to be continued due to special causes;
- where a correspondent bank assumes control of the corporation concerned;
- where there is a resolution of the board of directors, or a decision of the representative director or other person with respect to the acquisition and disposal of treasury stocks; and
- where an incident that has serious effects on the management and properties, etc.

of the corporation occurs.

The KSE or KOSDAQ may, in order to maintain the fair transaction of securities and to protect investors, request a listed corporation or a corporation registered with the KOSDAQ to confirm whether a rumor or news concerning such corporation is true or false.

The KSE may, if the price or the trading volume of securities issued by a listed corporation changes suddenly and significantly, request that the listed corporation disclose any pertinent information. In such a case, such corporation should comply with this request without delay, except where it is difficult to make disclosure due to other statutes or subordinate statutes, natural disaster or by other reasons similar thereto.

Electronic Disclosure System; DART



Listed companies and other reporting companies are now able to submit periodic and other current disclosure documents via the Internet in electronic form. Three kinds of electronic disclosure document formats including annual reports, semi-annual reports and audit completion reports have been available on the Internet since March 1, 1999. From April 1, 2000, nearly 190 different types of disclosure documents, including registration statements for KSE-listed companies and KOSDAQ-registered companies, have been available on the Internet through the electronic disclosure system, or DART.

3. Accounting Standards and the External Audit System

A. Accounting Standards

The purpose of accounting standards is to prescribe standards for accounting and financial reporting to ensure comparability and objectivity in the accounting reports of companies and audits by an external auditor.

The accounting standards for a company are established by the FSC with the deliberation of the SFC. Therefore, a company should prepare its financial statements, consolidated or combined financial statements, in accordance with the accounting standards. In particular, large business group designated by the Fair Trade Commission and companies belonging to such large business groups are obligated to prepare combined financial statements. Accordingly, the SFC should, among the enterprise groups and affiliated companies subject to the combined financial statements, select companies that should prepare combined financial statements and notify these companies by the end of May every year.

On the other hand, the FSC entrusts or delegates the establishment, revision and interpretation of the accounting standards to the Korea Accounting Institute.

If the FSC deems it necessary for domestic accounting standards to conform to international accounting standards for the protection of interested parties the FSC may request an amendment of accounting standards to the standards setting institution. In this case, the standards setting institution should comply with the request of the FSC unless there is justifiable reason not to.

B. External Audit System

An external auditor works independently from companies and is responsible for protecting the interests of concerned persons and contributing to the sound growth of enterprises by conducting accounting audits of stock companies and ensuring that the accounting reports of the companies are prepared in accordance with the accounting standards.

Companies Subject to External Audit

Any stock company with total assets as of the end of the preceding fiscal year that are equal to or greater than 7 billion won is required to prepare financial statements that are subject to external audit.

External Auditor

A qualified auditor should be an accounting firm or an audit team registered with the Korean Institute of Certified Public Accountants.

A company should appoint an auditor within 4 months from the start of each fiscal year. If a company appoints an auditor, it should obtain the approval at the ordinary shareholders' meeting upon the recommendation of the statutory auditor or the auditor appointment committee. However, listed companies and affiliated companies of an enterprise group including the company to prepare the combined financial statements as notified by the SFC during the preceding fiscal year, should obtain approval at an ordinary shareholders' meeting upon the recommendation of the auditor appointment committee.

A listed company should appoint an auditor for the period of 3 consecutive fiscal years within 4 months from the commencement of the initial fiscal year. If a listed company appoints or replaces its auditor with the auditor designated by the SFC, it should be applied from the next fiscal year following the end of the fiscal year concerned.

On the other hand, in order to promote accounting audit by an auditor and to enforce the independence of the auditor, the SFC may designate an auditor of a company upon request from the company, or in the case of falling under the designation cases, the SFC may request the company to appoint or replace its auditor with the accounting firm which is designated by the SFC within the period of 3 fiscal years.

An auditor may, at any time, review or duplicate the accounting books and records of a company, related companies which a have special relationship with the company (such as holding stocks in the company in excess of certain ratio), and the affiliated companies, or request the submission of accounting materials, or investigate the business and asset status if necessary for performing its duties.

An auditor should prepare and submit an audit report to a company within one week prior to the ordinary shareholders' meeting, and to the SFC and the KICPA within 2 weeks from the closing of the ordinary shareholders' meeting.
An auditor and its CPA should keep confidential any information that was obtained in the course of performing the duties.

Public Disclosure of Audit Report and Business Report

A company should maintain and publicly disclose its financial statements including consolidated financial statements and combined financial statements with an audit report prepared by an external auditor.

The SFC and the KICPA should keep at a certain places the business report and audit

reports for 2 years, and permit the public to review them. Therefore, a shareholder and creditor of a company may review the repots at any time during working hours.

Audit Review and Investigation, etc.

The SFC should review audit reports, if necessary, to ensure the fairness of auditing as well as the audit administration of auditors.

If the SFC deems it necessary, it may request a company, related companies, affiliated companies, and the auditor to submit materials, or to present opinions or reports. The SFC may also have the FSS review the accounting books and records of the concerned company, related companies and affiliated companies, or investigate their business operations and financial status.

Liabilities to Compensate Damages of the Auditor

If an auditor causes any damage to a company due to negligence in carrying out its duties, the auditor should be liable for the damages. In cases of damages caused by an auditor in an audit team, the CPAs involved in the audit of the company should be jointly liable for the damage. Also, if an auditor causes any damage to a third party who utilizes the audit report by omitting to state important matters or unknowingly making false statements, the auditor should be liable for the damages against the third party.

In case an audit committee is established, if a director and/or statutory auditor of the company or member of the audit committee is liable for the damages of a company or a third person, all of the auditors, directors and/or statutory auditor are jointly liable for the damages.
However, an auditor or CPA involved in the audit should not be liable for the damages if it can be proved that the auditor or CPA was not negligent in the performance of his or her duties.

4. Regulation on Unfair Securities Trading

A. Regulation on Insider Trading

Prohibition of Using Non-public Information

Any person who gains access to material non-public information in relation to the affairs, status of a listed KSE or KOSDAQ corporation, including firms listed or registered with KOSDAQ within 6 months, in the course of performing their duties from the corporation concerned and its officers and employees, and those who acquire such information in connection with the sale, purchase or any other transaction of securities issued by the corporation concerned, is prohibited from using such non-public information for personal or any other type of gain.

Scope of the Insider

Insiders, who are prohibited from using non-public information, refers to any person who is informed of non-public information in relation with the affairs of a concerned corporation, or who is informed of non-public information from such a person.

The insider is classified into three basic categories: corporation insider, quasi-insider and tippees.

- Corporation insider: includes all members of the corporation concerned including officers, employees, agents and major stockholders of the corporation;
- Quasi-insider: a person who has the authority, pursuant to relevant statutes, of permission, approval, direction, supervision or other authority with respect to the corporation concerned and a person who entered into a contract with the corporation concerned. Also, an agent and other employees of that person are considered quasi-insiders; and
- Tippee: a person who is informed of material non-public information from a corporation insider or quasi-insider.

Also, a person for whom one year has not passed since they were considered a corporation insider, quasi-insider or tippee, is prohibited from using non-public information.

Scope of Material Non-public Information

Material non-public information refers to any information that may have an significant impact on investors' investment decisions, including the following:

- where any issued bill or check is dishonored, or when any transaction with a bank is suspended or prohibited;
- where the corporation's business is suspended in part or as a whole;
- where the corporation files a petition for the reorganization or where the reorganization procedure has actually commenced pursuant to the provisions of relevant laws;
- where the objective of the business changes;
- where the corporation suffers damages caused by a major financial incident;
- where a lawsuit that may have great influence upon the listed securities or the securities registered with the KOSDAQ is filed against the corporation;
- where causes for dissolution pursuant to the provisions of relevant status occur;
- where there is a resolution of the board of directors for an increase or decrease of capital;
- where the operation is suspended or is unable to be continued due to special causes;
- where a correspondent bank assumes control of the corporation concerned;
- where there is a resolution of the board of directors, or a decision of the representative director or other person with respect to the acquisition and disposal of treasury stocks; and
- where an event that has serious effects on the management and properties, etc. of the concerned corporation takes place.

Thus, non-public information means information that has not yet been made available to the general public by the corporation concerned.

Disgorging of Short Swing Profits of Insiders, etc.

Officers, employees or major stockholders of a stock-listed corporation or KOSDAQ-registered corporation should not sell certificates of stocks, convertible bonds, bonds with warrants, warrants and other securities of a corporation listed on the KSE or registered with KOSDAQ unless they own such stock certificates, etc.

Where officers, employees or major stockholders of a stock-listed corporation or KOSDAQ-registered corporation realize profits by selling stock certificates, etc., of a corporation within 6 months after purchasing them, or by purchasing such stock certificates within 6 months after selling them, the corporation may request such officers, employees or major stockholders to remit such profits to the corporation.

B. Price Manipulation and Fraud

Price manipulation, which is a fraudulent scheme that harms the fairness and integrity of the securities market, is divided into 4 categories.

- manipulation through disguised transaction;
- manipulation through real transaction;
- manipulation through false expression; and
- manipulation through price fixing or stabilization.

Manipulation through Disguised Transaction: No person should engage in any activities falling under the following categories for the purpose of creating a misleading appearance of active trading or causing any person to make a false judgement with respect to the transaction of securities listed on the KSE or registered on the KOSDAQ market.

- *"Matched orders*": selling securities after a party has conspired in advance with another party to purchase securities at the same time and at the same price that the other person sells the securities, or purchasing securities after a party has conspired in advance with another party to sell the securities at the same time and at the same price that the other person purchases the securities

- *"Wash sales"*: fictitious transactions that do not accompany the transfer of ownership in a securities transaction

Also, entrusting or being entrusted with matched orders and wash sales is prohibited.

Manipulation trough Real Transaction: No person should effect, entrust or be entrusted with, either alone or in conjunction with other persons, transactions in securities that create a false or misleading appearance of active trading or make the price of such securities fluctuate for the purpose of inducing the transaction in the KSE or KOSDAQ market.

Manipulation through False Expression: No person should engage in any activities falling under the following categories for the purpose of inducing the transaction in the KSE or KOSDAQ market.

- disseminating false rumors regarding the price fluctuations of a concerned securities issue as a result of their own or another person's price manipulation; and
- willfully make representations that are false or misleading with respect to important matters in the sale or purchase of concerned securities

Manipulation through Price Fixing or Stabilization: No person should effect, entrust or be entrusted with, independently or jointly, transactions in the KSE or KOSDAQ market

for the purpose of pegging or stabilizing the price of securities in violation of lawful stabilization and market making.

Prohibition of other Fraud: With respect to purchases, sales, and any other securities transactions, no person should commit an activity that falls under any of the following categories.

- intentionally disseminating false quotations or information for the purpose of gaining unjust benefits; and
- reaping personal gain or other financial benefits through false representation of material facts or intentional use of documents in which a necessary fact is omitted in order to induce misunderstandings among other investors

C. Investigation by Securities Futures Commission

Where there is a violation of provisions such as disgorgement of short swing profits by insiders, prohibition of using non-public information, and prohibition of unfair transactions such as manipulation, or where it is deemed necessary to protect the public interest or investors, the Securities Futures Commission (SFC) may order the person or persons concerned submit all necessary reports or materials for reference or have the Governor of the FSS launch an investigation into the financial books, documents or other matters of the offending party.

The SFC may demand the following items to facilitate its investigation:
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- submission of a statement on the facts and situation concerning matters to be investigated;
- appearance for testimony concerning the matters to be investigated; and
- submission of all financial books, documents or other matters necessary for the investigation

Where it is deemed necessary to conduct an in-depth investigation, the SFC may request a securities-related institution to submit all documents necessary to complete the investigation.

Also, where a violation of provisions such as disgorgement of short swing profits by insider, prohibition of using non-public information, and prohibition of unfair transaction such as manipulation has been confirmed as a result of an investigation, the SFC may take following measures.

- order closure of a branch or other business office, or suspension of all or part of its business;
- issue warning to an institution or attention to an institution;

- demand suspension of management officers , issue warning or attention to officers;
- demand employee dismissals, suspensions from office, salary reductions, and issue reprimands, warnings, or notices of attention to employees;
- demand for or recommend improvements in management or business methods;
- demand reimbursement or correction;
- demand disclosure of contents of violation of laws;
- demand submission of memorandum;
- issue indictment or notification to the investigation agencies in case of violations of the Act;
- issue notification to the relevant agencies or the investigation agencies in case of violating other laws; and
- other measures which are to be taken by the FSC under the Act, the Decree, and other statutes.

On the other hand, where the Korea Stock Exchange or the Korea Securities Dealers Association suspects a violation of the Securities and Exchange Act or a violation of a regulation or order issued by the FSC resulting from a member's supervision over an abnormal sale, it should notify the SFC.

5. Other Regulation

A. Tender Offer

The tender offer means making an offer to buy stocks or a solicitation of an offer to sell stocks including exchanges with other securities, etc. to the general public, and buying them outside the securities market or KOSDAQ market in order to maintain or enforce administration rights.

A person who intends to acquire voting stocks (including certificates representing pre-emptive rights, convertible bonds, bonds with warrants and exchangeable bonds) through a purchase for value persons outside the securities market or the KOSDAQ market during the past 6 months period from the date of the purchase of the stocks concerned should acquire the stocks through a tender offer.

In this case, the total number of stocks held by such person and specially connected persons after the purchase should be 5% or more of the total number of stocks.

B. Acquisition of Treasury Stocks

Any KSE-listed corporation or KOSDAQ-registered corporation should acquire treasury stocks in a manner in which the acquisition is made in the securities market or the KOSDAQ market and in which the open purchase is made in accordance with the tender offer under its name and its account.

In this case, the acquisition amount should be less than the amount subtracting the revaluation reserve, reserve for enterprise rationalization, etc. from the maximum amount of any dividend in accordance with the Commercial Act.

Where a KSE-listed or KOSDAQ-registered corporation owns treasury stocks in excess of the acquisition limit due to a reduction of the limit to distribute the dividend, they should dispose of the excess portion within 3 years from that date.

C. Appraisal Rights of Stockholders

A stockholder who opposes a resolution made at the meeting of the board of directors of a KSE-listed corporation regarding the transfer of the whole or part of a business and/or mergers may demand that the corporation concerned purchase the stocks.

In this case, the stockholders should demand purchase of the stocks within 20 days after the date on which such resolution is made at the general meeting of stockholders in the form of a written request that states the class and number of stocks. This can be done only if the stockholder has made written notification that he or she opposes the resolution of the corporation concerned prior to the general meeting of stockholders.

A stock-listed corporation that has received a demand should purchase the stocks concerned within one month after expiration of the period of the demand for purchase. On the other hand, a stock-listed corporation should, where it purchases stock, dispose of them within 3 years.

Ⅳ. Protection of Financial Customers

1. Financial Dispute Settlement System

The FSS operates a financial dispute settlement system that is designed to minimize time and costs spent on civil suits, by arbitrating voluntary settlements during financial disputes between financial institutions and individuals. The system was established based on the Act on Establishment of Financial Supervisory Organization, which gives the FSS legal rights to protect consumers in financial transactions by setting up a dispute-settlement organ. The dispute-settlement system was also designed to protect consumers from financial institutions that may abuse their position in financial transactions through continuous investigation procedures.

Financial institutions falling under the dispute settlement system include banks, non-banking financial institutions, securities-related companies, insurance companies, as well as state-run financial institutions, including the National Agricultural Cooperative Federation, National Federation of Fisheries Cooperatives.

Financial Dispute Settlement Committee (FDSC)

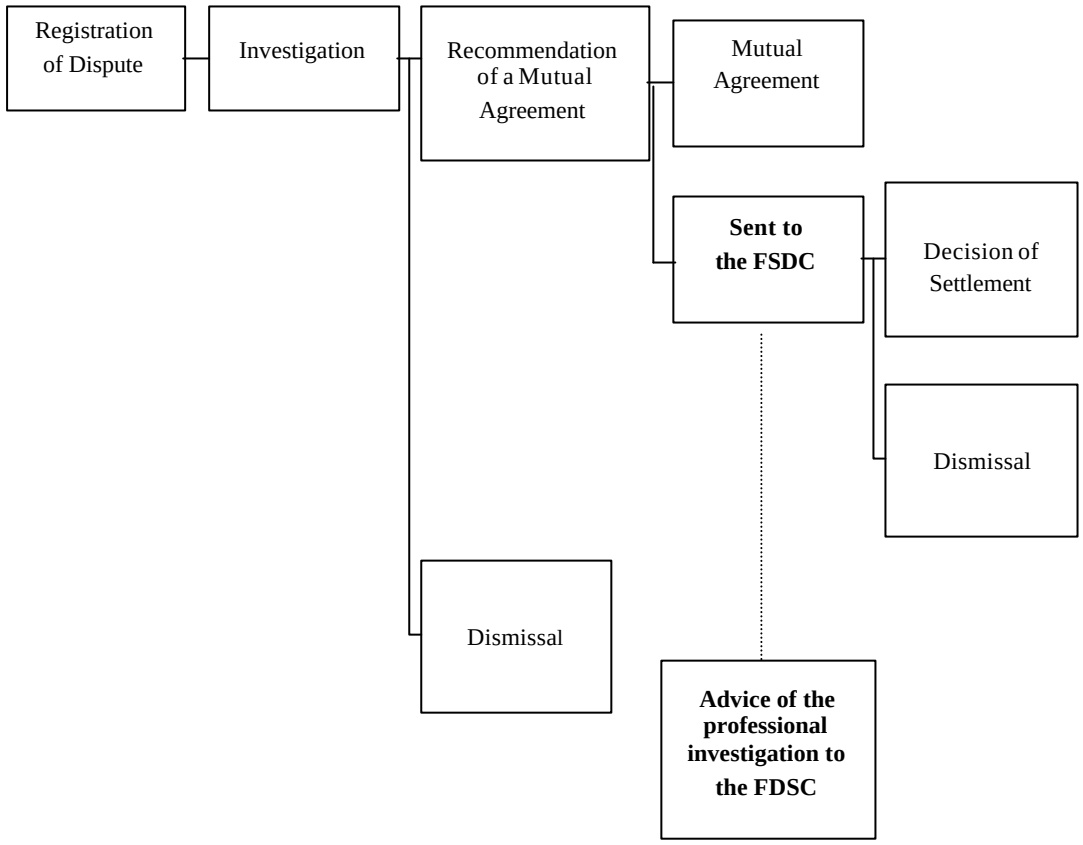
According to the Act on Establishment of Financial Supervisory Organizations, the FSS forms a Financial Dispute Settlement Committee (FDSC). The FDSC is composed of up to 30 members, who are selected from various consumer groups and legal circles. The main duties of the FDSC are to make resolutions and deliberate financial disputes that arise between financial institutions and individual customers.

2. Settlement Procedure

When a financial dispute case is registered, the FSS initially recommends that the concerned parties reach a mutual agreement, if possible. However, if both parties--consumer and financial institution--do not accept the recommendation of the FSS for a mutual agreement, the Committee will mediate and make a decision on the dispute matter. However, if a mutual agreement is judged as being of no reasonable benefit, the case may be directly handled by the FSS without being sent to the Committee.

If both parties accept a decision made by the Committee, the decision has the same effect as a judicial compromise of a court of law. Otherwise, the financial dispute case is dismissed.

Financial Dispute Settlement Procedure



Preventing and Publicizing of Financial Disputes

In order to prevent financial disputes, the FSS receives suggestions and the opinions of financial consumers, and makes efforts to correct inadequate practices at financial institutions that are revealed during disputes. Also, the FSS publicizes information relating to financial disputes, giving financial consumers easy access to previous dispute settlement cases.

By publishing financial dispute settlement cases on a regular basis, the FSS has built up a settlement criteria and has given financial consumers crucial information to prevent financial disputes

3. The Operation of Customer Protection Center

Establishment of the Consumer Protection Center

In February 1999, the FSS launched the Customer Protection Center in an effort to provide financial customers with enhanced services to settle grievances. The Consumer Protection Center covers the following areas:

- exchanging cases of financial transaction disputes registered at the nationwide branch offices of the FSS
- improving grievance settlement functions by fixing existing "One-Stop" services and receiving grievance through the Internet
- applying a satisfaction rate based on surveys of grievance applicants to conducting settlement business in order to improve the grievance settlement system

During the January-October 2000 period, the Consumer Protection Center processed a total 71,495 of grievances (excluding grievance documents), which is a 7.1% decrease from the previous period. Grievances related to the bank and non-banking financial institutions sectors increased and those related to securities and insurance sectors decreased during the period.

Table 27

Results of Financial Grievances
(During Jan.-Oct. 2000)

(Unit: cases)

Sectors	Phone	Visiting	Internet	Total
Banks & Non-banking	26,544	1,772	330	28,646
Securities & Investment Trust	5,439	624	80	6,143
Insurance	34,889	1,762	55	36,706
Total	**66,872**	**4,158**	**465**	**71,495**

The total number of grievance documents handled during the same period was 16,292 marking a 12.7% increase from the previous period.

Table 28

Results of Grievance Documents

(Unit: cases, %)

Sectors	January-October 1999	January-October 2000	Increase/ Decrease Ratio
Banks & Non-banking	5,856	5,959	1.8
Securities & Investment Trust	1,948	2,655	36.3
Insurance	6,655	7,678	15.4
Total	**14,459**	**16,292**	**12.7**

Providing Information for the Financial Customer

The FSS opened a 'Consumer Protection' corner on its web site and, in 1999, and provided 18 items of information, including 6 consumer warnings, 9 items of consumer precautions, and 6 items of product information. The consumer warnings section includes the introduction of the depositor's protection system, the information of Internet public offering and investment on KOSDAQ market, and pseudo-financial institutions, etc. In addition, the consumer precautions sector includes a variety of financial transaction precautions and the product information sector includes various financial products and private pension products provided by the financial institutions.

Moreover, the 'Consumer Protection' corner gives the service to accept grievance through Internet and introduces consumer protection procedure. Financial customers can also be introduced how they should submit grievance documents and what institutions is laid under financial dispute settlement, through the corner. In the FAQ section of the corner, frequently happened grievance cases and dispute settlement cases is easily provided as Q&A style.

In addition, the FSS participated in education programs for financial customers by holding lectures on finance and by providing references in cooperation with consumer protection groups.

This document is for information purposes only. If you have any questions or comments, please feel free to contact us.

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APPENDICES

I. Chronicle of Major Supervisory Measures

II. Relevant Laws*

- Act on Establishment of Financial Supervisory Organizations
- Banking Act
- Securities and Exchange Act
- Futures Trading Act
- Securities Investment Trust Business Act
- Securities Company Act
- Insurance Business Act

* These translations have been prepared for the convenience of English-speaking readers in gaining proper understanding of the Korean financial supervisory system. Readers are cautioned that these translations are not official and should be used as reference only.

Chronicle of Major Supervisory Measures (1999~2000)

Jan. 1999

Financial Supervisory Service (FSS) launched

Strengthened Off-site Surveillance of Risk Management

- Banks are compelled to establish basic guidelines for risk management and a comprehensive risk management structure.

Strengthened Prudential Regulation of Bank Trust Accounts

- Trust banks are required to strengthen various fire-walls between bank accounts and trust.

Feb. 1999

Introduction of Projected Information Disclosure Method

- Issuing companies are required to state their projected future financial status, future business performance, etc. in all registration statements and other disclosure documents

Revised Regulations on Acquisition of Treasury Stocks

- KSE-listed companies and KOSDAQ-registered companies are allowed to purchase treasury stocks outside the KSE or the KOSDAQ market.

Revised Regulations on Corporate Mergers

- Simplified procedures for small-scale mergers, in which the total number of new shares issued by the surviving company does not exceed 5% of its total issued shares, by replacing the necessary approval of general shareholders with the approval of the board of directors of a concerned company.

Establishment of Customer Protection Center

- FSS opens Customer Protection Center to provide financial customers with enhanced services for grievance settlement.

Mar.1999

Establishment of Regulations with regard to Foreign Exchange Transactions

- Banks and MBCs are obliged to establish and operate their own management criteria for foreign exchange risks, and to include foreign exchange risks derived from extension of

foreign currency loans in their credit risk assessments.

Liberalization of Rates for Insurance Companies

- The assumed interest rate and assumed expense rate were scheduled to be liberalized completely in the life insurance sector, and dividends from loading profits were scheduled to be introduced from April 2000.

- In the case of the general line of non-life insurance, it was scheduled that an insurance rate-making institution would calculate net premiums and each insurance company could decide on loading in consideration of their respective business circumstances from April 2000.

Refined Loan Classification System of Securities Companies

- Loan classification standards were refined from three steps to five steps and the allowance ratio for loan losses was raised to ensure that securities-related companies are able to swiftly resolve non-performing assets.

Introduction of Electronic Disclosure System

- Three kinds of electronic disclosure document formats including annual reports, semi-annual reports and audit completion reports became available on the Internet

Issuance of Accounting Procedures for Business Combinations

- New standards addressed all types of business combinations including mergers under the Commercial Law, acquisitions, tender offers, and transfers of business.

May 1999

Improved Credit Ceiling System for banks

- See Part II. 1. Banking Sector
  Table 9 "Revision of Credit Ceiling System" for detail

Assumption of Prudential Regulation Authority over Specialized Banks

- Prudential regulation authority over the Korea Development Bank, Industrial Bank of Korea, and Export-Import Bank of Korea, was transferred to the FSC/FSS from the MOFE by an amendment to each bank's establishment law.

Jun. 1999	**Revised Solvency Margin Requirements of Insurance Companies** ● The solvency margin requirements for domestic insurance companies were reformed based on the EU standard in order to secure financial soundness and improve the firms' competitiveness. **Introduction of Early Warning System for Risk Assessment of banks** **Assumption of Entrance Regulation of Financial Institutions** ● The FSC/FSS assumed responsibility for setting standards relating to the authorization and operation of financial institutions from the Ministry of Finance and Economy. **Strengthened Sanctions on Violation of Disclosure Requirements** ● Fines of up to 500 million won in the case of a violation of disclosure requirements were imposed
Jul. 1999	**Requirement for Separate Deposit of Total Customer Deposits at Securities Companies**
Nov. 1999	**Promotion of greater foreign investment in domestic securities** ● The revision allows for foreigners to acquire shares by M&A in excess of acquisition limits, to buy or sell shares acquired by direct investment in the over-the-counter market, and to borrow cash in Korean won to invest in stocks that have an acquisition limit
Dec. 1999	**Introduction of New Standards for Asset Classification (Forward Looking Criteria) of banks** ● See Part II. 1. Banking Sector ● Table 8 "Changes in Standards for Asset Classifications" for detail
Jan. 2000	**Improved Credit Rating System** ● The effective period of credit ratings was shortened to 3 months from 6 months in order to properly reflect the concerned company's latest status. **Revised Regulations relating to Corporate Governance**

- All KSE-listed companies are required to appoint outside directors, whose total number must be 1/4 or more of the total number of directors, and to form an outside director recommendation committee.

- All KSE-listed companies with total assets in excess of a specified amount should appoint at least 3 or more outside directors, and the outside directors should account for at least 1/2 of the total number of directors.

- All KSE-listed companies with total assets in excess of a specified amount are required to form an audit committee in the board of directors.

Revamped KOSDAQ Registration System

- According to new registration requirements, applicants should obtain legal status as a venture firm as defined by the venture capital company association. Moreover, the FSS can require that venture capital companies hold at least 10% of their client firms' shares for at least 6 months after their registration on KOSDAQ

Introduction of IT Rating System for Financial Institutions

- Under a newly introduced IT rating system, the FSS assigns an IT rating to each evaluated financial institution on a scale of "1" (highest) to "5" (lowest) based on assessments of internal control and risk management systems; the FSS then incorporates the results of IT rating assessments into "Evaluation of Management Status" reports.

Feb. 2000 **Revised Standards for Combined Financial Statements**

- For combined financial statements, the fair value evaluation principle is established by eliminating investment accounts of the parent company and capital accounts of its affiliates.
- The concept of good-will (which is created when the fair value of affiliates is smaller than the investment account of the parent company) and negative good-will (vice versa) was also introduced.
- Accounting methods for preferred stock of affiliates were introduced to enhance the consistency with standards for consolidated financial statements.

Apr. 2000 **Creation of One-Stop Filing System**

- The FSC/FSS introduced an electronic disclosure system in order to create a virtual "One-Stop Filing System" for all listed companies. The new system allows firms to submit necessary disclosure documents to the FSC/FSS through the data analysis retrieval and transfer (DART) system.

May 2000

Measures to Promote Increased & Sounder Issuance of ABS

- The FSC/FSS allows additional private companies to issue ABS by easing qualification requirements. Previously, only "internationally reputable" corporations (or companies possessing both suitable credit ratings and a track record of issuing securities in foreign countries) were eligible to be originators of an ABS issuance. This eligibility has been eased to "reputable" corporations as to allow companies that have not issued securities overseas to be able to issue ABS.

Launching of "Cyber Force"

- The FSS launched the nation's first-ever "Cyber Force", which is charged with protecting on-line securities investors from fraud, false or misleading information, and any other unfair trading practices amid the explosive growth of cyber trading.

Initial Disclosure of Mandatory Quarterly Reports

- The initial quarterly reports of companies that closed their accounts in December 1999 were disclosed on May 15th 2000 in accordance with the revision to The Securities and Exchange Act.

- Under the revision, all companies listed on the Korea Stock Exchange (KSE) and the KOSDAQ market, as well as those registered with the FSS that have over 500 shareholders, must disclose four business reports per a year: two quarterly reports, one semiannual report, and one annual report.

Jun. 2000

Detailed Principles of Corporate Governance Provided for Securities Companies, ITCs, and ITMCs

- All domestic securities firms, investment trust companies (ITCs), and investment trust management companies (ITMCs) are required to appoint outside directors and audit committee members at their annual shareholders' meetings, set internal control standards for management and staff, and

appoint compliance officers to examine and monitor their compliance.

Tightened Foreign Liquidity Requirements

- The new regulations require banks and merchant banks to include 20 percent of their banker's & shipper's usance, which are off-balance sheet items, as foreign currency liabilities in the determination of their foreign currency liquidity ratio. In addition, the foreign currency liquidity ratio for banks was raised under the measure from 70 to 80 percent.

Jul. 2000 **Expanded Application of Mark-to-Market Valuation**

- To promote growth of the secondary bond market by establishing the fair risk-bearing principle, mark-to-market valuation was applied to "new funds" (those established on or after November 15, 1998). Book valuation is applied for "old funds" (those established before November 15, 1998), but the additional issuance of beneficiary certificates is prohibited.

Aug. 2000 **Revised "Regulations on Supervision of Foreign Exchange Business"**

- The revised regulations provide detailed criteria for administrative measures imposed on parties involved in foreign exchange transactions. Under the new criteria, a suspension of 3 months or less will be imposed on involved parties for a breach of reporting to foreign exchange banks, and a 3 to 6 month suspension will be enforced for a breach of reporting to the Bank of Korea or the Ministry of Finance and Economy.

Sep. 2000 **Sale of Semi-Open Mutual Funds Allowed**

- The minimum capital requirement for registration of a semi-open fund with the FSC has been set at 400 million won. Once registered, the funds will be permitted to accept new investments into existing funds at any time, and investors will be able to redeem up to 50 percent of their investment three months after making their initial investment, and up to 100 percent of their investment after six months.

Reorganization of FSS to Enhance Functions of Market-Oriented Examination and Customer Protection

- The FSS underwent a major reorganization that streamlined the operating structure of the organization from a total of 32 departments and 6 offices to 29 departments and 5 offices.

Oct. 2000 **Introduction of Financial Holding Companies**

- The financial holding company system was introduced in order to help enhance the international competitiveness of domestic financial institutions. Under the Act, a financial holding company (FHC) should hold a minimum 50 percent stake in its subsidiaries, or a minimum 30 percent stake in the case of listed subsidiaries. The FHC should not engage in profit-making businesses other than the management of its subsidiaries and related businesses.

Nov. 2000 **Strengthened PCA Procedures for Securities, Insurance, and Mutual Savings & Finance Companies**

- The FSC/FSS revised Prompt Corrective Action (PCA) procedures pertaining to domestic securities, insurance, and mutual savings & finance companies. Under the revised regulations, a firm subject to a management improvement order is required to submit a management improvement plan by an earlier deadline to be set by the FSC/FSS.

Dec. 2000 **Introduction of Corporation Restructuring Vehicles**

- The Corporate Restructuring Vehicle (CRV) system was introduced in order to help creditor financial institutions improve their respective capital structures by separating the non-performing loans of workout firms from their balance sheets.

- The CRV pools creditor financial institutions' ailing assets related to the concerned companies and then entrusts these assets to an asset management company (AMC) specialized in corporate restructuring. After completing normalization of the concerned companies, the CRV will distribute profits with stockholders. The CRV is a paper company with a limited period of operation (maximum of 5 years).

Strengthened External Auditing and Accounting Regulation

- The FSC/FSS revised the "Regulation on External Auditing and Accounting" to improve accounting and auditing standards. Under the revised regulation, companies with

total assets of a certain amount or greater are subject to external audit by "auditors," which are accounting firms or a small group of CPAs ("auditing team") designated by the Securities and Futures Commission (SFC).

- The regulatory revision was made in order to achieve the following objectives: ① The FSS can conduct on-site investigations of accounting books at concerned companies and their affiliates in addition to the current written reviews of submitted audit documents. ② Companies found guilty of "window dressing" or inappropriate auditing will be subject to more severe punishment. ③ Public individuals will be able to retrieve cases of accounting irregularities from the Internet home page of the FSS.

ACT ON ESTABLISHMENT OF FINANCIAL SUPERVISORY ORGANIZATIONS

Amended by Law No.5982 on May 24, 1999

CHAPTER 1. GENERAL PROVISIONS

Article 1 (Purpose)
The purpose of this Act is to contribute to national economic progress by consolidating the soundness of credit order, the fairness of financial transactions, and protecting consumers of financial services such as depositors and investors through the establishment of the Financial Supervisory Commission (FSC) and the Financial Supervisory Service (FSS)

Article 2 (Maintenance, etc. of Fairness)
The FSC and the FSS shall, in conducting their duties, endeavor to maintain fairness, to secure transparency, and not to infringe on the autonomy of financial institutions.

CHAPTER II FINANCIAL SUPERVISORY COMMISSION

SECTION 1 Establishment of FSC

Article 3 (Establishment and Status of FSC)
(1) The FSC shall be established to exercise financial supervision under jurisdiction of the Prime Minister.

(2) The FSC shall independently conduct its duties under the powers vested in it.

Article 4 (Composition)
(1) The FSC shall be composed of nine (9) commissioners including one Chairman, one Vice Chairman, and the following members:

1. The Vice Minister of Finance and Economy;
2. The Deputy Governor of the Bank of Korea;
3. The President of the Korea Deposit Insurance Corporation;
4. An expert on accounting recommended by the MOFE;
5. An expert on banking and finance recommended by the Chairman of the FSC,
6. An expert on law recommended by the Minister of Justice; and
7. A representative of business community recommended by the President of the Korea Chamber of Commerce and Industry.

(2) The Chairman of the FSC (hereinafter referred to as "the Chairman" in Sections 1 and 2 of this chapter) shall be appointed by the President of the Republic of Korea after deliberation by the State Council, and the Vice Chairman of the FSC (hereinafter referred to as "the Vice Chairman in Sections 1 and 2 of this chapter) shall be appointed by the President of the Republic of Korea upon recommendation by the MOFE.

(3) The commissioners mentioned in Paragraph (1)4 through 7 shall be appointed by the President of the Republic of Korea upon recommendation by each recommending organization in such manner as prescribed in the Presidential Decree.

(4) The Chairman and the Vice Chairman shall have the status of administrative national public officers, and the commissioner mentioned in Paragraph (1)5 shall have the status of a privileged national public officer corresponding to a first class officer, and the commissioners mentioned in Paragraph(1)4, 6 and 7 shall be non-standing members.

(5) The Chairman, the Vice Chairman, and the commissioner mentioned in Paragraph (1)5 shall be Government delegates notwithstanding [Article 9] of the Government Organization Act.

Article 5 (Chairman)
(1) The Chairman shall represent the FSC, preside at meetings of the FSC, and exercise general control over affairs.

(2) In case the Chairman is unable to carry out his duties due to unavoidable reasons, the Vice Chairman and the commissioner mentioned in Article 4(1)5 shall carry them

out in that order; in case both the Vice Chairman and the commissioner mentioned in Article4 (1)5 are unable to conduct the said duties due to unavoidable reasons, a commissioner designated in advance by the FSC shall assume the duties of the Chairman.

Article 6 (Term, etc. of Office of Commissioners)
(1) The term of office of the Chairman, the Vice Chairman, and the commissioners mentioned in Article4 (1)4 through 7 (hereinafter referred to as "the appointed commissioners") shall be three (3) years, and they may be re-appointed only once.

(2) If the seat of an appointed commissioner falls vacant, a new commissioner shall be appointed to fill the vacancy and the term of office of the new commissioner shall be calculated from the date of appointment.

Article7 (Prohibition of Political Activities)
In spite of [Article6] of the Political Parties Act, the appointed commissioners shall neither join a political party nor participate in any political activity.

Article8 (Ineligibilities for Commissioners)
(1) Persons who fall under one of the following items shall not be appointed as a commissioner:
1. A person who is not a Korean national;
2. An incompetent or a quasi-incompetent;
3. A bankrupt who has not been reinstated;
4. A person sentenced to a suspension of execution of an imprisonment or heavier penalty and whose probation period has not expired;
5. A person for whom five (5) years have not elapsed since completion or the remission (including in the case where the execution deemed to be completed) of the execution after being sentenced imprisonment or heavier penalty;
6. A person for whom five (5) years have not elapsed after being sentenced to a fine under this Act or other financial statutes (including foreign financial statutes); and
7. A person for whom five (5) years have not elapsed since being discharged or removed from office under this Act or other financial statutes (including foreign financial statutes).

Article 9 (Prohibition of Concurrent Holding, etc. of Offices)
The Chairman, the Vice Chairman, and the commissioner mentioned in Article 4(1)5 shall neither hold concurrently any of the following offices nor engage in any business for profit-making during their term of office:
1. Member of the National Assembly or local councils;
2. National public officer or local public officer;
3. Any post of an officer or employee of any institution that is subject to supervision under this Act and other statutes. However this provision shall not apply to the post of the Governor that the Chairman holds concurrently pursuant to [Article 29(2)]; or
4. Any other office that receives remuneration.

Article 10 (Protection, etc. of Commissioners' Status)
(1) No appointed commissioner shall be discharged from his office against his own will unless he falls under any of the following items:
1. Cases where he falls under any of [Article8];
2. Cases where he is unable to perform his duties due to mental disorder or physical handicap; or
3. Cases where he becomes unsuitable to perform his duties as a commissioner of the FSC owing to the violation of his functional obligation under this Act.

(2) No action conducted by a commissioner as a member of the FSC prior to his dismissal owing to the reasons mentioned in Paragraph (1) shall lose its validity.

SECTION 2 Operations of FSC

Article 11 (Meetings)
(1) Meetings of the FSC shall be called by the Chairman upon the request of at least three (3) commissioners. However, the Chairman may call a meeting on his own motion.

(2) The resolutions of a meeting of the FSC shall be adopted by the attendance of a majority of its members and by the concurrence of a majority of those present unless other provisions of this Act or other laws require a special method of resolution.

(3) Any member of the FSC may submit a proposa1 to the FSC with the concurrence of

at least three (3) members. The Chairman may, however, submit a proposal to the FSC on his own motion.

(4) Any commissioner shall be excluded from the deliberation and resolution on the matters falling under one of the following items:

1. Matters in which he has a direct interest; or
2. Matters in which his spouse, relatives within the fourth degree of relationship in parental line or second degree of matrimonial relationship, or a corporation to which he belongs has an interest.

Article 12 (Preparation, etc. of Formal Record of Resolutions)
When the FSC adopts a resolution on a certain matter, it shall prepare a formal record thereof and those present shall put down their names and affix their seals or sign it.

Article 13 (Hearings)
Whenever the FSC acknowledges that hearings are necessary for deliberation of a certain matter, it may listen to the opinions from the Deputy Governors or Assistant Governors provided in Article 29(1), or other pertinent experts.

Article 14 (Emergency Measures)
(1) At a time of internal disorder, external contingencies, natural disasters, or grave financial or economic crisis, when emergency measures on financial supervision are required but there is not enough time to call a meeting of the FSC, the Chairman may take necessary measures within the authority of the FSC.

(2) When the measures mentioned in Paragraph (1) are taken, the Chairman shall without delay call a meeting of the FSC and report the contents thereof.

(3) The FSC may confirm or amend the emergency measures taken in accordance with Paragraph (1) or may suspend the implementation of such measures.

Article 15 (Organization, etc.)
(1) The necessary matters on the full number and the organization of the FSC shall the prescribed in the Presidential Decree.

(2) [Deleted]

(3) The Chairman shall control the budgets and other administrative affairs of the FSC and of the SFC provided in Article19.

Article 16 (Operations, etc.)
Necessary matters on the operations, etc. of the FSC, in addition to those provided in this Act and other statutes, shall be prescribed in the rules of the FSC.

SECTION 3 Duties under Jurisdiction of FSC

Article 17 (Financial Supervision)
The FSC shall deliberate and make resolutions concerning the following matters in accordance with the provisions of this Act and other statutes,

1. Formulation of and amendment to regulations relevant to the supervision of financial institutions;
1-2. Authorization or permission of establishment, merger, conversion or assignment or assumption of business of financial institutions;
2. Authorizations and permissions relevant to the operations financial institutions;
3. Important matters relevant to the examination of and sanction against financial institutions;
4. Important matters relevant to the administration, supervision and surveillance of securities and futures markets; and
5. Other matters relevant to the authority vested in the FSC by other statutes.

Article 18 (Instruction and Supervision of FSS)
The FSC shall instruct and supervise the duties, operations and administration of the FSS in accordance with the provisions of this Act and other statutes, and shall deliberate and make resolutions on each following matters:

1. Approval of amendment to the Articles of Incorporation of the FSS;
2. Matters concerning the organization and structure of the FSS;
3. Approval of the budgets and closing accounts of the FSS;
4. Decision on the remuneration standards for the employees of the FSS; and
5. Other matters necessary for the direction and supervision of the FSS.

SECTION 4 Securities and Futures Commission

Article 19 (Establishment of SFC)
The SFC shall be established under the FSC to conduct each of the following duties in accordance with the provisions of this Act and other statutes:

1. Investigation of unfair transactions in the securities and futures markets;
2. Duties concerning the financial accounting standards and accounting audits;
3. Prior consideration of important matters relevant to the administration, supervision, and surveillance of the securities and futures markets, which are subject to deliberation and resolution by the FSC;
4. Duties delegated by the FSC for the administration, supervision, and surveillance of the securities and futures markets; and
5. Duties vested in the SFC under other statutes.

Article 20 (Composition, etc. of SFC)
(1) The SFC shall be composed of five (5) members including the Chairman, and one of whom, except the Chairman, shall be a standing member.

(2) The Vice Chairman of the FSC shall concurrently hold the office of Chairman of the SFC, and other members shall be appointed by the President of the Republic of Korea upon the recommendation of the Chairman of the FSC from among the persons falling under one of the following items:

1. A person who has served as a public officer of a second class or higher, and who has experience in the fields of finance, securities, futures, or accounting;
2. A person who has majored in law, economics, business administration, or accounting at a university, and who has served for fifteen (15) years or more at a university or a publicly authorized research institute as an associate professor or higher, or as a staff member holding a corresponding position; or
3. A person having extensive knowledge and experience in finance, securities, futures, or accounting.

(3) The standing member of the SFC who is not the Chairman shall have the status of a privileged national public officer corresponding to the first class.

(4) In case the Chairman of the FSC is unable to carry out his duties due to unavoidable reasons, the standing member shall carry them out on his behalf; in case both the Chairman and the standing member are unable to conduct their duties due to unavoidable reasons, a member chosen in advance by the SFC shall perform the duties of the Chairman.

(5) The term of office of members of the SFC, except the Chairman, shall be three (3) years and they may be re-appointed only once.

(6) [Article 6(2) & Article7 to Article10] shall apply *mutatis mutandis* to the SFC.

Article 21 (Meetings, etc.)
(1) Meetings of the SFC shall be called by the Chairman at the request least two (2) members. However, the Chairman may call a meeting on his own motion.

(2) A resolution of a meeting of the SFC shall be adopted by concurrence of at least three (3) members.

(3) [Article 11(4), Article12 & Article13] shall apply *mutatis mutandis* to the SFC.

Article 22 (Organization, Rules, etc.)
(1) Necessary matters on the organization of the SFC, in addition to those provided in this Act, shall be prescribed in the rules of the FSC.

(2) Necessary matters on the operation, etc. of the SFC, in addition to those provided in this Act and other statutes, shall be prescribed in the rules.

(3) In case the SFC intends to formulate the rules mentioned in Paragraph (2) shall obtain an approval from the FSC. This shall also apply in case of the amendments thereto.

Article 23 (Instruction and Supervision of FSS)
The SFC shall instruct and supervise the FSS in relation to the duties mentioned in each item of Article19.

CHAPTER III FINANCIAL SUPERVISORY SERVICE

SECTION 1 General Provisions

Article 24 (Establishment of FSS)
(1) The FSS shall be established in order to examine and supervise financial institutions under the directions of the FSC or the SFC.

(2) The FSS shall be a special corporation having no capital.

Article 25 Offices
(1) The FSS shall have its main office in Seoul.

(2) The FSS may, in accordance with its Articles of Incorporation, establish branch boards or offices in places where they are needed.

Article 26 (Articles of Incorporation)
(1) The Articles of Incorporation of the FSS shall specify the matters falling under each of the following items:
1. Purpose;
2. Denomination;
3. Matters on its offices;
4. Matters on its employees;
5. Matters on its business affairs and the execution thereof;
6. Matters on its budget and accounting;
7. Methods of public announcement;
8. Matters on amendments to the Articles of Incorporation; and
9. Other matters prescribed in the Presidential Decree.

(2) The FSS may amend its Articles of Incorporation with the approval from the FSC.

Article 27 (Registration)
(1) The FSS shall register in such manner as prescribed in the Presidential Decree.

(2) The FSS shall be duly established upon the completion of registration at the location of its main office.

(3) Matters required in the registration pursuant to Paragraph (1) shall not be stood against a third party until after the registration thereof.

Article 28 (Prohibition of Use of Similar Denomination)
No entity other than the FSS shall use the denomination "the Financial Supervisory Service" or any other similar term in its denomination.

SECTION 2 Governor, Deputy Governors, Assistant Governors, Auditor, and Employees

Article 29 (Executive Officers)
(1) The FSS shall have one (1) Governor, four (4) or fewer Deputy Governors, nine (9) or fewer Assistant Governors, and one (1) Auditor

(2) The Chairman of the FSC shall concurrently hold the post of the Governor.

(3) The Deputy Governors and the Assistant Governors of the FSS shall be appointed by the FSC on the recommendation of the Governor.

(4) The Auditor shall be appointed by the President of the Republic of Korea on the recommendation of the FSC.

(5) The term of office of the Deputy Governors, the Assistant Governors, and the Auditor shall be three (3) years, and each of them may be re-appointed only once.

(6) When any post of Deputy Governor, Assistant Governor, or Auditor falls vacant, a new person shall be appointed to fill such vacancy, and the term of office of the new incumbent shall be calculated from the date of appointment.

Article 30 (Duties of Officers)
(1) The Governor shall represent the FSS and shall exercise general control over the business of the FSS.

(2) In case the Governor is unable to carry out his duties due to unavoidable reasons, the commissioner of the FSC next in line to act on behalf of the Chairman of the FSC shall undertake the duties of the Governor.

(3) The Deputy Governors shall assist the Governor and undertake respective duties assigned to them in the FSS, and the Assistant Governors shall assist the Governor and Deputy Governors and undertake their respective duties assigned to them in the FSS.

(4) The Auditor shall inspect and audit the operations and accounting of the FSS.

Article 31 (Restriction of Representative Rights)
The commissioner of the FSC who serves on behalf of the Chairman of the FSC shall represent the FSS in case the Governor's interests conflict those of the FSS.

Article 32 (Dismissal of Deputy Governors, etc.)
In case any Deputy Governor, Assistant Governor, or Auditor falls under any of the following items, he shall, upon the recommendation of the person who recommended his appointment pursuant to Article 29(3) and (4), be dismissed by the person who appointed him:

1. When he is declared bankrupt by the court;
2. When he is sentenced to an imprisonment or heavier penalty, or sentenced to a fine or more heavier punishment under this Act or financial statutes (including foreign financial statutes);
3. When he is unable physically or mentally to perform his duties; or
4. When he violates this Act, the orders thereunder, or the Article of Incorporation.

Article 33 (Appointment and Dismissal of Employees)
The Governor shall appoint and dismiss employees.

Article 34 (Restriction on Concurrent Holding of Posts)
The Deputy Governors, the Assistant Governors, the Auditor, and the employees shall not engage in any business activity for profit other than their duties, and shall not hold other posts concurrently without the approval from the person who appointed them.

Article 35 (Duties of Probity and Confidentiality)
(1) The Governor, the Deputy Governors, the Assistant Governors, the Auditor, and the employees shall neither compel the granting of loans nor accept any money, valuables, or benefits from the financial institutions which are subject to examination and supervision pursuant to the provisions of this Act or from any officer or employee of such financial institutions.

(2) The Governor, the Deputy Governors, the Assistant Governors, the Auditor, and the employees, or persons who have previously held those offices shall neither reveal to outsiders nor use for other purposes any information obtained in the course of their duties.

Article 36 (Appointment of Representative)
(1) The Governor may appoint a representative from among the Deputy Governors, the Assistant Governors, or other employees with the authority to take all judicial or extra-judicial actions pertaining to the business of the FSS.

(2) The scope of the employees who may be selected as representatives in judicial actions pursuant to Paragraph (1) shall be prescribed in the Presidential Decree.

SECTION 3 Duties

Article 37 (Duties)
The FSS shall perform the following duties in accordance with this Act and other statutes:

1. Examination of the business and asset status of the institutions provided in Article38;
2. Imposition of sanctions under this Act and other statutes according to the findings as a result of the examinations mentioned in Item 1;
3. Assistance in the duties of the FSC and the SFC pursuant to the provisions of Chapter II ; and
4. Other duties that are entrusted to the FSS under this Act and other statutes.

Article 38 (Institutions Subject to Examination)
The institutions that are subject to examination by the FSS shall be those falling under one of the following items.

1. Banking institutions established under the Banking Act or the Long-Term Credit Bank Act;
2. Securities companies, securities finance companies, investment advisory companies, and transfer agents established under the Securities and Exchange Act;
3. Investment trust companies established under the Securities Investment Trust Business Act;

4. Insurers established under the Insurance Business Act;
5. Merchant banking corporations established under the Merchant Banking Corporations Act;
6. Mutual savings and finance companies and the federation thereof established under the Mutual Savings and Finance Company Act;
7. Credit unions and the national federation thereof established under the Credit Union Act;
8. Trust companies established under the Trust Business Act;
9. Credit-specialized financial companies and persons who engage concurrently in loan business established under the Credit-Specialized Financial Business Act;
10. Futures trading companies under the Futures Trading Act;
11. The credit and banking sector of the National Agricultural Cooperatives Federation under the National Agricultural Cooperatives Act;
12. The credit and banking sector of the National Federation of Fisheries Cooperatives and its affiliated cooperatives under the National Fisheries Cooperatives Act;
13. The credit and banking sector of the National Livestock Cooperative Federation under the National Livestock Cooperatives Act;
14. The institutions to be examined by the FSS pursuant to the provisions of other statutes; and
15. Other persons engaging in finance business and finance-related business who are prescribed in the Presidential Decree.

Article 39 (Formulation of Rules)
(1) The Governor may formulate the rules, when he deems necessary for performing the duties of the FSS.

(2) When the Governor intends to formulate or amend the rules mentioned in Paragraph (1), he shall obtain the approval from the FSC.

Article 40 (Demand, etc. for Submission of Materials)
(1) The Governor may, when he deems necessary for performing his duties, demand the reports, materials, and appearance and testimony of the persons involved regarding the business operation and properties from the institutions mentioned in each item of Article38 or other institutions subject to the examination by the FSS pursuant to the provisions of other statutes.

(2) The persons who conduct examinations pursuant to [Article 37/1] shall produce a certificate representing their authorities to examine to the persons concerned.

Article 41 (Correction Order and Demand for Disciplinary Punishment)
(1) The Governor may, when officers or employees of the institution mentioned in each item of Article 38 fall under one of the following items, require the head of the institution concerned to correct the acts of his officers or employees or to take disciplinary punishment against those concerned:
1. Cases of violating this Act, or the regulations, orders, or directions thereunder;
2. Cases of falsely preparing reports or data required by the Governor under this Act, or neglecting to submit them;
3. Cases of refusing, hindering, or evading the supervision and examination by the FSS under this Act; or
4. Cases of neglecting to implement a correction order or demand for disciplinary punishment issued by the Governor.

(2) The disciplinary punishment mentioned in Paragraph (1) shall be classified into categories such as (i) dismissal, (ii) suspension of office, (iii) reduction of salary, (iv) reprimand, and (v) warning.

Article 42 (Recommendation, etc. of Dismissal of Officers)
The Governor may, when an officer of an institution falling under an item of Article38 willfully violates this Act, or the regulations, orders, or directions thereunder, recommend the person who appointed him to dismiss the officer concerned, or propose that the FSC suspend him from the exercise of his duties.

Article 43 (Suspension, etc. of Business)
The Governor may, when an institution falling under an item of Article38 conducts its business in an unlawful or unsound manner repeatedly violating this Act, the regulations, orders, or directions thereunder, propose that the FSC take any of the following actions against the institution

concerned:
1. Suspension of the unlawful conduct or malpractice of the institution concerned; or
2. Suspension of all or part of the business of the institution concerned for a period of less than six (6) months.

SECTION 4 Accounting

Article 44 (Accounting)
The fiscal year of the FSS shall be the same as that of the Government.

Article 45 (Budget and Closing Accounts)
(1) The budget of the FSS shall be approved by the FSC.

(2) The FSS shall submit its budget to the FSC within at least sixty (60) days before each fiscal year begins.

(3) The Governor shall submit the statements of closing accounts for the fiscal year to the FSC within two (2) months after the close of each fiscal year.

Article 46 (Sources of Revenue)
The FSS shall appropriate its expenses from the following sources of revenue:
1. Contributions from the Government;
2. Contributions from the Bank of Korea;
3. Contributions from the institutions falling under each item of Article 38
4. Shares in expenses pursuant to [Article 47]; and
5. Other revenues prescribed in other statutes or its Article of Incorporation.

Article 47 (Share in Expenses)
(1) The institutions falling under each item of Article 38, which are subject to examination by the FSS shall pay a share in expenses to the FSS.

(2) The ratio, ceiling, and other necessary matters concerning the payment of the shares in expenses pursuant to Paragraph (1) shall be prescribed in the Presidential Decree.

Article 48 (Borrowing)
The FSS may, when necessary, borrow funds from financial institutions upon the approval from the FSC.

Article 49 (Free Loan, etc. of Public Property)
The Government may loan public property gratis to the FSS or allow the FSS to make use of it.

Article 50 (Disposal of Surplus)
The FSS may carry over its surplus at the closing date of any fiscal year to the following fiscal year upon the approval from the FSC.

SECTION 5 Arbitration of Financial Disputes

Article 51 (Financial Disputes Arbitration Organization)
The Financial Disputes Arbitration Committee (hereinafter referred "the Arbitration Committee") shall be established in the FSS to deliberate and resolve matters concerning the arbitration of the financial disputes between the institutions mentioned in each item of Article 38, and consumers of financial services including depositors, etc. and other interested parties.

Article 52 (Composition of Arbitration Committee)
(1) The Arbitration Committee shall be composed of thirty (30) or less including its Chairman.

(2) The Chairman of the Arbitration Committee shall be nominated by the Governor from among the Deputy Governors of the FSS, and its members shall be the persons falling under one of the following items:
1. An Assistant Governor nominated as an Arbitration Committee member by the Governor;
2. A person commissioned by the Governor from among judges, public prosecutors, or persons who have a license of lawyer;
3. A person commissioned by the Governor from among officers or ex-officers of the Korea Consumer Protection Board under the Consumer Protection Act and of the consumer organizations;
4. A person commissioned by the Governor from among persons who have work experience at financial institutions, or finance-related institutions or organs for fifteen (15) years or longer;
5. A person commissioned by the Governor from among persons who have knowledge and experience in finance;
6. A person commissioned by the Governor

from among doctors qualified as medical specialists; or

7. Any other person whose membership is acknowledged to be desirable for the arbitration of disputes and who is commissioned by the Governor.

(3) The term of office of the Committee members mentioned in Paragraph (2)2 through 7 shall be two (2) years, and each of them may be re-appointed.

(4) In case the Chairman of the Arbitration Committee is unable to perform his duties due to unavoidable reasons, a member of the Arbitration Committee nominated by the Governor shall perform the duties of the Chairman thereof.

Article 53 (Arbitration of Financial Disputes)

(1) The institutions mentioned in each item of Article38, and consumers of financial services including depositors, etc. and other interested parties may request the Governor to settle a dispute which arises with respect to financial business.

(2) The Governor shall, upon receipt of a request to settle a dispute pursuant to Paragraph (1) notify the contents thereof to the parties concerned, and may recommend them to reach an agreement. However, the Governor may neither recommend an agreement nor submit a case to the Arbitration Committee pursuant to Paragraph (3), if the requested case for the arbitration falls under any of the following items:

1. Case which has already been brought to the court, or whose suit is brought to the court after the arbitration is submitted to the Governor;
2. Case that is unsuitable for adjudication through financial dispute arbitration;
3. Case where it is no longer of advantage to undertake the procedures for agreement recommendation and arbitration in view of the relevant statutes or the objective evidence, etc.; or
4. The cases prescribed in the Presidential Decree.

(3) The Governor shall, when an agreement pursuant to Paragraph (2) is not reached within thirty (30) days from the date of receiving the request to settle the dispute, refer the case to the Arbitration Committee without delay.

(4) The Arbitration Committee shall, when a case is referred in accordance with Paragraph (3), deliberate the case and draw up an arbitration proposal sixty (60) days from the referring date.

(5) The Governor may, if the Arbitration Committee has drawn up an arbitration proposal, present the proposal to the person requesting the arbitration and to the parties concerned, and recommend them to accept it.

Article 54 (Meetings of Arbitration Committee)

(1) A meeting of the Arbitration Committee shall be composed of the Chairman and seven (7) to eleven (11) members of the Arbitration Committee designated by the Chairman at each meeting, and it shall be called by the Chairman.

(2) A resolution of the Arbitration Committee shall require the presence of a majority of the members mentioned in Paragraph (1) and the concurrence of a majority of those present.

(3) The Governor may request the reconsideration of a resolution adopted when the resolution is deemed to be unlawful or seriously unjust to the public interests.

(4) When the Governor requests reconsideration pursuant to Paragraph (3), the previous resolution shall be adopted by the presence of more than two-thirds of the members mentioned in Paragraph (1) and the concurrence of more than two-thirds of those present.

Article 55 (Effect of Arbitration)

When the arbitration proposal provided in Article 53(5) is accepted by the persons concerned, it shall have the same effect as a judicial compromise.

Article 56 (Cease of Arbitration Procedure)

The Governor shall cease the arbitration procedure and give notice thereof to the parties concerned if any of the parties brings a suit against other parties to the dispute during the arbitration procedure of the requested case.

Article 57 (Operation, etc. of Arbitration

Committee)
Necessary matters on the operation of the Arbitration Committee and the Disputes Arbitration procedure shall be prescribed in the Presidential Decree.

CHAPTER IV RELATIONS BETWEEN FINANCIAL SUPERVISORY ORGANIZATIONS AND OTHER INSTITUTIONS

SECTION 1 Relations between FSC and FSS

Article 58 (Submission of Documents)
The Governor shall submit the documents necessary for financial supervision, etc. upon the request of the FSC or the SFC.

Article 59 (Report of Examination Results and Measures Taken)
The Governor shall, when any examination pursuant to [Article37/1] is conducted, report the examination results to the FSC. This stipulation shall also apply to the case where the measures provided in Article41 and Article42 are taken.

Article 60 (Report Examination, etc.)
The FSC shall, when it deems necessary, have the FSS report to it the matters concerning the operations, properties, and accounting of the FSS, or it may examine the operations, property status, account books, documents, and other materials of the FSS in such manner as determined by the FSC.

Article 61 (Right, etc. of FSC to Issue Orders)
(1) The FSC or the SFC may issue an order necessary for guiding and directing the duties of the FSS.

(2) The FSC may, when it deems that any measure taken by the SFC or the FSS is unlawful or seriously unjust to the public interests or the protection of financial customers such as depositors, revoke all or part of such measure or suspend the execution thereof.

(3) The SFC may, when it deems that any measure on the duties provided in each of [Article19] taken by the FSS is unlawful or seriously unjust, revoke all or part of such measure or suspend the execution thereof.

SECTION 2. Relations between FSC and Bank of Korea

Article 62 (Request, etc. of Examination and Joint-Examination)
(1) The Bank of Korea may, when the Monetary Policy Committee deems necessary for the conduct of the monetary policy require the FSS to examine the banking institutions provided in Article11 of the Bank of Korea Act, or demand that its employees jointly participate in the examination of the banking institutions with the FSS.

(2) The Bank of Korea may request the FSS to submit to it the findings of the examination pursuant to Paragraph(1) or require the FSS to take necessary corrective measures on the findings of such examination.

(3) The Bank of Korea shall, when it demands the examination or joint-examination mentioned in Paragraph (1), specify its purpose of examination, the institutions to be examined, and the scope of the examination.

(4) The FSS shall, when requested by the Bank of Korea pursuant Paragraph (1) and (2), comply with the request.

Article 63 (Request for Reconsideration)
(1) The Monetary Policy Committee may, when the FSC takes measures having a direct bearing on monetary and credit policy to which the Monetary Policy Committee is opposed, request reconsideration of such measures.

(2) When the FSC, at the request for its reconsideration from the Monetary Policy Committee pursuant to Paragraph (1), adopts the same measures as the previous ones with the concurrence of two-thirds of the entire members of the FSC, the resolution shall be confirmed.

SECTION 3 Relations between FSC and Ministry of Finance and Economy

Article 64 [Deleted]

Article 64-2 (Consultation on Statutes Relating to Financial Supervision)
The MOFE shall consult with the FSC in the case of formulating or amending the statutes

relating to financial supervision.

Article 65 (Cooperation in Exchange of Materials)
The MOFE, the Monetary Policy Committee, and the FSC may request from each other any materials necessary for the conduct of its policy In this case, the requested materials shall be submitted to the requester unless there is any special reason to refuse the request.

Article 66 (Examination Request by Korea Deposit Insurance Corporation)
(1) The President of the Korea Deposit Insurance Corporation (hereinafter referred to as "the KDIC") may, when necessary for conducting his duties, request the FSC or the FSS either to examine an insured financial institution provided in Article2-1 of the Depositors Protection Act or to allow his employees to jointly participate in the examination conducted by FSC or the FSS.

(2) The President of the KDIC shall, when he requests the examination mentioned in Paragraph (1), specify his purpose of the examination, the institutions to be examined, and the scope of the examination.

(3) The FSS shall, upon receiving a request from the KDIC pursuant to Paragraph (1), comply with the request unless there is any special reason to refuse it.

Article 67 (Requests for Cooperation by Governor)
The Governor may, when necessary for conducting his duties, request cooperation from the Government agencies and other institutions concerned.

CHAPTER V SUPPLEMENTARY PROVISIONS

Article 68 (Penal Provisions)
(1) Any person violating [Article 35(2)] shall be punished by an imprisonment up to three (3) years or by a fine up to twenty (20) million won.

(2) Any person violating [Article28] shall be punished by an imprisonment up to one (1) year or by a fine up to ten (10) million won.

Article 69 (Legal Fiction of Public Officials in Anticipation of Penal Provisions)
(1) The commissioners of the FSC, the members of the SFC who are not public officers, and the executive officers and the employees of the FSS shall be deemed public officials to the extent that the penalty provisions of the Criminal Code or other laws apply to them.

(2) The scope of the employees deemed as public officials pursuant to Paragraph (1) shall be prescribed in the Presidential Decree.

Article 70 (Administrative Adjudication)
Any person whose rights and interests are infringed by the unlawful or inequitable measures of the FSC, the SFC, or the FSS may lodge an administrative adjudication with the Prime Minister.

ADDENDA
<Law No.5490 on April 1,1998>

Article 1 (Enforcement Date)
This Act shall be effective from April 1, 1998. However, [Article3(4) to (9)] of Addenda shall be effective from the promulgation of this Act; and the provisions of Sections 1, 2, 4 and 5 of Chapter III shall, unless there is any provision of this Act to the contrary, be effective from the date in 1999 to be determined by the Presidential Decree.

Article 2 to Article 7 [Omitted]

ADDENDA
<Law No.5982 on May 24,1999>

Article 1 (Enforcement Date)
This Act shall be effective from the date of promulgation.

Article 2 to Article6 [Omitted]

BANKING ACT

Amended by Law No. 6177 on January 21, 2000

CHAPTER I GENERAL PROVISIONS

Article 1 (Purpose)
The purpose of this Act is to contribute to the stability of financial markets and the development of the national economy by promoting the sound operation of financial institutions, enhancing the efficiency of the fund mediating functions, protecting depositors, and maintaining the credit order.

Article 2 (Definitions)
(1) For the purpose of this Act, the definitions of terms shall be as follows:

1. The term "banking business" means a business of lending funds raised by bearing debts from many unspecified persons through the receipt of deposits and issuance of securities and other bonds;
2. The term "financial institutions" means all legal persons regularly and systematically engaged in the banking business except for the Bank of Korea;
3. The term "commercial financial business" means a business which loans funds primarily raised by receipt of demand deposits within a period of less than a year, or which makes loans for a period of not less than a year but less than three years, within the scope not exceeding the ceiling limit on loans as determined by the Financial Supervisory Commission, taking into account the total amount of deposits;
4. The term "long-term financial business" means a business which loans funds raised by paid-in capital, reserves, other surplus, or time deposits with a maturity of more than one year, or through the issue of debentures or other bonds for a period exceeding one year;
5. The term "equity capital" means the total amount of core capital and supplementary capital according to the standards set by the Bank for International Settlements;
6. The term "payment guarantee" means a guarantee or acceptance of debts of another person by financial institutions; and
7. The term "credits" means loans, payment guarantees and purchase of securities (limited to those whose nature is fund assistance) or other direct and indirect transactions by financial institutions, which involve the credit risk in financial transactions.

(2) The specific scope of equity capital and credits under paragraph (1) 5 and 7 shall be determined by the Financial Supervisory Commission on such terms and conditions as the Presidential Decree provides.

Article 3 (Applicable Provisions)
(1) All financial institutions in the Republic of Korea shall be operated under this Act, the Bank of Korea Act, the Act on the Establishment of Financial Supervisory Organizations, and regulations and orders issued thereunder.

(2) This Act and the Bank of Korea Act shall prevail over the Commercial Act and other Acts and subordinate statutes.

Article 4 (Juristic Persons)
No person other than juristic persons shall be engaged in the banking business.

Article 5 (Special Cases for National Federation of Agricultural Cooperatives, etc.)
Any credit business sector of the National Federation of Agricultural Cooperatives and the National Federation of Fisheries Cooperatives shall be deemed to be financial institutions.

Article 6 (Insurers, etc.)
Insurers and companies engaged exclusively in the mutual savings and financial business or trust business shall not be deemed to be financial institutions.

Article 7 (Determination on whether Juristic Persons are Financial Institutions)
(1) Whether a juristic person is a financial institution shall be determined by the Financial Supervisory Commission.

(2) The Financial Supervisory Commission may require any juristic person concerned to

submit books and other documents as necessary to make determinations referred to in paragraph (1).

CHAPTER II AUTHORIZATION, ETC. OF BANKING BUSINESS

Article 8 (Authorization of Banking Business)
(1) Any person who intends to conduct the banking business shall obtain the authorization from the Financial Supervisory Commission.

(2) In determining whether to grant authorization under paragraph(1), the Financial Supervisory Commission shall confirm the feasibility of a business project, the appropriateness of paid-in capital, stockholders' composition and stock subscription capital, the managerial abilities and sincerity of the promoters or the management, and the public-interest. In this case, the matters necessary for the methods, etc. of such confirmation shall be determined by the Presidential Decree.

(3) The Financial Supervisory Commission may set conditions for authorization under paragraph (1).

Article 9 (Minimum Paid-In Capital)
The paid-in capital of a financial institution shall be not less than one hundred billion won: Provided, That the paid-in capital of a financial institution which does not operate nationwide may be not less than twenty-five billion won.

Article 10 (Report on Amendment of Articles of Association and Reduction in Paid-In Capital)
(1) Where any financial institution intends to perform any of the following activities, it shall, in advance, report on it to the Financial Supervisory Commission:

1. Amendment of the articles of association: Provided, That this shall not apply where it intends to alter minor matters as determined by the Financial Supervisory Commission; and
2. Reduction in the paid-in capital as determined by the Presidential Decree.

(2) Where a financial institution amends the articles of association under the proviso of paragraph (1) 1, or makes a change in the paid-in capital which does not fall under subparagraph 2 of the same paragraph, it shall report on it to the Financial Supervisory Commission within seven days from the date on which such a cause occurs.

(3) The Financial Supervisory Commission may, in case where the content which was reported under paragraph (1) is deemed to violate the related Acts and subordinate statutes or to infringe on the rights and interests of the users of financial institutions, recommend the financial institutions concerned to correct or supplement it.

Article 11 (Submission of Application)
(1) Any person who intends to obtain authorization under Articles 8 (1) shall submit an application to the Financial Supervisory Commission.

(2) The contents and types of the application under paragraph (1) shall be determined by the Financial Supervisory Commission.

Article 12 (Public Notice of Authorization, etc.)
Where the Financial Supervisory Commission grants authorization under Article 8 (1) or cancels the authorization under Article 53 (2), it shall make public notice of the contents in the Gazette and make them known to the public through the use of computer communications, etc.

Article 13 (Establishment and Relocation, etc. of Branches)
The financial institution shall, in case where it intends to newly establish branches, agents or other business places or offices in foreign countries, or to relocate its head office in the areas of other Special Metropolitan City, Metropolitan City, or Do, prepare in advance the plans for new establishment or relocation and make a consultation with the Financial Supervisory Commission.

Article 14 (Ban on Use of Similar Trade Names)
No person other than the Bank of Korea and financial institutions shall use the denotation "bank" in his trade name, or the denotations "banking business" or "banking operations" in indicating his business.

CHAPTER III HOLDING LIMITS, ETC. OF FINANCIAL INSTITUTION'S STOCKS

Article 15 (Stockholding Limit, etc. by Same Persons)

(1) One stockholder and a person in a special relationship with him as determined by the Presidential Decree (hereinafter referred to as the "same person") shall not hold or actually control more than 4/100 of the total number of the issued voting stocks of financial institutions (including a holding by the same person in his own or another's name, or the exercise of the voting right in collusion; hereinafter referred to as "holding" in this Article, and Articles 16 and 26): Provided, That this shall not apply to cases falling under any of the following subparagraphs and cases of paragraphs (2) through (4):

1. Where the Government and the Korea Deposit Insurance Corporation established under Article 3 of the Depositor Protection Act hold stocks of financial institutions; and
2. Where holding less than 15/100 of the total number of the issued voting stocks of financial institutions which do not operate nationwide.

(2) Foreigners listed in subparagraph 1 of Article 2 of the Foreign Investment Promotion Act (hereinafter referred to as "foreigners") may hold less than 10/100 of the total number of the issued voting stocks of financial institutions, notwithstanding the main provisions of paragraph (1). In this case, the foreigners shall report to the Financial Supervisory Commission.

(3) Where any person intends to hold the voting stocks of a financial institution as any of the following subparagraphs provides, he may, notwithstanding the main provisions of paragraph (1), upon approval by the Financial Supervisory Commission, hold stocks to the extent approved:

1. Where he intends to hold stocks of the financial institution in question at the time of the establishment of a joint financial institution as determined by the Presidential Decree;
2. Where he intends to hold stocks of the financial institution in question at the time of the establishment of a financial institution by foreigners as determined by the Presidential Decree; and
3. Where a foreigner intends to hold stocks of a financial institution in excess respectively of the limits determined in any of the following items:
   (a) Limit in paragraph (2) (for financial institutions under paragraph (1) 2, the limit in the same paragraph and same subparagraph);
   (b) 25/100 of the total number of the issued voting stocks of the financial institution in question; and
   (c) 33/100 of the total number of the issued voting stocks of the financial institution in question.

(4) Nationals or juristic persons of the Republic of Korea referred to in subparagraphs 2 and 3 of Article 2 of the Foreign Investment Promotion Act may, notwithstanding the main provisions of paragraph (1), hold stocks of the financial institution in question through the same procedures within the limit of a report under paragraph (2) or of approval obtained under paragraph (3) 3 by any foreigner.

(5) Where the Financial Supervisory Commission refuses to accept a report under paragraphs (2) and (4) or does not grant approval under paragraphs (3) and (4), it shall specify and notify such cause to the applicant within the period as determined by the Presidential Decree.

(6) In applying the provisions of paragraphs (2) through (5), the qualifications for any person capable of holding stocks of financial institutions, the requirements and procedures for report or approval related to stockholding and other necessary matters shall be determined by the Presidential Decree in consideration of the propriety of the size of assets and financial status, the size of loans from the relevant financial institution, and the possible contribution to the efficiency and soundness of the banking business: Provided, That the number of financial institutions shall be limited to one, of which any enterprise belonging to an affiliated business group and its persons concerned as determined by the Presidential Decree in consideration of the size of loans from financial institutions may hold stocks under paragraphs (3) and (4).

(7) Credits, which may be extended to the same person who holds more than 10/100

(15/100 for any financial institution which does not operate nationwide) of the total number of the issued voting stocks of the relevant financial institution, shall not exceed the smaller amount between that equivalent to the ratio as determined by the Presidential Decree within the limit of 25/100 of the financial institution's equity capital, and that equivalent to the investment ratio of the same person to the relevant financial institution.

(8) A stockholder of a financial institution shall not compel the financial institution of which he holds stocks to commit any act impeding the sound order of financial transactions, or exercise his influence on it.

Article 16 (Restriction, etc. on Voting Right of Limit Excess Stocks)
(1) Where the same person holds stocks of financial institutions beyond the stockholding limit referred to in Article 15, the scope for exercising the voting right of relevant stocks shall be restricted to the limit referred to in Article 15, and he shall, without delay, make sure that he conforms to the relevant limit.

(2) Where the same person does not observe the provisions of paragraph (1), the Financial Supervisory Commission may order him to dispose of the stocks beyond the relevant limit within a specified period of not more than six months.

Article 17 (Exercise of Minority Stockholder's Right)
(1) Any person, who holds the stocks in excess of 5/100,000 of the total number of the issued stocks of financial institutions continuously for more than six months as determined by the Presidential Decree, may exercise the stockholder's right as referred to in Article 403 of the Commercial Act (including the cases applicable *mutatis mutandis* in Articles 324, 415, 424-2, 467-2 and 542 of the Commercial Act).

(2) Any person, who holds the stocks in excess of 250/100,000 (125/100,000 in case of financial institutions as prescribed by the Presidential Decree) of the total number of the issued stocks of financial institutions continuously for more than six months as determined by the Presidential Decree, may exercise the stockholder's right as referred to in Articles 385 (including the cases applicable *mutatis mutandis* in Article 415 of the Commercial Act), 402 and 539 of the Commercial Act.

(3) Any person, who holds the stocks in excess of 50/10,000 (25/10,000 in case of financial institutions as prescribed by the Presidential Decree) of the total number of the issued stocks of financial institutions continuously for more than six months as determined by the Presidential Decree, may exercise the stockholder's right as referred to in Articles 363-2 and 466 of the Commercial Act. In this case, where exercising the stockholder's right as referred to in Article 363-2 of the Commercial Act, it shall be based on the voting stocks.

(4) Any person, who holds the stocks in excess of 150/10,000 (75/10,000 in case of financial institutions as prescribed by the Presidential Decree) of the total number of the issued stocks of financial institutions continuously for more than six months as determined by the Presidential Decree, may exercise the stockholder's right as referred to in Articles 366 and 467 of the Commercial Act. In this case, where exercising the stockholder's right as referred to in Article 366 of the Commercial Act, it shall be based on the voting stocks.

(5) The stockholder under paragraph (1) may, in case where he institutes a suit pursuant to Article 403 of the Commercial Act (including the cases applicable *mutatis mutandis* in Articles 324, 415, 424-2,467-2 and 542 of the Commercial Act) and wins the case, claim the financial institution to pay the expenses for suit and all other expenses arising from the suit.

CHAPTER IV OFFICERS AND EMPLOYEES

Article 18 (Qualifications, etc. for Officers)
(1) No person falling under any of the following subparagraphs shall be an officer of any financial institution, and if he falls hereunder after becoming one, he shall lose the office:

1. Deleted; <by Act No. 5540, May 25, 1998>
2. A minor or a person who is incompetent or quasi-incompetent;
3. A bankrupt who has not been reinstated;

4. A person who has been sentenced to imprisonment without prison labor or more severe punishment and for whom five years have not elapsed since he completed the sentence (including where he is deemed to have completed the sentence) or was exempted from the sentence;
5. A person who has been sentenced to a fine or more severe punishment under this Act or any foreign country's banking Acts and subordinate statutes and other finance-related Acts and subordinate statutes as determined by the Presidential Decree and for whom five years have not elapsed since he completed the sentence (including where he is deemed to have completed the sentence) or was exempted from the sentence;
6. A person who has been granted a suspended sentence of a sentence to imprisonment without prison labor or more severe punishment and who is under a stay of execution;
7. A person who has been dismissed or removed from office by disciplinary punishment under this Act, the Bank of Korea Act, the Act on the Establishment, etc. of Financial Supervisory Organizations, the Act on the Structural Improvement of the Financial Industry, or any foreign country's finance-related Acts and subordinate statutes, and for whom five years have not elapsed since he was dismissed or removed by disciplinary punishment;
8. A person (limited to any person directly or likewise responsible for grounds for such timely corrective measures, etc. being taken, and who is determined by the Presidential Decree) who is or was an officer or employee of a financial institution(referring to financial institutions under subparagraph 1 of Article 2 of the Act on the Structural Improvement of the Financial Industry, hereinafter, the same shall apply in this subparagraph) which was subject to timely corrective measures by the Financial Supervisory Commission pursuant to Article 10 (1) of the said Act or administrative dispositions such as decision on contract transfer pursuant to Article 14 (2) of the said Act, and for whom two years have not passed since such timely corrective measures, etc. were taken; and
9. A person who is or was an officer or employee of a juristic person or company whose permission or authorization for business has been cancelled by this Act or finance-related Acts and subordinate statutes as determined by the Presidential Decree (limited to any person directly or likewise responsible for the occurrence of relevant canceling causes, and who is determined by the Presidential Decree), and for whom five years have not passed since the date when such cancellation was made against the relevant juristic person or company.

(2) The officers of any financial institution shall be those who are equipped with experience and knowledge in finance and who are unlikely to impede the public-interest, the sound management and the credit order of financial institutions.

(3) The specific matters on the qualifications for officers of financial institutions shall be determined by the Financial Supervisory Commission.

Article 19 Deleted. <by Act No. 5745, Feb. 5, 1999>

Article 20 (Restriction on Concurrent Posts Held by Officers, etc.)
(1) No officer or employee of a financial institution shall be an officer or employee of the Bank of Korea or other financial institutions, and no permanent officer of a financial institution shall be engaged in the day-to-day operations of other profit-making corporations: Provided, That this shall not apply where an officer of a financial institution is appointed as an administrator pursuant to the Company Reorganization Act.

(2) No officer or employee of a financial institution shall be an officer or employee of its subsidiary referred to in Article 37 (2): Provided, That this shall not apply where the Presidential Decree otherwise provides.

Article 21 (Prohibition of Bribery, etc.)
No officers or employees of a financial institutions shall request, accept or promise any gifts or other bribes, whether directly or indirectly, in connection with his duties.

Article 22 (Composition of Board of Directors)
(1) Deleted. <by Act No. 5745, Feb. 5, 1999>

(2) The financial institution shall appoint more than three directors, who are not engaged in the day-to-day duties (hereinafter referred to as the "directors outside the company"), to the board of directors, and the number of the directors outside the company shall be in excess of 50/100 of the total number of directors.

(3) The stockholders' representatives and the board of directors shall, respectively, recommend the candidates for the directors outside the company according to the ratio as determined in the following subparagraphs:
1. 70/100 of all the directors outside the company shall be recommended by the stockholders' representatives; and
2. 30/100 of all the directors outside the company shall be recommended by the board of directors.

(4) Where the composition of the board of directors fails to meet the requirements under paragraph (2) or (3) due to the resignation or death, etc. of the directors outside the company, the composition of the board of directors shall be adjusted to meet the requirements under paragraphs (2) and (3) by the date of the regular general stockholders' meeting convened for the first time after the date when such a cause occurs.

(5) Candidates for the directors outside the company as recommended by the stockholders' representatives pursuant to paragraph (3) 1 shall be the stockholders' representatives themselves or persons recommended by the stockholders' representatives.

(6) The stockholders' representatives referred to in paragraph (3) 1 shall be selected based upon the same person, but excluding those falling under any of the following subparagraphs:
1. An institutional investor as determined by the Presidential Decree;
2. A person of bad credit standing as determined by the Presidential Decree;
3. An enterprise belonging to any affiliated business group as determined by the Presidential Decree, taking into account the size of credits from financial institutions;
4. A person who controls any affiliated business group provided in subparagraph 3 (hereinafter referred to as an "owner of affiliated enterprises"); and
5. A person who has a special relationship under Article 15 (1) with the owner of affiliated enterprises.

(7) No person who falls under any of the following subparagraphs shall be a director outside the company referred to in paragraph (3):
1. An officer or equivalent persons of an enterprise belonging to any affiliated business group as determined by the Presidential Decree, taking into account the size, etc. of credits from financial institutions;
2. An owner of affiliated enterprises; and
3. A person who has a special relationship under Article 15 (1) with the owner of affiliated enterprises.

(8) In applying the provisions of paragraph (3), the method of dealing with fractions, the mode of selecting the stockholders' representatives, and the mode of recommending the directors outside of the company shall be determined by the Presidential Decree.

(9) Deleted. <by Act No. 5745, Feb. 5, 1999>

(10) The necessary matters on the operation, composition, and procedures of the board of directors other than those provided in this Act shall be determined by the Presidential Decree.

Article 23 (Powers of Board of Directors)
(1) The following matters shall be subject to deliberation and decision by the board of directors:
1. Matters on management objectives and evaluation;
2. Matters on the amendment of the articles of association;
3. Matters on the budget and settlement of accounts, including the remuneration of officers and employees;
4. Deleted; <by Act No. 5745, Feb. 5, 1999>
5. Matters on major changes in organization such as dissolution,

business transfer, and merger, etc.; and
6. Matters on internal control standards under the provisions of Article 23-3.

(2) Of the powers of the board of directors under Article 393 (1) of the Commercial Act, the powers of appointment or dismissal of managers and establishment, relocation or closure of branches may be delegated on conditions as the articles of association of a financial institution may determine.

Article 23-2 (Audit Committee)
(1) The financial institution shall establish the audit committee (referring to the audit committee under the provisions of Article 415-2 of the Commercial Act; hereinafter the same shall apply) in the board of directors.

(2) The audit committee shall consist of the directors outside of the company not less than two thirds of the total members.

(3) The members of the audit committee who are not the directors outside of the company shall not fall under any subparagraphs of Article 191-12 (3) of the Securities and Exchange Act: Provided, That a person holding office of the audit committee member who is not the director outside the company may, notwithstanding the provisions of Article 191-12 (3) 6 of the Securities and Exchange Act, become the member who is not the director outside the company.

(4) Where the composition of the audit committee fails to meet the requirements under paragraph (2) due to the resignation or death, etc. of the audit committee members, the composition of the audit committee shall be adjusted to meet the requirements under paragraphs (2) at the regular general stockholders' meeting convened for the first time after the date when such a cause occurs.

(5) The proviso of Article 415-2 (2) of the Commercial Act shall not be applicable to the composition of the audit committee under the provision of paragraph (1).

Article 23-3 (Internal Control Standards, etc.)
(1) The financial institutions shall lay down the basic procedures and standards (hereinafter referred to as the "internal control standards") to be observed by the officers and employees of the relevant financial institutions in performing their duties, in order to observe the Acts and subordinate statutes, to make a sound operation of assets and to protect the depositors.

(2) The financial institutions shall appoint one or more persons (hereinafter referred to as the "supervisor for law-abiding") who are to inspect whether the internal control standards are observed, and in case of any violation of the internal control standards, investigate it and report on it to the audit committee.

(3) Matters necessary for the internal control standards under the provisions of paragraph (1) and the supervisor for law-abiding under the provision of paragraph (2) shall be prescribed by the Presidential Decree.

Article 24 (Recommendation for Candidates as Bank Governor and Members of Audit Committee)
Candidates for a governor of a bank and members of the audit committee shall be recommended by a committee on recommendations for candidates which is composed of all directors outside the company. In this case, the committee on recommendations for candidates shall make decisions by an affirmative vote of a two-thirds majority of all directors outside the company.

Article 25 (Restriction on Voting Rights of Interested Persons)
Any director who has special interests in any relevant agenda under consideration by the board of directors shall not cast his vote.

Article 26 (Exclusion, etc. from Application)
(1) The provisions of Article 22 (3) and (5) through (9) shall not apply to the following financial institutions:
1. Financial institutions under Article 15 (3) 1, and financial institutions in which the same person holds more than 10/100 (15/100 for any financial institution which does not operate nationwide) but not more than 50/100 of the total number of the issued voting stocks pursuant to subparagraph 3 of the same paragraph; and
2. Financial institutions having a stable management body and meeting the

standards as determined by the Presidential Decree, such as being unlikely to bring about the centralization of economic power, in view of their stock distribution.

(2) The provisions of Articles 22 (3) through (8), 23 and 24 shall not apply to financial institutions under Article 15 (3) 2 and to the financial institutions in which the same person holds more than 50/100 of the total number of the issued voting stocks under the subparagraph 3 of the same paragraph.

(3) Deleted. <by Act No. 5745, Feb. 5, 1999>

CHAPTER V BANKING OPERATIONS

Article 27 (Scope of Operations)
(1) Financial institutions may be engaged in all the operations in the banking business (hereinafter referred to as "banking operations") within the scope of this Act and other related Acts.

(2) The scope of banking operations referred to in paragraph (1) shall be determined by the Presidential Decree.

Article 28 (Authorization on Concurrent Businesses)
(1) Where any financial institution intends to directly conduct the business as determined by the Presidential Decree which is other than the banking business, it shall be subject to authorization by the Financial Supervisory Commission. In this case, the provisions of Article 8 (2) and (3) shall apply *mutatis mutandis* to the authorization.

(2) Where engaged in the business under paragraph (1), the financial institution shall separate the relevant business from the banking operations and maintain separate books and recorded documents.

Article 29 (Trust Business)
(1) Any financial institution which operates a trust business as an additional business shall separate funds, securities, or properties pertaining to the relevant business and maintain separate books and recorded documents.

(2) The provisions of Article 30 (1) shall not apply to a trust business referred to in paragraph (1).

Article 30 (Matters to be Observed on Reserves for Deposits and Interests, etc.)
(1) Financial institutions shall hold not less than the minimum ratio of reserves for deposits and reserve assets for deposits under Section 2 of Chapter **IV** of the Bank of Korea Act as the reserve requirement for deposit liabilities.

(2) Financial institutions shall abide by the following decisions and restrictions taken or placed by the Monetary Policy Committee under the Bank of Korea Act:

1. Decision on the maximum rates of interest on all kinds of deposits or other payments of financial institutions;
2. Decision on the maximum rates of interest for the credit business, such as all kinds of loans or other charges of financial institutions;
3. Restriction on the maximum time limit for loans and on kinds of securities handled by financial institutions;
4. Restriction on the maximum limit on loans and investment of financial institutions, or maximum limits by sector for financial institutions within a certain period in case of national economic emergencies such as hyperinflation; and
5. Prior approval on loans by financial institutions in case of national economic emergencies such as hyperinflation.

Article 31 (Commercial Financial and Long-term Financial Businesses)
(1) Financial institutions may conduct their commercial financial business and long-term financial business concurrently.

(2) Deleted. <by Act No. 6177, Jan. 21, 2000>

Article 32 (Handling of Current Accounts)
Current accounts may be handled only by financial institutions which are engaged in the commercial financial business.

Article 33 (Issuance of Debentures, etc.)
The necessary matters on the conditions and method for issue of debentures or equivalent bonds of financial institutions shall be determined by the Presidential Decree. In this case, the issue ceiling on debentures, etc.

shall be determined by the Presidential Decree within the limits of five times of any equity capital.

Article 34 Deleted. <by Act No. 5745, Feb. 5, 1999>

Article 35 (Credit Line on Same Borrowers, etc.)
(1) No financial institution shall extend credits exceeding 25/100 of the relevant financial institution's equity capital to the same individual, corporation and person with whom it shares the credit risk as determined by the Presidential Decree (hereinafter referred to as the "same borrowers"): Provided, That this shall not apply to any of the followings as determined by the Presidential Decree:

1. Where it is necessary for the national economy or for a financial institution to promote the effectiveness of securing claims; and
2. Where a financial institution exceeds the line referred to in the text due to changes in its equity capital or changes in the composition of the same borrowers although it has not extended further credits.

(2) Where a financial institution exceeds the lines referred to in the texts of paragraphs (1), (3) and (4) pursuant to paragraph (1) 2, it shall ensure that it meets the lines under the texts of paragraphs (1), (3) and (4) within one year from the date on which it exceeds such lines: Provided, That in any inevitable cause as determined by the Presidential Decree, the Financial
Supervisory Commission may extend it by setting such period.

(3) No financial institution shall extend credits exceeding 20/100 of the relevant financial institution's equity capital to the same individual or corporation, respectively: Provided, That this shall not apply where it falls under the proviso of paragraph (1).

(4) Where credits which a financial institution extends to the same individual, corporation, or the same borrower exceeds 10/100 of the relevant financial institution's equity capital, the total amount of such large credits shall not exceed five times of the relevant financial institution's equity capital: Provided, That this shall not apply where it falls under the proviso of paragraph (1).

Article 36 (Loans to Governmental Agencies)
Loans to governmental agencies under the Bank of Korea Act shall be made only where the Government guarantees the redemption of their principal and interest.

Article 37 (Restriction etc. on Investments in Other Companies)
(1) No financial institution shall hold more than 15/100 of the issued voting stocks (including contribution quotas; hereinafter in this Article the same shall apply) in any other company.

(2) Notwithstanding the provisions of paragraph (1), a financial institution, if a company falls under any category of businesses as determined by the Financial Supervisory Commission or, if it obtains approval from the Financial Supervisory Commission as necessary for promoting corporate restructuring, may hold more than 15/100 of the issued voting stocks in the company: Provided, That this shall apply only where it falls under any of the following subparagraphs:

1. Where a financial institution invests the total amount not exceeding an amount equivalent to the ratio as determined by the Presidential Decree within the limit of 20/100 of the equity capital of the financial institution in a company in which it holds more than 15/100 of the issued voting stocks (hereinafter referred to as "subsidiaries"): and
2. Where it meets the requirements as otherwise determined by the Financial Supervisory Commission under conditions as the Presidential Decree may determine.

(3) No financial institution shall carry out any of the following activities in doing business with its subsidiaries:

1. Credit extensions to its subsidiaries, exceeding the ceiling as determined by the Financial Supervisory Commission;
2. Credit extensions in which the stocks of the financial institution's subsidiaries are offered as security, and credit extensions in order to have the stocks of the financial institution's subsidiaries purchased; and

3. Loans to officers or employees of the financial institution's subsidiaries (excluding petty loans as determined by the Financial Supervisory Commission).

(4) Where any financial institution makes investments in its subsidiaries under paragraph (2), it shall report to the Financial Supervisory Commission within seven days.

Article 38 (Prohibited Business)
No financial institution shall conduct the following activities:

1. Investment in stocks or other securities (excluding state bonds and Bank of Korea currency stabilization bonds) with a period of redemption of not less than three years which exceeds the amount equivalent to the ratio as determined by the Presidential Decree within the limit of 100/100 of its equity capital. In this case, the Financial Supervisory Commission may, if necessary, otherwise determine, within the said limit on investment, the ceiling on investment in stocks and derivatives which are securities;
2. Holding of real estate (excluding real estate acquired through the exercise of a security interest such as mortgage) other than real estate for business purposes;
3. Holding of real estate used for business purposes in excess of an amount equivalent to the ratio as determined by the Presidential Decree within the limit of 100/100 of the equity capital;
4. Loans of funds to speculate in commodities or securities;
5. Loans (excluding the loans to the enterprisers as prescribed by the Presidential Decree such as the private investment enterprisers for the social overhead capital facilities) in which stocks of the financial institution or stocks exceeding 20/100 of the issued stocks of other stock companies are offered as security, whether directly or indirectly.
6. Loans contingent on the purchase of stocks of the relevant financial institution, whether directly or indirectly;
7. Loans for political funds, whether directly or indirectly;
8. Loans to officers or employees of the relevant financial institution (excluding petty loans as determined by the Financial Supervisory Commission); and
9. Acquisition or holding of stocks of the financial institution (excluding the cases determined by the Presidential Decree, such as the acquisition of non-voting stocks).

Article 39 (Disposal of Assets for Non-Business Purposes)
A financial institution shall, of its properties or other assets, where it is prohibited from acquiring or holding them or acquires assets through the exercise of a security interest, dispose of them under the conditions as determined by the Financial Supervisory Commission.

CHAPTER VI ACCOUNTING

Article 40 (Accumulation of Earned Surplus Reserve)
A financial institution shall accumulate not less than 10/100 of its net profits until the reserve comes up to the total amount of the paid-in capital, each time it pays dividends on earned net profits.

Article 41 (Public Notice, etc. of Financial Statements)
(1) A financial institution shall make public notice of a balance sheet as of closing date, a profit and loss statement for the relevant period for settlement of accounts concerned, and a consolidated financial statement as determined by the Financial Supervisory Commission in accordance with the form as determined by the Financial Supervisory Commission within three months from the closing date: Provided, That for documents which cannot be made public within three months for compelling reasons, the said public notice may be delayed upon approval by the Financial Supervisory Commission.

(2) The balance sheet, profit and loss statement, and consolidated financial statement under paragraph (1) shall be signed and sealed by the representative and the person in charge.

(3) The closing date of financial institutions shall be December 31: Provided, That the Financial Supervisory Commission may

direct the change of the closing date and financial institutions may change the closing date upon approval by the Financial Supervisory Commission.

Article 42 (Submission of Balance Sheets, etc.)
(1) A financial institution shall submit its balance sheet based on the end of every month to the Bank of Korea no later than the end of the following month in accordance with the form as determined by the Bank of Korea, and the Bank of Korea shall publish them in the statistical monthly of the Bank of Korea.

(2) The balance sheet referred to in paragraph (1) shall be signed and sealed by the person in charge or his agent.

(3) A financial institution shall, as prescribed by Acts, provide the Bank of Korea, in addition to the balance sheet referred to in paragraph (1), with the periodical statistical data or information required for carrying out its functions and duties.

Article 43 (Refusal to Disclose Materials)
A financial institution may refuse the request for the inspection or copy of account books and documents referred to in Article 466 (1) of the Commercial Act, where it threatens to cause serious damage to the rights and interests of customers.

CHAPTER VII SUPERVISION AND INSPECTION

Article 44 (Supervision over Financial Institutions)
The Financial Supervisory Service established under the Act on the Establishment of Financial Supervisory Organizations (hereinafter referred to as "the Financial Supervisory Service") shall supervise, pursuant to the regulations and instructions of the Financial Supervisory Commission whether financial institutions observe this Act, other related Acts, and regulations and orders and instructions of the Financial Supervisory Commission.

Article 45 (Guidance for Sound Management)
(1) Financial institutions engaged in the banking business shall secure the sound management such as completing the equity capital and maintaining the adequate liquidity.

(2) The financial institutions shall, in order to maintain the sound management, observe the standards for management guidance set forth by the Financial Supervisory Commission as prescribed by the Presidential Decree in regard to matters falling under any of the following subparagraphs:

1. Matters concerning the adequacy of capital;
2. Matters concerning the soundness of assets;
3. Matters concerning the liquidity; and
4. Other matters necessary for securing the sound management.

(3) In its determining the standards for management guidance pursuant to paragraph (2), the Financial Supervisory Commission shall reflect the principle of supervision over the soundness of financial institutions recommended by the Bank for International Settlements.

(4) Where any financial institution is deemed to threaten to cause serious damage to its sound management, such as failing to meet the guidelines for the management guidance referred to in paragraph (2), the Financial Supervisory Commission may require it to take measures necessary to improve the management such as increase in the paid-in capital and restriction on profits sharing.

Article 46 (Measures for Insolvency, etc. of Deposits)
Where any financial institution is deemed to threaten to cause serious damage to the interests of depositors, such as threatening to go bankrupt or insolvent, the Financial Supervisory Commission may order to restrict the receipt of deposits and the credits extensions, suspend the payment of deposits in whole or in part, or take other necessary measures.

Article 47 (Submission of Business Report, etc.)
(1) A financial institution shall submit a monthly report of business operations to the Governor of the Financial Supervisory Service in accordance with the form as determined by the Governor of the Financial Supervisory Service (hereinafter referred to as "the FSS Governor") by the end of the

following month.

(2) The report under paragraph (1) shall be signed and sealed by the representative and the person in charge or his agent.

(3) Financial institutions shall provide the FSS Governor with materials requested by him for the exercise of his functions.

Article 48 (Inspection)
(1) The FSS Governor shall inspect the business and financial standing of financial institutions.

(2) The FSS Governor may, in case where deemed necessary for the inspection under paragraph (1), request the financial institutions to submit the report on the business and assets and the data, to have the persons concerned present and state opinions.

(3) The FSS Governor may request any outside auditor appointed by a financial institution under the Act on External Audit of Stock Companies to submit information which he has learned as a result of auditing the financial institution, or other materials relating to the sound management.

(4) Those who perform the inspection under paragraph (1) shall be equipped with a certificate indicating his powers and produce it to the persons concerned.

Article 49 (Contributions)
(1) Financial institutions which are inspected by the Financial Supervisory Service shall pay contributions for meeting the inspection costs to the Financial Supervisory Service.

(2) The sharing rate and limit of contributions under paragraph (1) and other necessary matters on the payment of contributions shall be determined by the Presidential Decree.

Article 50 (Request for Holding Reserves and Disposal of Losses)
The FSS Governor may request any financial institution to take any of the following measures as it deems necessary to maintain the sound management of the financial institution:
1. Changes in book values of assets;
2. Holding reserves for unsound assets; and
3. Writing off assets deemed valueless.

Article 51 (Public Notice of Management)
Financial institutions shall, as the Financial Supervisory Commission may determine, make public notice of the matters as prescribed by the Presidential Decree that are necessary for the protection of depositors and investors.

Article 52 (Modification, etc. of Contractual Standards)
(1) A financial institution shall protect the rights and interest of the users of the financial institution in conducting business under this Act, and where it intends to formulate or modify the contractual standards relating to financial transactions, it shall make a report in advance to the Financial Supervisory Commission.

(2) The Financial Supervisory Commission may, in case where necessary to maintain the sound order in financial transactions, recommend a financial institution to modify its contractual standards referred to in paragraph (1).

(3) The Financial Supervisory Commission may determine the time and procedures for reporting the formulation or modification of the contractual standards under paragraph (1) and other necessary matters.

(4) Financial institutions shall make public notice of the terms and conditions of a contract on financial transactions on conditions as the Financial Supervisory Commission may determine.

Article 53 (Sanctions against Financial Institutions)
(1) The Financial Supervisory Commission may, in case where deemed there exist concerns about impeding the sound management of a financial institution as it violates this Act or any regulations, orders, or instructions under this Act, take any of the following measures against it upon the recommendation of the FSS Governor, or have the FSS Governor take appropriate measures, such as suspending the relevant offenses and issuing a warning:
1. Orders for correction of the relevant offenses; and
2. Partial suspension of business for less than six months.

(2) The Financial Supervisory Commission

may, in case where a financial institution comes to fall under any of the following subparagraphs, order the relevant financial institution to suspend all of its business for a specified period of less than six months, or cancel the authorization of banking business.

1. Where obtained the authorization of banking business by false or other wrongful means;
2. Where violated the contents and conditions of authorization;
3. Where conducted the business during the business suspension period;
4. Where failed to comply with the correction order under paragraph (1) 1; and
5. Where there exist concerns about seriously damaging the interest of depositors and investors in violation of this Act or orders or dispositions under this Act, in cases of subparagraphs 1 through 4.

Article 54 (Sanctions against Officers and Employees)

(1) Where any officer of a financial institution intentionally violates this Act or any regulations, orders, or instructions under this Act, or performs an act which seriously damages the sound operation of the financial institution, the Financial Supervisory Commission may, upon the recommendation of the FSS Governor, order the officer to suspend the exercise of his functions or recommend the general stockholders' meeting to dismiss the officer, and may have the FSS Governor take appropriate measures such as issuing a warning.

(2) Where any employee of a financial institution intentionally violates this Act or any regulations, orders or instructions under this Act, or performs an act which seriously damages the sound operation of the financial institution, the FSS Governor may request the head of the financial institution to take appropriate disciplinary measures such as dismissal, suspension, deduction of salary, or reprimand.

CHAPTER VIII MERGER, CLOSURE, AND DISSOLUTION

Article 55 (Authorization on Merger, Dissolution, and Closure)

(1) Where any financial institution intends to perform any of the following acts, it shall be subject to authorization by the Financial Supervisory Commission under the conditions as prescribed by the Presidential Decree:

1. Merger with any other financial institution;
2. Dissolution or closure of banking business; and
3. Transfer or takeover of business operations in whole or in part.

(2) The Financial Supervisory Commission may set conditions for authorization under paragraph (1).

Article 56 (Dissolution Order, etc. for Financial Institutions)

(1) Deleted. <by Act No. 5745, Feb. 5, 1999>

(2) A financial institution shall be dissolved when its authorization on banking business is cancelled pursuant to Article 53.

(3) Where any financial institution is dissolved pursuant to paragraph (2), the court may, at the request of interested persons or the Financial Supervisory Commission, or ex officio, appoint or dismiss a liquidator.

Article 57 (Appointment of Liquidator, etc.)

(1) Where any financial institution is dissolved or goes bankrupt, the FSS Governor or one of his employees shall be appointed as a liquidator or trustee in bankruptcy.

(2) The FSS Governor or his employee appointed as a liquidator or trustee in bankruptcy pursuant to paragraph (1) shall not claim remuneration for his functions: Provided, That reasonable expenses required for the exercise of his functions may be disbursed from the property concerned.

CHAPTER IX DOMESTIC BRANCHES OF FOREIGN FINANCIAL INSTITUTIONS

Article 58 (Authorization, etc. on Banking Business for Foreign Financial Institutions)

(1) Where any foreign financial institution (meaning any institution established under the foreign Act or subordinate statute and

conducting the banking business in a foreign country; hereinafter the same shall apply) intends to establish any branch, agent or office to conduct the banking business in the Republic of Korea, or to close any branch or agent, it shall be subject to authorization by the Financial Supervisory Commission under the conditions as prescribed by the Presidential Decree.

(2) The Financial Supervisory Commission may set conditions for authorization under paragraph (1).

(3) The foreign financial institution shall, in case where it intends to re-
locate its branch or agent authorized under paragraph (1) or to close its office, report in advance to the Financial Supervisory Commission.

Article 59 (Application of Act to Foreign Financial Institutions)
(1) Branches or agents of foreign financial institutions authorized pursuant to Article 58 (1) shall be deemed to be financial institutions under this Act, and the domestic representatives of foreign financial institutions shall be deemed to be officers of financial institutions under this Act: Provided, That the provisions of Articles 4, 9 and 15 shall not apply.

(2) Where a foreign financial institution establishes two or more branches or agents in the Republic of Korea, the relevant branches or agents in total shall be deemed to be a financial institution.

Article 60 (Cancellation, etc. of Authorization)
(1) Where the head office of a foreign financial institution falls under any of the following subparagraphs, the Financial Supervisory Commission may cancel the authorization for any branch or agent of the foreign financial institution referred to in Article 58 (1):

1. Where it ceases to exist due to a merger or transfer of business operations;
2. Where it has been subject to a disciplinary action by the financial supervisory agency due to unlawful acts or unsound business activities, etc.; and
3. Where it suspends or temporarily suspends the business.

(2) Where the head office of a foreign financial institution falls under any of subparagraphs of paragraph (1), any branch, agent, or office of the foreign financial institution shall report to the Financial Supervisory Commission within seven days from the date on which such a cause occurs.

(3) Where the head office of a foreign financial institution is dissolved or goes bankrupt, closes its banking business, or its authorization on banking business has been cancelled, the authorization for branches or agents of the foreign financial institution referred to in Article 58 (1) shall be deemed to have been cancelled on the date on which such a cause occurs.

Article 61 (Closure and Liquidation of Branches at Time of Cancellation of Authorization)
(1) Where the authorization of any branch or agent of a foreign financial institution has been or is deemed to be cancelled pursuant to Article 53 or 60 (1) or (3), the relevant branch or agent shall be closed and shall liquidate all properties in the Republic of Korea.

(2) The court may, at the request of interested persons or the Financial Supervisory Commission, or ex officio, appoint or dismiss a liquidator.

(3) The provisions of Article 620 (2) of the Commercial Act shall apply *mutatis mutandis* to the liquidation under paragraph (1).

Article 62 (Domestic Assets of Foreign Financial Institutions)
(1) Branches or agents of foreign financial institutions shall hold all or part of their assets in the Republic of Korea on conditions as the Presidential Decree may determine.

(2) Where any branch or agent of a foreign financial institution is liquidated or goes bankrupt, its assets, paid-in capital, reserves, and other surplus shall be preferentially appropriated for nationals of the Republic of Korea and foreigners who have domiciles or residences in the Republic of Korea.

Article 63 (Application of Provisions on Paid-In Capital)
The application of the provisions of this Act

on the paid-in capital of financial institutions with respect to branches or agents of foreign financial institutions shall be governed by the Presidential Decree.

CHAPTER X SUPPLEMENTARY PROVISIONS

Article 64 (Hearing)
The Financial Supervisory Commission shall hold a hearing where it intends to take any of the following dispositions:

1. Cancellation of authorization under Article 53; and
2. Cancellation of authorization on branches or agents of foreign financial institutions under Article 60 (1).

Article 65 (Entrustment of Powers)
(1) Deleted. <by Act No. 5982, May 24, 1999>

(2) The Financial Supervisory Commission may entrust part of his powers under this Act to the FSS Governor on conditions as the Presidential Decree may determine.

CHAPTER XI PENAL PROVISIONS

Article 66 (Penal Provisions)
Any person who violates the provisions of Article 21 shall be punished by imprisonment for not more than five years or a fine not exceeding thirty million won.

Article 67 (Penal Provisions)
Any person who is engaged in the banking business without authorization by the Financial Supervisory Commission shall be punished by imprisonment for not more than three years or a fine not exceeding twenty million won.

Article 68 (Penal Provisions)
(1) Where any officer, manager, agent representative (where the agent representative is a corporation, any member, officer, manager, or any other corporation's representative exercising the functions), or liquidator of a financial institution (hereinafter referred to as "officer, etc. of a financial institution") or its employee performs any of the following acts, he shall be punished by imprisonment for not more than one year or a fine not exceeding ten million won:

1. Where its paid-in capital falls short of the standard under Article 9;
2. Where he violates the provisions of Article 10 (1);
3. Where he violates the provisions of Article 29 (1);
4. Where he violates the provisions of Article 30;
5. Where he violates the provisions of Article 32;
6. Where he issues bonds in violation of Article 33;
7. Deleted; <by Act No. 5745, Feb. 5, 1999>
8. Where he violates the provisions of Article 35 (1), (2), (3) or (4);
9. Where he violates the provisions of Article 37 (1) through (3);
10. Where he violates the provisions of Article 38;
11. Where he violates the provisions of Article 40;
12. and 13. Deleted; <by Act No. 6177, Jan. 21, 2000>
14. Where he performs acts as prescribed in each item of the same paragraph of the same Article without authorization under Article 55 (1);
15. Where he violates the provisions of Article 58 (1) (excluding those to be authorized in order to establish a new branch, agent or office);
16. Where he violates the provisions of Article 62 (1) or (2); and
17. Deleted <by Act No. 6177, Jan. 21, 2000>

(2) Any person who violates the provisions of Article 14 shall be punished by imprisonment for not more than one year or a fine not exceeding ten million won.

(3) Where any officer or employee who serves or has served at a financial institution discloses any information which he has learned in the course of business, or uses it for non-occupational purposes, he shall be punished by imprisonment for not more than one year or a fine not exceeding ten million won.

Article 68-2 (Joint Penal Provisions)
When the representative of a juristic person, or an agent, employee or other employed person of a juristic person or an individual has violated Article 67 or 68 concerning the

business of the relevant juristic person or individual, the juristic person or individual shall be punished by a fine as prescribed by each Article concerned in addition to punishment of the offender.

Article 69 (Fine for Negligence)
(1) Where any financial institution violates this Act or any regulations, orders, or instructions under this Act, it shall be punished by a fine for negligence not exceeding twenty million won.

(2) Where any financial institution falls under any of the following subparagraphs, it shall be punished by a fine for negligence for not exceeding ten million won.

1. Where any officer or employee of a financial institution violates the provisions of Article 20;
1-2. Where any officer, etc. of a financial institution makes public notice under Article 41 by falsity;
1-3. Where any officer, etc. of a financial institution makes an entry different from the fact into a report under Article 47;
1-4. Where any officer, etc. of a financial institution obstructs the inspection under this Act by means of concealing the books and documents, of an incomplete report or of other means;
2. Where any officer, etc. of a financial institution neglects to keep, submit, report, make public announcement or notice of, documents provided by this Act; and
3. Where any officer, etc. of a financial institution violates any regulations, orders, or instructions under this Act.

(3) Where any stockholder of a financial institution violates an order issued by the Financial Supervisory Commission under Article 16 (2), he shall be punished by a fine for negligence not exceeding twenty million won.

(4) A fine for negligence under paragraphs (1) through (3) shall be imposed and collected by the Financial Supervisory Commission on conditions as the Presidential Decree may determine.

(5) Any person who is dissatisfied with the disposition of a fine for negligence under paragraph (4) may make objections to the Financial Supervisory Commission within thirty days from the date of receipt of the notice for such disposition.

(6) Where any person who has been subject to a disposition of a fine for negligence pursuant to paragraph (4) makes objections pursuant to paragraph (5), the Financial Supervisory Commission shall notify the competent court without delay and the court in receipt of such a notice shall bring the case to trial under the Non-Contentious Case Litigation Procedure Act.

(7) Where no objection is made and no fine for negligence is paid within the period under paragraph (5), the Financial Supervisory Commission shall collect the fine following the example of the collection of national taxes in arrears.

ADDENDA

<Act No. 6177, Jan. 21, 2000>

Article 1 (Enforcement Date)
This Act shall enter into force three months after the date of its promulgation: Provided, That the amended provisions of Articles 17 and 23-2 shall enter into force on the date of its promulgation.

Article 2 (Transitional Measures on Qualification Requirement of Officers)
The officer of financial institutions at the time of the entry into force of this Act shall, in case where he falls under ineligibility referred to in the amended provisions of Article 18 (1) 9 due to the causes occurred prior to the entry into force of this Act, be governed by the previous provisions, notwithstanding the said amended provisions.

Article 3 (Transitional Measures on Selection of Directors Outside Company)
The non-permanent directors of financial institutions at the time of the entry into force of this Act shall be to be deemed directors outside the company referred to in the amended provisions of Article 22.

Article 4 (Transitional Measures on Establishment of Audit Committee)
The financial institutions shall establish the audit committee referred to in the amended provisions of Article 23-2 no later than the regular stockholder's general meeting to be

convened for the first time after the entry into force of this Act.

Article 5 (Transitional Measures on Permanent Auditors following Establishment of Audit Committee)
An incumbent permanent auditor of a financial institution liable to establish the audit committee at the time of the entry into force of this Act (referring to the permanent auditor designated by the board of directors of the relevant financial institution, in case there are two or more permanent auditors) shall be deemed to be a member of the audit committee who is not a director outside the company from among the members of the audit committee at the relevant financial institution until the expiration of his term, in case where his term is not expired by the date of the regular stockholder's general meeting liable to establish the audit committee under Article 4 of the Addenda, and where he is not dismissed at the relevant stockholder's general meeting. In this case, the relevant permanent auditor shall be deemed to be a director appointed by the stockholder's general meeting under Article 382 (1) of the Commercial Act until the expiration of his term.

Article 6 (Transitional Measures on Internal Control Standards)
The financial institution at the time of the entry into force of this Act shall lay down the internal control standards under the amended provisions of Article 23-3 (1) within six months after the entry into force of this Act.

Article 7 (Transitional Measures on Composition of Board of Directors)
The financial institution under Article 26 (2) shall constitute the board of directors conforming to the said amended provisions no later than the date of regular stockholder's general meeting to be convened for the first time after the entry into force of this Act.

Article 8 (Transitional Measures on Penal Provisions and Fine for Negligence)
In the application of the penal provisions and those of fine for negligence to the acts prior to the entry into force of this Act shall be governed by the previous provisions.

Article 9 Omittted

SECURITIES AND EXCHANGE ACT

Amended by Law No. 6176 on January 21, 2000

CHAPTER I GENERAL PROVISIONS

Article 1 (Purpose)
The purpose of this Act is to contribute to the development of the national economy by achieving wide and orderly circulation of securities and by protecting investors through the fair issuance, purchase, sale or other transactions of securities.

Article 2 (Definitions)
(1) The term "securities" in this Act shall mean any of the following :

1. Government bonds;
2. Municipal bonds;
3. Bonds issued by a corporation that are established under a special act;
4. Corporate bonds;
5. Certificates of contribution issued by a corporation that are established under a special act;
6. Stock certificates or instruments that represent preemptive rights;
7. Certificates or instruments issued by a foreign corporation that have the same nature as those referred to in subparagraphs 1 through 6 of this paragraph;
8. Securities depository receipts that a person designated by Presidential Decree issues based on underlying certificates or instruments issued by a foreign corporation, etc.; and,
9. Other certificates or instruments designated by Presidential Decree that are similar or related to those referred to in subparagraphs 1 through 8 of this paragraph.

(2) Such rights that should be stated in the securities referred to in each subparagraph of paragraph (1) shall be regarded as belonging to such securities, even if certificates of such securities have not been issued.

(3) The term "public offering of new securities" in this Act shall mean a solicitation of an offer to acquire securities that are newly issued as prescribed by Presidential Decree.

(4) The term "public offering of outstanding securities" in this Act shall mean a solicitation of an offer to sell or an offer to buy outstanding securities as prescribed by Presidential Decree.

(5) The term "issuer" in this Act shall mean a person who has issued or intends to issue any securities: *Provided*, That in issuing securities prescribed in paragraph (1) 8, the term "issuer" shall mean a person who has issued or intends to issue certificates or instruments that are the basis of such issuance.

(6) The term "underwriting" in this Act shall mean any of the following acts:

1. In connection with the issuance of securities to acquire from an issuer all or a part of securities with a view to distributing;
2. In connection with the issuance of securities to make a contract to acquire the unsold portion of the securities no one else acquires; and,
3. For the purpose of a commission, on behalf of an issuer to make arrangements for a public offering of new or outstanding securities or to participate directly or indirectly in a public offering of new or outstanding securities.

(7) The term "underwriter" in this Act shall mean a person who conducts any of the activities referred to in subparagraphs of paragraph (6).

(8) The term "securities business" in this Act shall mean a business that conducts any of the following acts:

1. To buy and sell securities;
2. To buy and sell securities on consignment;
3. To act as an intermediary or agent with respect to the purchase or sale of securities;
4. To act as an intermediary, make arrangements or act as an agent with respect to an entrustment of transactions to be executed on a securities market, an association brokerage market, or a similar market in a foreign country similar to those;

5. To underwrite securities;
6. To make a public offering of outstanding securities; and,
7. To arrange for a public offering of new or outstanding securities.

(9) The term "securities company" in this Act means a company that conducts securities business in accordance with this Act.

(10) The term "investment advisory business" and the term "discretionary investment business" in this Act shall mean the relative businesses of the following subparagraphs:

1. The investment advisory business: The business of offering advice orally or in writing, or in any other manner, with respect to the value of securities or the investment judgment on securities (referring to the judgment on the kinds, items, quantity, price, and the classification, method and time of trading the securities subject to investment; hereinafter the same shall apply): Provided, That any advice made through publications, etc., provided for the general public and is prescribed by Presidential Decree shall be exempted.
2. The discretionary investment business: The business of making investments for customers after being entrusted by such customers with the whole or part of the investment judgment based on an analysis of the value, etc., of securities.

(11) The term "investment advisory company" in this Act shall mean a company that conducts the investment advisory business or investment discretionary business under this Act.

(12) The term "securities market" in this Act shall mean a market that is established by the Korea Stock Exchange (hereinafter referred to as "Stock Exchange") under the provisions of Article 71 for the transaction of securities.

(13) The terms "listed corporation," "unlisted corporation," "stock-listed corporation" and "stock-unlisted corporation" in this Act shall mean any of the following:

1. Listed corporation: an issuer of securities listed on the securities market;
2. Unlisted corporation: an issuer of securities not listed on the securities market;
3. Stock-listed corporation: a corporation that has issued stocks listed on the securities market; and,
4. Stock-unlisted corporation: a corporation that has issued stocks not listed on the securities market.

(14) The term "association brokerage market" in this Act shall mean a market operated by the Korea Securities Dealers Association (hereinafter referred to as the "Association") established under Article 162 for the purpose of intermediating transactions of securities as prescribed by Presidential Decree.

(15) The term "association-registered corporation" in this Act shall mean a corporation that is registered with the Association pursuant to Article 172-2.

(16) The term "foreign corporation" shall mean a foreign government, foreign local government, foreign public institution, foreign enterprise established under foreign laws, international finance organization established under a treaty, or a person who is so designated by Ordinance of the Ministry of Finance and Economy.

(17) The term "securities-related institution" in this Act shall mean any of the following persons:

1. An institution that has been established, licensed to do operations or business, or registered under this Act;
2. A management company or trustee company under the Securities Investment Trust Business Act; and,
3. An asset management company or asset deposit company under the Securities Investment Company Act.

(18) The term "employee stock ownership association" in this Act means an organization established under the requirements prescribed by Presidential Decree to promote the welfare of employees and enhance their economic status through the acquisition and management by employees of the stocks of such corporation.

(19) The term "outside directors" in this Act means directors who do not work for a company on a regular daily basis.

Article 2-2 (Presumption of the Securities Index as Securities)

(1) A stock price index or other securities

indexes that comprehensively indicate the price levels of many types of stock certificates or other securities according to their classification and that is designated by the Stock Exchange (hereinafter referred to as the "securities index") shall be deemed securities.

(2) Any transactions that make an agreement to receive and give money calculated by the margin between the value of the securities index determined in advance by the parties according to the standards and procedures as determined by the Stock Exchange and the value of the securities index that actually arises at a given time in the future (hereinafter referred to as "futures transaction of the securities index") shall be deemed as sales transactions of securities.

(3) In applying this Act to futures transactions of the securities index, the value of the securities index shall be the securities price.

CHAPTER II REGISTRATION OF ISSUER OF SECURITIES

Article 3 (Registration of Issuer of Securities)
Any of the following issuers shall be registered with the Financial Supervisory Commission so as to provide for fair issuance of securities and public disclosure of information by business corporations: *Provided*, That the same shall notify to securities as prescribed in Article 2 (1) 1 through 3, 4 (limited to corporate bonds as prescribed by Presidential Decree) and 5, and to an issuer of securities as determined by Presidential Decree:

1. A corporation that intends to list its securities on the securities market;
2. An unlisted corporation that intends to make a public offering of new or outstanding securities;
3. A stock-unlisted corporation that intends to merge with a stock-listed corporation;
4. An unlisted corporation that intends to have its securities traded on the Association's brokerage market;
5. A corporation under incorporation that intends to make a public offering of new securities; and
6. A corporation that intends to grant stock option rights to officers and employees of such corporation pursuant to Article 189-4.

Article 4 (Documents for Registration)
An issuer of securities who applies for registration pursuant to the provisions of Article 3 shall file documents as determined by the Financial Supervisory Commission, such as the general situation and property conditions, etc., of the company, with the Financial Supervisory Commission. In case any significant matters stated in the filed documents are amended, such information shall also be filed with the Financial Supervisory Commission.

Article 5 (Disclosure of Documents Filed for Registration)
The Financial Supervisory Commission may offer the documents filed pursuant to Article 4 for public inspection.

Article 6 (Administration of Registered Corporation)
With respect to a corporation that has registered with the Financial Supervisory Commission pursuant to the provisions of Article 3 (hereinafter referred to as a "registered corporation"), the Financial Supervisory Commission may prescribe criteria for the sound management of the registered corporation, such as for corporate finance and improvement of financial structure, etc., and may also make necessary recommendations.

CHAPTER III REGISTRATION STATEMENT

Article 7 (Scope of Application)
No provisions of this Chapter shall apply to the securities referred to in Article 2 (1) 1 through 3, 5 and as prescribed by Presidential Decree.

Article 8 (Registration of Public Offering)
(1) Where the total price of a public offer of new or outstanding securities exceeds the amount prescribed by Ordinance of the Ministry of Finance and Economy, public offering of such securities may not be made unless the issuer files a registration statement of such securities with the Financial Supervisory Commission and the registration statement is accepted by the Financial Supervisory Commission: *Provided*, That if

the issuer establishes a period in which the issuer is to issue securities pursuant to an Ordinance of the Ministry of Finance and Economy, and files *en bloc* a registration statement of securities to be offered publicly during the period (hereinafter referred to as a "shelf registration statement") with the Financial Supervisory Commission, and the shelf registration statement is accepted by the Financial Supervisory Commission, the issuer shall not be required to file separately the registration statement on securities to be offered publicly in such period.

(2) Matters on the predictions or prospects for the issuer's future financial status or results of operation that fall under any of the following subparagraphs (hereinafter referred to as "predicted information") may be entered or provided in a registration statement under paragraph (1). In this case, the entry or provision of predicted information shall be made through the methods as prescribed in Article 14 (2) 1, 2 and 4:

1. Matters on the issuer's results of operation such as size in sales and revenues, or other predictions or prospects on the results of operation;
2. Matters on the predictions or prospects for the issuer's financial status such as the size in capital stock and fund flows;
3. Matters on the issuer's results of operation or changes in financial status, and targeted levels at a certain point due to the occurrence of a particular event or the establishment of a particular plan; and,
4. Other matters on the predictions or prospects of the issuer's future as prescribed by Presidential Decree.

(3) Where a registration is filed under paragraph (1) and the matters to be entered in such registration or accompanying documents are the same as stated in those documents that have been filed in advance, the Commission may allow the issuer to substitute the documents referring to the same information that was filed in advance for the above documents.

(4) Matters to be entered in the registration statement or for the necessary matters accompanying documents as referred to in paragraphs (1) through (3) shall be prescribed by Presidential Decree.

Article 9 (Effective Date of Registration Statement, etc.)

(1) A statement pursuant to the provisions of Article 8 (1) (hereinafter referred to as "registration statement") shall become effective on such date after the time period prescribed by Ordinance of the Ministry of Finance and Economy elapses following the acceptance thereof by the Financial Supervisory Commission.

(2) The effect taken pursuant to the provisions of paragraph (1) shall not be to recognize
the truth or accuracy of such matters stated in the registration statement (has been recognized on its face value), nor does it have the effect that the Government guarantees or approves such value of the securities in the registration statement.

(3) In case an issuer of securities intends to withdraw a registration statement of securities, an issuer shall file a registration statement of withdrawal with the Financial Supervisory Commission before such registration statement takes effect under the conditions as determined by Presidential Decree.

Article 10 (Restrictions on Transactions)

(1) In case there is an offer to acquire or purchase securities, unless a registration statement has taken effect pursuant to the provisions of Article 9, no issuer or seller of such securities specified therein nor agent thereof shall accept such offer.

(2) No issuer who has filed a shelf registration statement pursuant to the proviso of Article 8 (1) shall accept any offer for acquisition or purchase of securities, unless the issuer files additional documents of shelf registration statement as determined by Presidential Decree at each time that person makes a public offering of new or outstanding securities.

Article 11 (Amendment Statement)

(1) If it appears to the Financial Supervisory Commission that a registration statement is incomplete in its form or inadequate in any material information required to be stated therein, the Financial Supervisory Commission may, with presenting the reasons thereof, issue an order to file an amendment statement.

(2) In case an order is issued pursuant to the provisions of paragraph (1), the registration statement concerned shall be construed not to be received by the Commission after the date on which the order is issued.

(3) A person who has filed a registration statement may file an amendment statement, if there occurs any modification in matters entered in the registration statement before the day of subscription as provided in the statement commences. In this case, if important matters as determined by Ordinance of the Ministry of Finance and Economy are modified, the amendment statement thereof shall be filed .

(4) A person who has filed a shelf registration statement as prescribed in the proviso of Article 8 (1), notwithstanding the provisions of paragraph (3), may file an amendment statement before the predetermined issue period terminates. In this case, the predetermined issue amount and period may not be revised.

(5) If an amendment statement is filed pursuant to the provisions of paragraph (1), (3) or (4), a registration statement on securities shall be regarded as filed and received on the day of receipt of the amendment statement.

Article 12 (Preparation and Disclosure of Prospectus)

(1) When an issuer of securities makes a public offering of new or outstanding securities pursuant to Article 8, such issuer shall prepare a prospectus under the conditions as determined by Ordinance of the Ministry of Finance and Economy, and make it available for public inspection at a place as determined by Presidential Decree.

(2) In the prospectus as prescribed in paragraph (1), particulars different from the contents mentioned in the registration statement (including additional documents of shelf registration statement as prescribed in Article 10 (2); hereinafter the same shall apply in this Chapter) shall not be mentioned, or any matters entered in the registration statement shall not be omitted: *Provided*, That the same shall not apply to matters as prescribed by Presidential Decree that are not appropriate for public inspection, when taking into consideration the management of the business, and balancing between the interests of maintaining secrecy and protecting investors.

Article 13 (Justifiable Use of Prospectus)

(1) Any person who receives a request from any other person for the acquisition of securities, the registration of which has taken effect, shall not be permitted to allow such person to acquire such securities or sell such securities to such person before a prospectus prepared in accordance with the provisions of Article 12 is given to the prospective buyer. In this case, when the prospectus is given in the form of a digitally recorded document in accordance with the provisions of Article 194-2, such prospectus shall be deemed to be given when requirements falling under each of the following subparagraphs are satisfied:

1. A person who receives or electronically receives a digitally recorded document (hereinafter referred to as the "recipient of a digitally recorded document") is required to agree to the receipt or electronic transmission of a prospectus in the form of a digitally recorded document;
2. The recipient of a digitally recorded document is required to designate the kind of electronically transferable media and a place that they can receive or electronically receives the digitally recorded document;
3. The recipient of a digitally recorded document is required to confirm the fact of receipt or electronic transmission of a digitally recorded document; and,
4. The digitally recorded document is required to be identical in content with the prospectus.

(2) Where any person intends to solicit subscriptions for securities subject to the registration under the provisions of Article 8 for the purpose of collecting or selling securities or executing other transactions, that person shall solicit such subscription in a manner falling under each of the following subparagraphs:

1. A manner in which the prospectus under the provisions of Article 12 is used after the registration of securities comes into force under Article 9(1);
2. A manner in which an issuer uses a preliminary prospectus (referring to the prospectus that additionally indicating the fact that the registration has yet to come

into force) prepared under the conditions as prescribed by Presidential Decree before the registration of securities comes into force and after such registration has been accepted;

3. A manner in which an issuer uses a simple prospectus (referring to a document, a digitally recorded document and other devices or indications similar to them that includes parts of matters, partially omitted matters or extracted matters from among the matters to be entered in the prospectus) prepared under the conditions as prescribed by Presidential Decree through advertisements or through handbooks, publicity leaflets that use newspapers, broadcasts or magazines, etc., or the electronically transferable media after that persons' registration of securities is accepted under the provisions of Article 9 (1).

Article 14 (Liabilities for Compensation Due to False Statements)

(1) If a purchaser of securities suffers a loss because a registration statement or a prospectus (including a preliminary prospectus and a simple prospectus; hereinafter) of securities as prescribed in Article 12 includes false statements or indications or fails to state or indicate important matters, the following persons shall be liable to compensate for the loss: *Provided*, That the same shall not apply where a person who may be liable for compensation proves that they could not know such false facts or omissions despite their exercise of due diligence, or where the purchaser of such securities knew such facts at the time of they offered to acquire such securities:

1. A registrant under the registration statement concerned and directors of the corporation concerned at the time of registration (if the registration statement is filed before the corporation is incorporated, its promoter);
2. Certified public accountants, appraisers or persons who specialize in credit ratings that have certified or signed that matters stated in the registration statement or documents attached thereto were true or correct;
3. A person who has made a contract to underwrite the securities with the issuer;
4. A person who has prepared or delivered the prospectus; and,
5. A holder of outstanding securities offered for sale at the time of registration for the public offering of the outstanding securities.

(2) Where predicted information is entered or indicated through the following methods, any person falling under the subparagraphs of paragraph (1), notwithstanding the provisions of paragraph (1), shall not be liable to compensate for the losses concerned: *Provided*, That this shall not apply where the purchaser of securities does not know the fact that there are false entries or indications in the predicted information or that material matters are not entered or indicated at the time they offer to acquire securities, and where the purchaser proves that any person falling under the subparagraphs of paragraph (1) deliberately or through gross negligence are responsible for such entries or indications:

1. The entry or indication concerned shall specify that it is predicted information;
2. The basis for the assumption or judgment for predictions or prospects shall be specified;
3. The entry or indication concerned shall be made in good faith on the basis of rational foundations or assumptions; and,
4. A warning phrase that predicted values and actual results may differ shall be specified in the entry or indication concerned.

(3) The provisions of paragraph (2) shall not apply where a corporation other than stock-listed corporations and Association-registered corporations submits a registration statement of securities for the first time for the public offering of new or outstanding securities.

Article 15 (Amount of Liability to be Compensated)

(1) The amount to be compensated for loss pursuant to the provisions of Article 14 shall be the difference between the amount actually paid by the claimant for the acquisition of securities and the amount that falls under any of the following subparagraphs:

1. The market value of securities at the time of the closing of oral proceedings, if a legal action commences against the securities concerned (in case where no market value is available, an estimated value at which the securities would be

disposed of); and,

2. The value at which the securities were disposed of, in case where such disposition of securities has been made prior to the time of the closing of oral proceedings referred to in subparagraph 1 of this paragraph.

(2) Notwithstanding the provisions of paragraph (1), where a person liable for compensation for loss pursuant to the provisions of Article 14 proves that all or part of the loss incurred by the claimant was not caused by false entries or indications or by failure to ***enterer*** indicate material facts, that person is not bound to compensate for the loss of such parts.

Article 16 (Extinction of Claims)
The compensation liabilities for loss pursuant to the provisions of Article 14 shall be extinguished, unless the claimant exercises such right within one year from the date on which the claimant discovers the fact or within three years from the time when a registration statement has taken effect.

Article 17 (Securities Public Offering Results-Report)
An issuer of securities for which its registration statement has become effective shall file with the Financial Supervisory Commission a report on the results of public offerings of new or outstanding securities under the conditions as determined by the Financial Supervisory Commission.

Article 18 (Disclosure of Registration Statement and After-Report)
A registration statement of securities and pursuant to Article 17 (hereinafter referred to as "Securities public offering results-report") shall be kept in the Financial Supervisory Commission and made available for public inspection: *Provided,* That the same shall not apply to the matters as prescribed by Presidential Decree that are not appropriate for public inspection, when balancing between such interests as maintaining the secrecy of the management of the business and protecting investors.

Article 18-2 (Offering and Sale Without Filing A Registration Statement)
Any issuer who offers and sells any securities without filing a registration statement in accordance with the provisions of Article 9 (1) shall disclose matters concerning the issuer's financial status and take such measures as prescribed by Presidential Decree to protect investors.

Article 19 (Report and Investigation)
(1) The Financial Supervisory Commission, if necessary for the public interest or protection of investors, may order a registrant of the registration statement, an issuer of securities, an underwriter thereof, and any other related persons to file a report or materials for reference, or may have the Governor of the Financial Supervisory Service which is established under the Act on the Establishment, etc. of Financial Supervisory Organization (hereinafter referred to as the "Financial Supervisory Service") investigate accounting books, documents and any other related materials thereof.

(2) A person who investigates pursuant to the provisions of paragraph (1) shall possess a certificate that proves their authority to investigate and shall present such certificate to persons concerned.

Article 20 (Disposition Right of Financial Supervisory Commission)
In the case of any of the following subparagraphs, the Financial Supervisory Commission, after showing reason therefor and making a public notice of such fact, shall order the issuer of securities concerned to make an amendment, and if necessary, the Financial Supervisory Commission may suspend or prohibit the issuance of such securities, public offering of new or outstanding such securities or other transactions with respect thereto or may take measures as prescribed by Presidential Decree. In this case, the Financial Supervisory Commission may determine procedures and criteria necessary for taking measures against the issuer of securities:

1. In case that a registration statement or Securities public offering results-report contains false statements or omits to state material information required to be entered therein;
2. In case that a prospectus does not comply with the provisions of Article 12 or 13;
3. In case that a violation of the provisions of Article 23 (2) is committed with respect to the offering, sales and other

transactions of securities through a preliminary prospectus or a simple prospectus; and

4. In case that a violation of the provisions of Article 18-2 is committed.

CHAPTER IV TENDER OFFER FOR SECURITIES

Article 21 (Applicable Object of Tender Offer)

(1) A person who intends to acquire voting stocks or any other securities as prescribed by Presidential Decree (hereinafter referred to as "stocks, etc.") through a purchase, exchange, bid or any other transfer for value (hereinafter referred to as "purchase, etc." in this Chapter) from persons not less than the number as prescribed by Presidential Decree outside the securities market or the Association brokerage market during the period as prescribed by Presidential Decree shall acquire the stocks, etc., through a tender offer, in case where the total number of the stocks, etc., held (including the cases prescribed by Presidential Decree as owning or its equivalent; hereinafter the same shall apply in this Chapter and Article 200-2) by such person and specially connected persons (referring to specially connected persons as prescribed by Presidential Decree; hereinafter the same shall apply) after the purchase, etc., is 5/100 or more of the total number of the stocks, etc. (including the case where such person and specially connected persons who have acquired 5/100 or more of the total number of the stocks, etc., make a purchase, etc., of the stocks, etc.,): *Provided*, That the same shall not apply with respect to a purchase, etc., as prescribed by Presidential Decree taking into consideration the type thereof and other circumstances.

(2) Deleted. *<by Act No. 5521, Feb. 24, 1998>*

(3) In this chapter, the term "tender offer" means making an offer to buy stocks, etc. (including exchange with other securities; hereinafter the same shall apply in this Chapter) or a solicitation of an offer to sell stocks, etc. (including exchange with other securities; hereinafter the same shall apply in this Chapter) to the general public, and buying them outside the securities market or Association brokerage market.

(4) Number of stocks, etc., and total number of stocks, etc., pursuant to the provisions of paragraph (1) shall be the number calculated by the method as prescribed by Ordinance of the Ministry of Finance and Economy.

Article 21-2 (Filing of Tender Offer Statement)

(1) A person who intends to make a tender offer shall file with the Financial Supervisory Commission a statement at contains the purpose of the tender offer, details of the funding for the purchase, the conditions such as the period, price and the settlement day of the purchase, and other matters as prescribed by Presidential Decree (hereinafter referred to as "tender offer statement").

(2) Purchase period pursuant to the provisions of paragraph (1) shall be within such period as prescribed by Presidential Decree.

(3) The provisions of Article 8 (2) shall apply *mutatis mutandis* to tender offer statements.

Article 21-3 (Restrictions on Voting Rights, etc.)

In case where a person has made a purchase, etc., of stock_, etc., in violation of the provisions of Article 21 (1) or 21-2 (1), that person may not exercise the voting rights on the stocks concerned (including stocks that are acquired through the exercise of rights related to the stocks, etc., concerned) during the period as prescribed by Presidential Decree, and the Financial Supervisory Commission may order the disposal of the stocks, etc., concerned (including stocks that are acquired through exercise of rights related to the stocks, etc., concerned).

Article 22 (Transmission of Copies of Tender Offer Statement)

(1) A person who has filed a tender offer statement (hereinafter referred to as a "tender offerer") shall transmit, without delay, a copy of such tender offer statement to an issuer of stocks, etc., pertaining to the tender offer concerned (in case of stocks, etc., as prescribed by Presidential Decree, this refers to a person as prescribed by Presidential Decree; hereinafter the same shall apply in this Chapter).

(2) When a tender offer statement has been

filed, a tender offerer shall make a public notice of such information as prescribed by the Financial Supervisory Commission within the information contained in the tender offer statement and that person shall submit a copy of such statement to the Stock Exchange or the Association without delay.

Article 23 (Restrictions on Purchases by Tender Offerer)

(1) No tender offerer (including a person handling tender offer affairs; hereinafter the same shall apply in this Article and Article 24) shall conduct a tender offer unless a tender offerer has made the public notice pursuant to Article 22 (2) and 7 days have passed from the date on which the tender offer statement has been filed.

(2) Except for cases as prescribed by Presidential Decree, no tender offerer (including a specially connected person) shall, during the period from the date on which tender offer is permitted pursuant to paragraph (1) to the date on which a tender offer expires, make any purchase, etc., of , such stock, etc., by any other means than a tender offer.

(3) Except for the case as prescribed by Presidential Decree, no person who has ever purchased the stocks, etc., concerned through a tender offer within 1 year of the date on which the tender offer statement as filed (including specially connected persons) shall purchase the stocks, etc., concerned through a tender offer.

(4) An issuer of stocks, etc., subject to a tender offer shall not, during the period as referred to in paragraph (2), commit an act as prescribed by Presidential Decree which may change the number of voting stocks.

Article 23-2 (Amended Statement etc.)

(1) In case a tender offeror intends to modify the terms for purchase, the tender offeror shall file an amendment statement by the date on which the tender offer expires: *Provided,* That a reduction of purchase price, decrease in the number of stocks, etc., that are intended to be purchased, extension of payment period for purchase amount and other purchase conditions as prescribed by Presidential Decree can not be modified.

(2) The provisions of Articles 11 (1), (2) and (5), 22 and 23 (1) shall apply *mutatis mutandis* to a modification of a tender offer statement.

Article 24 (Preparation and Use of Prospectus for Tender Offer)

(1) When a tender offeror intends to purchase securities through a tender offer, the tender offeror shall prepare a prospectus for such tender offer (hereinafter referred to as a "prospectus for tender offer") under the conditions as prescribed by Ordinance of the Ministry of Finance and Economy, and shall keep it at the place as prescribed by Ordinance of the Ministry of Finance and Economy in order to make it available for public inspection.

(2) The provisions of Article 13 shall apply *mutatis mutandis* to the use of a prospectus for tender offer.

Article 24-2 (Withdrawal of Tender Offer)

(1) A tender offerer may not withdraw a tender offer after it has become possible to make a tender offer pursuant to Article 23 (1): *Provided,* That in such case as prescribed by Presidential Decree, the tender offer may withdraw a tender offer until the last day of the tender offer period.

(2) In case a tender offerer intends to withdraw a tender offer pursuant to paragraph (1), a withdrawal statement shall be filed with the Financial Supervisory Commission and the Stock Exchange or the Association, whichever applies, and the contents thereof shall be publicly notify.

(3) A person who accepts an offer to buy stocks, etc., subject to a tender offer or makes an offer (hereinafter referred to as "tender") to sell them (hereinafter referred to as a "tendering stockholder"), may cancel such tender at any time during tender offer period. In this case, a tender offerer may claim damages or a penalty due to the cancellation of a tender by a tendering stockholder.

Article 25 (Presentation of Opinion on Tender Offer)

An issuer of stocks, etc., for which a tender offer statement has been filed, may present their opinion on the tender offer concerned under the conditions as prescribed by Presidential Decree. In this case, the issuer shall file a written statement describing the

contents of such opinion without delay with the Financial Supervisory Commission and the Stock Exchange or the Association, whichever applies.

Article 25-2 (Conditions and Manners of Tender Offer)
(1) A tender offerer shall purchase without delay all the stocks, etc., tendered according to the purchase conditions and manners stated in the tender offer statement on and after the day following the expiration date of the tender offer period: *Provided*, That in case Presidential Decree prescribes, the same shall not apply.

(2) Price of a tender offer shall be uniform.

Article 25-3 (Liability for Damages of a Tender Offerer)
(1) The provisions of Article 14 (1) shall apply *mutatis mutandis* to damages that a person falling under any of the following subparagraphs causes to a tendering stockholder in connection with a tender offer statement and public notice thereof, an amendment statement and public notice thereof pursuant to Article 23-2, and a prospectus for tender offer:

1. A registrant stated in a tender offer statement and an amendment statement thereof (including specially connected persons of the registrant, and in case the registrant is a juristic person, including the directors of the juristic person) and its agent; and,
2. A person who prepares a prospectus for a tender offer and that person's agent.

(2) The provisions of Article 16 shall apply *mutatis mutandis* to liability for damages pursuant to the provisions of paragraph (1).

Article 26 (Public Notice of Statements, etc.)
The Financial Supervisory Commission, the Stock Exchange and the Association shall keep the tender offer statement, amendment statement pursuant to Article 23-2, withdrawal statement pursuant to Article 24-2 (2) and written statement pursuant to Article 25 for 2 years from the date on which such written statement has been received and shall make it available for public inspection.

Article 27 (Request for Materials to Tender Offerer)
The Financial Supervisory Commission, if necessary in the public interest or the protection of investors, may order any tender offerer, any person related to the tender offerer and any issuer of the securities concerned to file a report or material for reference.

Article 27-2 (Provisions to be Applied *Mutatis Mutandis*)
The provisions of Articles 17, 19 and 20 shall apply *mutatis mutandis* to the tender offer. In this case, the "Financial Supervisory Commission" as referred to in Article 17 shall be deemed to include the "Financial Supervisory Commission and Stock Exchange or Association".

CHAPTER V SECURITIES BUSINESS

SECTION 1 License

Article 28 (License)
(1) A person who may be engaged in the securities business shall be a stock corporation that has obtained a license from the Financial Supervisory Commission according to its type of business.

(2) The type of business referred to in paragraph (1) shall be as follows:

1. The business referred to in Article 2 (8) 1;
2. The business referred to in Article 2 (8) 2 through 4; and,
3. The business referred to in Article 2 (8) 5 through 7.

(3) The stated capital of a securities company shall be not less than one billion won and according to the scope of its business shall exceed an amount prescribed by Presidential Decree.

(4) Deleted. *<by Act No. 5254, Jan. 13, 1997>*

(5) The Financial Supervisory Commission may set the conditions needed to obtain a license as referred to in paragraph (1).

(6) Deleted. *<by Act No. 5254, Jan. 13, 1997>*

(7) Deleted. *<by Act No. 5736, Feb. 1, 1999>*

Article 28-2 (Securities Business by Foreign Securities Company)
(1) If a foreign securities company (this refers to a person engaged in the securities business in a foreign country pursuant to the relevant statutes of such country; hereinafter the same shall apply) intends to establish a branch office or any other business office in order to operate a securities business in the Republic of Korea, it shall obtain a license from the Financial Supervisory Commission by the type of business in accordance with the provisions of each subparagraph of Article 28 (2).

(2) The operating fund for the branch office or the business office under the provisions of paragraph (1) shall be not less than one billion won and according to the scope of its business shall exceed an amount prescribed by Presidential Decree

(3) A foreign securities company that has not obtained a license for the establishment of branch office, etc., pursuant to paragraph (1) shall not conduct securities business with domestic residents.

(4) The branch office or any other business office licensed pursuant to paragraph (1) shall be regarded as a securities company organized under this Act except for the provisions of Article 28 (3).

(5) If a domestic branch office or other business office of a foreign securities company goes into liquidation or becomes bankrupt, its domestic holding assets shall be appropriated preferentially (for a performance of)to fulfill the obligations to persons who are the (counterparts to of securities transactions and have a domicile or residence in Korea at the time of the transaction. In this case, the scope of the domestic holding assets shall be determined by Presidential Decree.

(6) If it is deemed inappropriate to perform the securities business because a domestic branch office or other business office of a foreign securities company violate(d)s this Act, an order or disposition made under this Act, or foreign statutes or subordinate statutes, the Financial Supervisory Commission may revoke the license, suspend the business, or take other necessary measures for the purpose of protecting the public interest or investors. The same shall apply in case it is deemed appropriate to perform securities business of a domestic branch office or other business office of the foreign securities company because the foreign securities company violates foreign statutes or subordinate statutes, etc.

(7) The Financial Supervisory Commission may set the conditions needed to obtain a license as referred to in paragraph (1).

(8) Necessary matters relating to the operation of a securities company by a foreign securities company shall be prescribed by Presidential Decree.

Article 29 (Provisions Applicable to Persons Who Operate Securities Business as a Side Business)
(1) Deleted. *<by Act No. 5736, Feb. 1, 1999>*

(2) This Chapter shall apply to a person who has received a license to engage in the securities business pursuant to this Chapter ate and engages in the securities business as a side business to the extent of the license to engage in the business: *Provided*, That the provisions of Articles 28 (3), 33, 47, and 62 shall not apply.

Article 30 (Application for License)
(1) Any person who intends to obtain a license pursuant to the provisions of Article 28-2 (1) shall file an application with the Financial Supervisory Commission under the conditions as prescribed by Presidential Decree.

(2) The Financial Supervisory Commission may, where it receives an application under the provisions of paragraph (1) that is found to be insufficient, ask the applicant to supplement such application. In this case, the period required to supplement such application shall not be added to the period under the provisions of Article 31 (1).

Article 31 (Procedure of License)
(1) When the Financial Supervisory Commission receives a written application pursuant to the provisions of Article 30, it shall decide whether to grant a license within 30 days and shall notify the applicant of such decision in writing without delay.

(2) Deleted. *<by Act No. 3945, Nov. 28,*

1987>

Article 32 (Requirements for License)
(1) Any person who intends to obtain a license for its securities business in accordance with the provisions of Article 28 (1) shall satisfy the requirements falling under each of the following subparagraphs:

1. Satisfy the requirements under the provisions of Article 28 (3);
2. Able to protect investors and have the necessary personnel, computer equipment and other physical facilities to carry out the securities business that person intends to operate;
3. Have a proper and sound business plan; and,
4. The major investor (in case that the investor is a corporation, any person who virtually exercises their influence over important matters concerning the management of such corporation and is prescribed by Presidential Decree shall be included) is required to have sufficient investment capability, sound financial standing and social standing.

(2) Any foreign stockbroker who intends to obtain a license for the establishment of its branch office or other business office pursuant to the provisions of Article 28-2 (1) shall meet the requirements falling under each of the following subparagraphs:

1. Satisfy the requirements under the provisions of Article 28-2 (2);
2. Have a property holdings, financial stability and sound business sufficient to engage in the securities business domestically and high international credit rating; and,
3. Meet the requirements under paragraph (1) 2 and 3.

Article 32-2 (Publication of License)
The Financial Supervisory Commission shall, when it grants a license in accordance with the provisions of Article 28 (1) and Article 28-2 (1), promptly publish the grant of such license in the Official Gazette and make the grant of such license known to the public through computer communications and other means.

SECTION 2 Maintenance of Sound Business Order

Article 33 (Eligibility of Officers)

(1) Deleted. *<by Act No. 5736, Feb. 1, 1999>*

(2) Any person who falls under any of the following subparagraphs shall not be an officer of a securities company, and any officer of a securities company who falls under any of the following subparagraphs shall lose their office:

1. A minor, an incapacitated person or semi-incapacitated person;
2. A bankrupt person who has not been reinstated;
3. A person who has been sentenced to a punishment heavier than imprisonment without prison labor or to a punishment heavier than the imposition of a fine under this Act, any foreign statutes or subordinate statutes corresponding to this Act (hereinafter referred to as "foreign securities statutes or subordinate statutes") and other statutes or subordinate statutes that are related to finance as prescribed by Presidential Decree, and for whom 5 years have not elapsed since the execution of such punishment has completed (including the cases where the execution of such punishment is deemed to have been or exempt ion of such punishment;

3-2. A person who has been sentenced to a punishment heavier than imprisonment without prison labor and has been serving a suspended sentence;

4. Any person who was an officer or an employee of a corporation or a company (limited to any person who is directly or correspondingly responsible for the occurrence of the cause of their disqualification and prescribed by Presidential Decree) whose license or authorization, etc., was cancelled pursuant to this Act, any foreign securities statutes or subordinate statutes or finance-related Acts or any subordinate statues prescribed by Presidential Decree, and for whom 5 years have yet to elapse from the date on which the license or authorization of such corporation or such company was canceled; and,
5. A person who was discharged or dismissed from a securities company, and 5 years have not elapsed since the date of such discharge or dismissal under this Act, any foreign securities statutes or subordinate statutes or any other statutes or subordinate statutes that are related to finance as prescribed by Presidential

Decree.

Articles 33-2 and 34 Deleted. ***<by Act No. 3945, Nov. 28, 1987>***

Article 35 (Matters to be Authorized)
(1) When a securities company intends to merge with another company, transfer all its business operations or acquire all the business operations from another company (including equivalent cases), such securities company shall obtain authorization from the Financial Supervisory Commission with respect thereto. In this case, the provisions of Article 32 shall apply *mutatis mutandis*.

(2) The Financial Supervisory Commission shall, in determining whether to grant such authorization under the provisions of paragraph (1), take into account matters prescribed by Presidential Decree.

Article 36 (Matters to be Reported)
In case a securities company falls under any of the following subparagraphs, it shall report the fact to the Financial Supervisory Commission without delay:

1. When a securities company appoints or discharges any of its officers;
2. When a securities company newly establishes a branch office or other business office, or when it changes the location of its principal office, branch office or other business office, or when it suspends, resumes or discontinues the business of its principal office, branch office or other business office;
3. When a person who possesses the largest number of stocks of a securities company, together with their relatives and other specially related persons as prescribed by Presidential Decree (hereinafter referred to as the "specially related persons"), changes;
4. When a trade name of a securities company changes;
4-2. When a cause to dissolve a securities company occurs; and,
5. Situations as prescribed by Presidential Decree other than those under subparagraphs 1 through 4-2.

Article 37 (Public Notice of Discontinuance of Securities Business)
When a securities company intends to discontinue its securities business or the business of its branch office or any other business office, the securities company shall publish a public notice to that effect in two or more daily newspapers three or more times within 30 days from the date of discontinuance, and shall directly notify the creditors who are known to the securities company at the same time.

Article 38 Deleted. ***<by Act No. 4469, Dec. 31, 1991>***

Article 39 Deleted. *<by Act No. 5423, Dec. 13, 1997>*

Article 40 (Reserve for Securities Transaction)
(1) A securities company shall set aside a reserve for securities transaction in proportion to the trading price of securities or the sales profit (including the appraisal profits of the securities as determined by the Financial Supervisory Commission) under the conditions as prescribed by Presidential Decree.

(2) The reserve for securities transaction referred to in paragraph (1) shall not be used for any purpose other than to make up for losses incurred from a purchase or sale of securities or other securities transaction: *Provided*, That this shall not apply in case the approval by the Financial Supervisory Commission has been obtained.

Article 41 (Liabilities for Branch Office or Other Business Office)
If a branch office or other business office of any securities company causes a loss to other persons in connection with the purchase and sale of securities or other securities transaction, such securities company shall be liable to compensate the losses of the injured person.

Article 42 (Restrictions on Officers' Securities Transaction)
No officer or employees of any securities company shall make or entrust securities transactions for their own account in any person's name except for securities savings through fixed payroll deduction plans and for other cases as prescribed by Presidential Decree.

Article 43 (Manifestation of Type of Transaction)
When any securities company receives an

order from any customer for a securities transaction, such securities company shall clearly distinguish in advance to such customer as to whether it will act as the other party, or instead whether it will act as an intermediary, an agent, or a broker in effectuating such transaction.

Article 44 (Prohibition of Representation of the Other Party)
No securities company may concurrently act as a principal and as a broker, an intermediary or an agent for the other party with respect to the same transaction.

Article 44-2 (Custody and Management of Customer Deposit Money by Securities Companies Specializing in Consignment Sales)
No securities company that is permitted to engage business as provided in Article 28 (2) 2 shall receive, have custody of, or manage customer deposit money (referring to money deposited by customers in relation to their purchase or sale of securities or other securities transactions; hereinafter the same shall apply) unless provided for in the following subparagraphs:

1. Where a customer deposits money as earnest money their purchase or sale of securities;
2. Where a customer deposits money as payment for purchases or sales; and,
3. Situations as prescribed by Presidential Decree other than those under subparagraphs 1 and 2.

Article 44-3 (Separate Deposit of Customer Deposit Money)
(1) A securities company (meaning a securities company other than those under Article 44-2; hereinafter the same shall apply in this Article) shall deposit customer deposit money separately from its own property in a securities finance corporation under Article 145 (hereinafter referred to as a "depositing agency").

(2) Where a securities company deposits customer deposit money in a depositing agency pursuant to paragraph (1), it shall specify that the money is the customers' property.

(3) A securities company that has received customer deposit money (hereinafter referred to as a "depositing securities company") pursuant to paragraph (1) shall not transfer or offer as security customer deposit money deposited in a depositing agency except as otherwise prescribed by Presidential Decree, and no person can set off or seize such money (including provisional seizure).

(4) A depositing securities company shall, where it falls under any of the following subparagraphs, withdraw customer deposit money deposited in a depositing agency and preferentially pay it to customers. In this case, the securities company concerned shall publicly announce the payment time and place of customer deposit money and other matters relating to the payment of customer deposit money in two daily newspapers or more within the period as prescribed by Presidential Decree:

1. When it resolves to discontinue its business;
2. When it receives an order for suspension of business;
3. When it has its license revoked;
4. When it resolves to dissolve itself;
5. When it has been declared bankrupt; and,
6. When any cause equivalent to those listed in subparagraphs 1 through 5 occurs.

(5) A depositing agency, where it falls under any subparagraph of paragraph (4), shall preferentially pay customer deposit money deposited to the depositing securities company.

(6) A depositing agency shall manage customer deposit money by the following methods:

1. Purchase of Government and municipal bonds;
2. Purchase of bonds whose payment is guaranteed by the Government, local governments or financial institutions; and,
3. Other methods recognized as being capable of safely managing customer deposit money as prescribed by Presidential Decree.

(7) The scope of customer deposit money to be deposited by a securities company in a depositing agency pursuant to paragraph (1), the ratio to be deposited, matters relating to withdrawal of customer deposit money, matters concerning the management of customer deposit money by a depositing agency or other matters necessary for the

depositing of customer deposit money shall be prescribed by Presidential decree. In this case, the ratio to be deposited may be otherwise determined by the securities company, taking into account the securities company's financial status, etc.

Article 44-4 (Depositing of Securities Deposited by Customers)
(1) A securities company shall promptly deposit securities and instruments or deeds as prescribed by Presidential Decree that they come to hold (due to) through buying and selling by consignment or other transactions in the Korea Securities Depository established under Article 173 (hereinafter in this Article, referred to as the "Korea Securities Depository").

(2) A securities company shall deposit those securities, instruments, and deeds that they hold as a result of managing assets and as prescribed by Presidential Decree in the Korea Securities Depository without delay.

Article 45 Deleted. *<by Act No. 5736, Feb. 1, 1999>*

Article 46 (Notification of Transactions, etc.)
A securities company shall notify the customer concerned of the purchase and sale by a customer's order and other transaction contents, etc., under the conditions as prescribed by Presidential Decree.

Article 46-2 (Exceptions to Acquiring Treasury Stocks)
A securities company may, in case the securities company has been entrusted by a customer, acquire treasury stocks less than the minimum trading unit used in the securities market or Association brokerage market from outside those markets. In this case, the acquired treasury stocks shall be disposed of within the period as prescribed by Presidential Decree.

Article 47 (Business Report)
(1) Any securities company shall compile business reports stating its business achievements, financial standing and other matters prescribed by Presidential Decree every 3 months, 6 months, 9 months and 12 months, respectively, from the date of the commencement of every business year and file such business reports with the Financial Supervisory Commission within one month from the date of expiration of such monthly periods.

(2) Such securities company shall keep the business reports referred to in paragraph (1) at its head office, branch office or business office and make such business reports available to the public for one year from the date on which such business reports are filed with the Financial Supervisory Commission.

(3) Detailed matters concerning the compilation of the business report under the provisions of paragraph (1) and other necessary matters shall be determined by the Financial Supervisory Commission.

Article 48 (Officers' Engaging in Other Business)
Where Presidential Decree determines that the interests of a full-time officer of a securities company will conflict with those of its customers or threaten to impair the sound management of the securities company, the officer can not engage in the regular business of another company or undertake any business of another company.

Article 49 (Credit Extension)
(1) Any securities company may extend credit in connection with securities as part of lending money or securities to a customer.

(2) The method and contents of the credit extension referred to in Paragraph (1) shall be prescribed by Presidential Decree.

(3) The Financial Supervisory Commission shall provide for regulations on the maximum amount of credit, the ratio of collaterals and method of receiving collaterals, etc.

(4) If a securities company sells such securities as underwritten thereby, the securities company shall not lend funds or extend any other credit with respect to the purchase of such securities, until three months have elapsed from the date of underwriting such securities.

Article 50 (Business of Securities Savings)
(1) A securities company may be engaged in the business of securities savings according to the regulations as prescribed by the Financial Supervisory Commission.

(2) The method and the contents of the securities savings business referred to in paragraph (1) shall be prescribed by Presidential Decree.

Article 51 (Restrictions on Engaging in Other Business)

(1) Any securities company shall be prohibited from concurrently engaging in any businesses other than the securities business falling under each of the following subparagraphs:

1. Business that is financial business (referring to the business prescribed by finance-related statutes or subordinate statutes: hereafter the same in this Article shall apply) and that is prescribed by relevant statutes or subordinate statutes as business that may be engaged in by securities companies;
2. Business that is financial business prescribed by Presidential Decree and that given its nature the Financial Supervisory Commission authorizes that may be concurrently engaged in by a securities company; and,
3. The business falling under each of the following subparagraphs, that is prescribed by Presidential Decree as a collateral business:
   (a) The business related to the securities business;
   (b) The business of utilizing personnel, assets or equipment, etc., owned by a securities company; and,
   (c) The business that does not require any permission, authorization, approval or registration under other statutes or subordinate statutes.

(2) Any financial business under the provisions of paragraph (1) 2 for which a securities company has obtained a license or authorization from the Financial Supervisory Commission or filed a registration with the Financial Supervisory Commission shall be deemed to be granted authorization by the Financial Supervisory Commission in accordance with the provisions of paragraph (1) 2.

Article 52 (Prohibition of Unfair Solicitation, etc.)

A securities company, or officers and employees thereof shall not commit such acts as described in the following subparagraphs:

1. To solicit securities transactions by promising a customer to assume all or a part of the losses incurred as a result of the transaction concerned;
2. To provide, directly or indirectly, any benefit that has a property value to a customer in relation to the underwriting business of securities for the purpose attracting the customers, or to improperly use ones superior position in transactions restrict the business activities of customers; and,
3. Other than those acts referred to in subparagraphs 1 and 2, to commit such acts relating to the issuance, purchase and sale or other transactions of securities as prescribed by Ordinance of the Ministry of Finance and Economy that are detrimental to the protection of investors or fairness of transactions, or undermining the credibility of the securities industry.

Article 52-2 Deleted. *<by Act No. 4701, Jan. 5, 1994>*

Article 52-3 (Prohibition of Arbitrary Purchase and Sale)

Officers and employees of a securities company shall not, unless they have entrust(ed engage in the purchase and sale transactions of securities, by a customer or their agent, to engage in the purchase and sale transactions of securities with property deposited by customers.

Article 52-4 (Prohibition of Unfair Demands to Securities Company, etc.)

No person shall unfairly receive money, service or other financial interests from a securities company or officers and employees thereof in return for the payment of a commission relating to the business that a securities company operates, or may request a securities company or officers and employees thereof to furnish them or a third party with such money, service or other financial interests.

Article 53 (Inspection)

(1) A securities company shall be subject to inspection by the Governor of the Financial Supervisory Service (hereinafter referred to as the "FSS Governor") with respect to its business conditions and property.

(2) The FSS Governor may, if deemed necessary for an inspection, request any

securities company to report its business conditions or property, to submit material, to make witnesses available, or to present any testimony or opinions thereon.

(3) Any person who conducts an inspection pursuant to the provisions of paragraph (1) shall possess and present the persons concerned credentials that represents that person's authority to inspect.

(4) The FSS Governor shall, after the inspection referred to in paragraph (1), file a report on the results of the inspection with the Financial Supervisory Commission. In this case, if any securities company violate the provisions of this Act, other statutes or subordinate statutes relating to securities, any disposition taken under this Act or the regulations of the Financial Supervisory Commission, the Securities Futures Commission under the Act on the Establishment, etc. of Financial Supervisory Organization (hereinafter referred to as the "Securities Futures Commission") and the Stock Exchange, the FSS Governor shall add the written opinion as to how to (take actions against)resolve such violations.

(5) The Financial Supervisory Commission shall review the reports and the written opinions referred to in paragraph (4)and take the measures as prescribed in the following subparagraphs:

1. Where any securities company falls under each subparagraph of Article 55 (1), cancellation of the securities business license of the securities company concerned; and,
2. Where any securities company has, in the course of its business, committed unlawful or unfair acts other than those referred to in subparagraph 1, order to suspend the business in whole or in part, request for the discharge of officers concerned, or other measures as prescribed by Presidential Decree.

(6) The Financial Supervisory Commission may determine the method and procedure of inspection, the criteria for measuring the results of the inspection, and other necessary matters relating to the inspection.

Article 54 (Authority of Financial Supervisory Commission to Issue Orders)
The Financial Supervisory Commission may issue to a securities company such orders necessary for preventing excessively speculative securities transactions or for the protection of the public interest or investors under the conditions as prescribed by Presidential Decree.

Article 54-2 (Maintenance of Equity Capital Rate)
(1) Any securities company shall maintain a rate (hereinafter referred to as the "equity capital rate") higher than the rate prescribed by Presidential Decree, that is derived from dividing the total amount that results by deducting the following subparagraph 3 from the sum of the following subparagraphs 1 and 2 by the total risk amount (referring to the amount of risk calculated in terms of money that is involved in the business or that is in the assets and debts of such securities company):

1. The amount obtained by deducting the total amount of debt from the total value of assets;
2. The allowance for bad debts established in the floating assets, the posteriori borrowings and any other amount prescribed by Presidential Decree; and,
3. The appraised value of fixed assets, the amount of prepayments and any other amount prescribed by Presidential Decree.

(2) Any securities company shall calculate its equity capital rate as of the last day of every quarter (hereinafter in this Article referred to as the "record day") and file a report thereof with the Financial Supervisory Commission within one month from the record day and keep such report at its head office, branch office and other business offices to make such report available to the public.

(3) Specific standards for calculating the equity capital rate shall be determined by the Financial Supervisory Commission.

Article 54-3 (Soundness of Asset Management)
Any securities company shall be prohibited from performing any acts falling under each of the following subparagraphs except as otherwise prescribed by Presidential Decree:

1. The act of owning securities issued by the largest shareholder (referring to the largest shareholder under the provisions of Article 54-5 (4) 2; here after the same shall apply in this paragraph) or the

major shareholder of a relevant securities company (referring to the major shareholder under the provisions of Article 188 (1); hereafter the same shall apply in this paragraph);

2. The act of offering money or credit to the biggest shareholder (including any person prescribed by Presidential Decree from among specially-related persons; hereafter the same in this paragraph shall apply) or the major shareholder of a relevant securities company;

3. The act of directly or indirectly (warranting) guaranteeing the repayment of debts for other persons;

4. The act of owning stocks, bonds or commercial papers (referring to bills of exchange issued by the business for the purpose of raising funds) issued by the largest shareholder or the major shareholder of a relevant securities company; and,

5. Any act that may harm the sound management of assets of a securities company as prescribed by Presidential Decree other than acts in subparagraphs 1 through 4.

Article 54-4 (Internal Control Standards)

(1) Any securities company shall establish basic procedures and standards (hereinafter referred to as internal control standards") to be followed by its officers and employees when they perform their duties in order to observe statutes or subordinate statutes, operate the company's assets in a sound manner and protect its customers.

(2) Any securities company shall monitor whether the internal control standards are observed and appoint not less than one person (hereinafter referred to as the "compliance officer") assigned to inspect any violations of the internal control standards and report the results to the auditor or the audit committee.

(3) Necessary matters concerning the internal control standards under the provisions of paragraph (1) and the compliance officer under the provisions of paragraph (2) shall be determined by Presidential Decree.

Article 54-5 (Appointments of Outside Directors)

(1) Any securities company (limited to any securities company prescribed by Presidential Decree in the light of the size of its asset) shall have a board of directors in which the number of outside directors is at least half of the total number of such directors. In this case, at least three outside directors shall be seated on the board of directors.

(2) Any securities company under the provisions of paragraph (1) shall establish a committee (hereafter in this Article referred to as the "outside director candidate nominating committee") in accordance with the provisions of Article 393-2 of the Commercial Act to recommend candidates for outside directors. In this case, outside directors shall comprise at least half of the total members of the outside director candidate nominating committee.

(3) In case of a securities company under the provisions of paragraph (1), when a general meeting of shareholders of the securities company intends to appoint outside directors, it shall appoint such persons from among the candidates recommended by the outside director candidate nominating committee.

(4) Any person falling under any of the following subparagraphs shall be prohibited from becoming an outside director of a securities company under the provisions of paragraph (1) and such a person shall be dismissed as an outside director when found to fall under any of the following subparagraphs:

1. A person who falls under Article 191-12 (3) 1 through 4;
2. A person who together with any specially related persons holds the largest number of stocks on the basis of the total number of stocks with voting rights of a particular securities company;
3. A person that has a special relationship with the largest shareholder;
4. The major shareholder (referring to the major shareholder under the provisions of Article 188 (1)) of the concerned company and that person's spouse and lineal ascendant and descendant;
5. A person who was an officer or an employee (referring to a person who worked full-time ; hereafter the same shall apply in this paragraph) of the concerned company or its affiliate (affiliate as provided under the Monopoly Regulation and Fair Trade Act) or worked as an officer or employee for such relevant securities company within the

preceding two years;
6. The spouse or lineal ascendant and descendant of an officer of the concerned company;
7. The officer or employee of a corporation that has an important business relationship prescribed by Presidential Decree with a relevant securities company, a competitive relationship or a cooperative relationship with such securities company or was an officer or employee for such corporation within the preceding two years;
8. The officers or employees of a company in which an officer or employee of the concerned company was a non-full-time director; and,
9. A person who has difficulty in faithfully performing their duties as an outside director or can affect the management of the company as prescribed by Presidential Decree.

(5) A securities company under the provisions of paragraph (1), when the resignation or death, etc., of an outside director makes it impossible for the outside directors to fill half of the members of the board of directors, the first general meeting of shareholders convened for the first time after the occurrence of such cause must resolve to meet the requirements of paragraph (1).

Article 54-6 (Audit Committee)
(1) Any securities company (limited to the securities company prescribed by Presidential Decree taking into account the size of its asset) shall establish an audit committee (hereinafter referred to the "audit committee") pursuant to the provisions of Article 415-2 of the Commercial Act.

(2) Not less than two thirds of the total members of the audit committee referred to in paragraph (1) shall consist of outside directors.

(3) Any members of the audit committee who are not outside directors shall not fall under the subparagraph of Article 191-12 (3): Provided, That any person who holds office not as a full-time auditor or as an outside director of the audit committee under the provisions of Article 191-12 (3) but as a member of the audit committee may become a non-outside-director member of the audit committee notwithstanding the provisions of Article 191-12 (3) 6.

(4) Where the securities company referred to in paragraph (1) is unable to fill the fixed number of outside directors of the audit committee due to such causes as resignation or death, etc., of an outside director, (a) the first general meeting of shareholders convened after the occurrence of such cause must resolve to meet the requirements of paragraph (2)

(5) The provisions of Article 415-2 (2) of the Commercial Act shall not apply to the composition of the audit committee under the provisions of paragraph (1).

Article 55 (Cancellation of License)
(1) In case that any securities company falls under any of the following subparagraphs, the Financial Supervisory Commission may show cause therefor and cancel the license of such securities company:
1. Where a securities company obtains its license for securities business by fraud or unfair means;
2. Where a securities company commits a violation of its license conditions or license terms or fails to commence its business within 6 months from the date on which its license was granted;
3. Where a securities company has accepted money or securities from another person in connection with its business by unfair means or when it has acquired money or securities that shall be delivered to other persons in connection with its business by unfair means;
4. Where a securities company having received an order to suspend its business pursuant to the provisions of Article 57 has not corrected the reason therefor within one month (where the correction period exceeds one month when ordering the suspension of a business, then such period) from the date on which such securities company has received such order;
5. Where a securities company violates any contract in connection with the purchase and sale or other transactions effected on the securities market or Association brokerage market, or when it does not fulfill a delivery with respect to such purchase and sale or other transactions;

6. Where a securities company violates of the provisions of Articles 35 (1), 54-2 (1), 54-3, 54-5, 54-6 or 63;
7. Where a securities company violates an order issued pursuant to the provisions of Article 54; and,
8. Where a securities company violates this Act, an order or disposition given under this Act other than subparagraphs 1 through 7, and it is deemed difficult for it to conduct business as a securities company.

(2) When a securities business license is canceled under paragraph 1, it shall dissolve itself.

(3) The provisions of Article 32-2 shall apply *mutatis mutandis* to the cancellation of licenses under the provisions of paragraph (1).

Article 56 (Consummation of Unsettled Business)
When a securities company has its license cancelled (including the cancellation of a license under Article 14 of the Act on the Structural Improvement of the Financial Institutions) pursuant to Article 55 or closes its business by itself, it shall consummate the purchase and sale of securities and other transactions that it has left unsettled. In this case, the securities company or the successor of such securities company shall be regarded as a securities company to the extent consistent with the purpose of consummating such unsettled purchase and sale of securities or other transactions.

Article 57 (Suspension of Business)
(1) In case any securities company falls under any of the following subparagraphs, the Financial Supervisory Commission may order the suspension of the whole or part of the business.
1. Where it violates the provisions of Articles 40, 42, 44, 44-2 through 44-4, 47 and 49 through 52 or 54-4;
2. Where it violates an order under Article 54;.
3. Where it fails to comply with a request to discharge an officer referred to in paragraph (3) or Article 53 (5) 2 without any justifiable cause; and,
4. Where it resolves to discontinue its business or dissolve itself in order to protect public interests and investors.

(2) The provisions of Article 56 shall apply *mutatis mutandis* to the suspension of business referred to in paragraph (1).

(3) In case any securities company violates the provisions of Article 36, 43, 44, 46 or 48, or any of its officers violates the provisions of Article 52, the Financial Supervisory Commission may request such securities company to discharge the officer concerned after showing the therefor to such officer.

Article 58 (Liabilities of Officers)
(1) In case any director or auditor (referring to the members of the audit committee if such committee is established; hereinafter the same) of a securities company neglects to perform their duties on purpose or through negligence, or causes losses to a third person in the course of performing their duties for such securities company, such director or auditor, and the largest stockholder shall be jointly and severally liable to compensate for such losses: *Provided,* That the same shall not apply to the largest stockholder who proves that the act causing such losses to the third person was not committed based upon (his)the largest shareholders' request or consent.

(2) The provisions of paragraph (1) shall not affect the liabilities of the securities company concerned.

(3) In case of paragraph (1), the provisions of Articles 399 (2) and (3), and 414 (3) of the Commercial Act shall apply *mutatis mutandis* to the provisions of paragraph (1).

Article 59 (Prohibition of Offer or Divulgence of Information)
(1) Unless any officer or employee of a securities company receives written request or written consent from the customer who makes or intends to make a purchase and sale of securities through the securities company (including any person who participates in the securities savings referred to in Article 50; hereinafter the same shall apply), the officer or employee of such securities company shall not offer or divulge any information with respect to the customers' purchase and sale, or other securities transaction, or the money or securities deposited by such customer: *Provided,* That the same shall not apply where the securities company is inspected by a supervisory institution or where it is

requested pursuant to the provisions of Article 60.

(2) Any person who acquires the information in the ordinary course of inspection by a supervisory institution shall not offer or divulge such information to any other person, or make use of the information for any other purpose other than that of the inspection.

Article 60 (Prohibition of Request for Information)
(1) No person shall request any officer or employee of a securities company to offer the information referred to in Article 59 (1), except when a court issues an order to submit such information, a judge of a court issues a warrant, or other cases as prescribed by Presidential Decree.

(2) Even when the offer of such information is requested pursuant to the provisions of paragraph (1), the inquiry or investigation shall be limited within the necessary scope of the purpose.

Article 61 (Refusal of Illegal Investigation)
Any officer or employee of a securities company shall, by and after showing the reason therefor, refuse a request, inquiry or investigation that contravenes the provisions of Article 60.

Article 62 (Trade Name)
(1) A securities company shall include the term "securities" in its trade name. In this case, a securities company only permitted to do business as provided under Article 28 (2) 2 shall use the term "securities brokerage" therein.

(2) No person who is not a securities company shall include any term that represents a securities business in its trade name.

Article 63 (Prohibition of Lending Trade Name)
No securities company shall allow other persons to operate a securities business by lending its trade name.

Article 64 (Exercise of Minority Shareholder's Right of Securities Company)
(1) The provisions of Article 191-3 (1) through 5 shall apply *mutatis mutandis* to the requirements, etc., for the exercise of a minority shareholders' right of a securities company (limited to a securities company prescribed by Presidential Decree taking into account the size of its asset; hereafter the same shall apply in this Article). In this case, "not less than 1/10,000" in Article 191-13 (1) shall be deemed "not less than 5/10,000," "not less than 50/10,000" (25/10,000 in case of corporation prescribed by Presidential Decree) in paragraph (2) of the same Article shall be deemed "not less than 250/100,000" (125/100,000 in case of a corporation prescribed by Presidential Decree), "not less than 10/1,000" (5/1,000 in case of a corporation prescribed by Presidential Decree) in paragraph 3 of the same Article shall be deemed to mean "not less than 50/10,000" (25/10,000 in case of a corporation prescribed by Presidential Decree) and "not less than 30/1,000"(15/1,000 in case of a corporation prescribed by Presidential Decree) in paragraph 4 of the same Article shall be deemed to mean "not less than 150/10,000 "(75/10,000 in case of a corporation prescribed by Presidential Decree).

(2) The provisions of Article 191-14 (1) and (2) shall apply *mutatis mutandis* to the requirement, etc., for the exercise of the right by shareholders of a securities company to make proposals. In this case, "not less than 10/1,000" (5/1,000 in case of a corporation prescribed by Presidential Decree) in Article 191-14 (1) shall be deemed to mean "not less than 50/10,000 "(25/10,000 in case of a corporation prescribed by Presidential Decree).

Articles 65 through 69 Deleted. <*by Act No. 5736, Feb. 1, 1999*>

SECTION 3 Deleted

Articles 69-2 through 70 Deleted. <*by Act No. 5736, Feb. 1, 1999*>

CHAPTER V-2 INVESTMENT ADVISORY BUSINESS, ETC.

Article 70-2 (Registration, etc.)
(1) Any person who intends to operate an investment advisory business shall register their business with the Financial Supervisory Commission.

(2) Any person who intends to operate discretionary investment business shall be a company registered with the Financial Supervisory Commission.

(3) Deleted. *<by Act No. 5736, Feb. 1, 1999;Act No. 6176, Jan. 21, 2000>*

(4) The requirements and procedures for registration as referred to in paragraphs (1) and (2) and all other necessary matters shall be determined by Presidential Decree.

(5) No person may operate a discretionary investment business except for such cases as prescribed in this Act or other a laws.

Article 70-3 (Restriction on Engaging in Other Business)
No investment advisory company shall be engaged in any business other than registered business: *Provided*, That the same shall not apply with respect to a business approved by the Financial Supervisory Commission that is a business directly related to the registered business.

Article 70-4 (Deposition of Business Guaranty Money)
(1) The investment advisory company shall deposit the business guaranty money with a financial institution under the conditions as prescribed by Presidential Decree. In this case, such investment advisory company shall be prohibited from transferring the business guaranty money or offering it as security

(2) Any person who has concluded an investment advisory contract (including a discretionary investment contract; hereinafter the same shall apply) with an investment advisory company shall be entitled to receive payment out of the investment business guaranty money as referred to in paragraph (1) in preference to other creditors with respect to any obligation that originated in connection with such contract.

Article 70-5 (Maintenance of Sound Business Order)
An investment advisory contract of an investment advisory company, the method of discretionary investments, notification of investment results for customers, fees, public notice of contents of business, advertisement for business, and other criteria necessary for maintaining a of sound business order shall be prescribed by Presidential Decree.

Article 70-6 (Prohibition of Securities Transaction, etc.)
An investment advisory company or its officers and employees shall not conduct any act falling under any of the following subparagraphs in connection with its business:

1. Acts as referred to in any subparagraph of Article 2 (8);
2. Receiving a custody or deposit of money or securities from customers;
3. Lending money or securities to customers, or intermediating, arranging or acting as an agent for lending money or securities of third person to customers;
4. Making a promise to guarantee certain profits or division of profits, or to bear the whole or part of loss with customers with respect to an investment in securities;
5. Giving advice without any justifiable ground for the purpose of obtaining any profit for themselves or a third person other than customers by taking advantage of fluctuations in the price of securities that result from the purchase and sale for customers who obtain such advice about such securities;
6. Circulating any false information and other rumors without any grounds; and,
7. Acts which may harm the fair transaction order and mislead an investment decision of investors and are designated by Presidential Decree.

Article 70-7 (Officers and Supervision)
The provisions of Articles 33 (2), 35, 37, 42, 47, 48, subparagraphs 2 and 3 of Article 52 and Articles 53, 54, 56 through 61, and 63 shall apply *mutatis mutandis* to the investment advisory company.

Article 70-8 (Report on Business Similar to Investment Advisory Business)
(1) A person who intends to operate a business that gives advice through publications, etc., for the general public under the provisions of the proviso of Article 2 (10) 1 and is prescribed by Presidential Decree shall report to the Financial Supervisory Commission according to the forms as prescribed by the Financial Supervisory Commission.

(2) The Financial Supervisory Commission may entrust the business of reporting pursuant to paragraph (1) to the FSS Governor.

(3) The provisions of Article 70-6 shall apply *mutatis mutandis* to a person who is liable to report pursuant to the provisions of paragraph (1), officers and personnel thereof, or other employees.

Article 70-9 (Business of Foreign Investment Advisory Businessperson)
(1) A foreign investment advisory businessperson (referring to a person who operates an investment advisory business in a foreign country pursuant to foreign statutes or subordinate statutes; hereinafter the same shall apply) shall, where that person intends to operate an investment advisory business or discretionary investment business directly or by establishing a branch office or other business place (hereinafter referred to as a "branch office of a foreign investment advisory business person") in Korea, register with the Financial Supervisory Commission.

(2) Matters necessary for registration pursuant to the provisions of paragraph (1) shall be prescribed by Presidential Decree.

(3) A branch office of a foreign investment advisory business person, etc., that has registered pursuant to the provisions of paragraph (1) shall be considered as an investment advisory company pursuant to this Act.

(4) The provisions of Article 28-2 (5) through (7) shall apply *mutatis mutandis* to a branch office of a foreign investment advisory businessperson, etc.

Article 70-10 (Trade Name)
(1) An investment advisory company (excluding a company that operates an investment advisory business or discretionary investment business as a side business) shall include the term "investment advisory" in its trade name.

(2) Those other than investment advisory companies shall not include the word "investment advisory" or "discretionary investment" in their trade names.

Article 70-11 (Cancellation of Registration)
Where an investment advisory company falls under any of the following subparagraphs, the Financial Supervisory Commission may cancel the registration of its investment advisory business or its discretionary investment business providing the reasons thereof:

1. Where it registers an investment advisory business or discretionary investment business by fraud or other illegal means;
1-2. Where it is impossible to maintain the registration requirements after registering the investment advisory business and the discretionary investment business;
2. Where it operates a discretionary investment business without registration;
3. Where it receives money or securities from other persons or acquires money or securities to be granted to other persons in connection with its business by illegal means;
4. Where it violates a selling and buying contract or other transactions in the securities markets or Association brokerage markets or fulfill the delivery of securities;
4-2. Where a violation of the provisions of Article 70-4 (1) is committed;
5. Where it has been ordered to suspend its business pursuant to Article 57 applied *mutatis mutandis* under Article 70-7 and fails to correct the conditions within one month (where the correction period exceeds one month when ordering the suspension of a business, from the date on which (it has received) such order is received;
6. Where it violates the provisions of Article 35 (1) or 63 applied *mutatis mutandis* under 70-7;
7. Where it violates an order under Article 54 applied *mutatis mutandis* under Article 70-7; and
8. Where it is deemed difficult to conduct its business operations in violation of this Act or an order or disposition under this Act other than subparagraphs 1 through 7.

CHAPTER VI KOREA STOCK EXCHANGE

SECTION 1 Establishment and Organization

Article 71 (Establishment)
(1) The Stock Exchange shall be established for the purpose of providing a fair and stable market price for securities, and the wide and orderly circulation thereof.

(2) The Stock Exchange shall be a juristic person based on an organization of members.

(3) The Stock Exchange shall place its principal office in the Seoul Special Metropolitan City, and may establish its branch offices in such places as deemed necessary.

(4) The Stock Exchange shall come into existence by the registration of its incorporation at the location of its principal office.

(5) The registration referred to in paragraph (4) shall contain the matters prescribed in the following subparagraphs:
1. Objectives;
2. Name;
3. Location of the principal office and branch office;
4. Names and addresses of members;
5. Names and addresses of officers;
6. Method of public notice; and,
7. Matters as prescribed by Presidential Decree other than those referred to in subparagraphs 1 through 6 of this paragraph.

(6) Deleted. *<by Act No. 3945, Nov. 28, 1987>*

(7) Matters necessary for the registration of the incorporation of the Stock Exchange other than those referred to in paragraphs (4) and (5) shall be prescribed by Presidential Decree.

Article 72 Deleted. *<by Act No. 3945, Nov. 28, 1987>*

Article 73 (Business)
(1) The Stock Exchange shall conduct such business as prescribed in the following subparagraphs in order to attain its objectives:
1. Establishment of the securities market (including futures markets);
2. Business relating to the purchase and sale transaction of securities;
3. Business relating to the listing of securities;
4. Business relating to the disclosure of a listed corporation;
5. Business relating to the supervision and control of members;
6. Business relating to the auction of securities;
7. Other business incidental to the establishment of the securities market; and,
8. Business as determined in the articles of association other than that as prescribed in subparagraphs 1 through 7.

(2) Deleted. *<by Act No. 5736, Feb. 1, 1999>*

Article 74 (Matters to be Provided for in Articles of Association)
(1) The articles of association of the Stock Exchange shall contain the following matters:
1. Objectives;
2. Name;
3. Location of the principal office, the branch offices and the securities market;
4. Matters relating to the amount of contributions;
4-2. Matters relating to members;
4-3. Matters relating to a security guarantee for the good conduct of members;
4-4. Matters relating to the transfer and return of shares of members;
5. Matters relating to officers;
6. Matters relating to the general meeting of members and board of directors;
7. Matters relating to the execution of business;
8. Matters relating to the accounting and apportionment of expenses; and,
9. Method of public notice.

(2) When the Stock Exchange intends to amend any provisions of its articles of association referred to in paragraph (1), it shall obtain the approval of the Minister of Finance and Economy.

Article 75 (Provisions of Civil Act Applied *Mutatis Mutandis*)
The provisions of the Civil Act relating to an incorporated association (excluding Article 39 of the Civil Act) shall apply *mutatis mutandis* to the Stock Exchange unless as otherwise provided for in this Article or any order pursuant to this Act. In such a case, members, a general meeting of members, and officers of the Stock Exchange shall be

considered respectively as members, a general meeting of members, and directors or auditors of an incorporated association.

Article 76 (Prohibition of Establishment of Similar Facilities)
No person other than the Stock Exchange may establish a securities market or facilities similar thereto, or may conduct purchase and sale transactions of securities through similar facilities: *Provided*, That with respect to an Association brokerage market, the same shall not apply.

Article 76-2 (Qualification for Member)
Members of the Stock Exchange shall be securities companies satisfying such requirements as prescribed by the articles of association.

Article 76-3 (Contributions and Liability)
(1) Members shall make contributions under the conditions as prescribed by the articles of association.

(2) Liability of members to the Stock Exchange shall be limited to their contributions except as prescribed by this Act and the articles of association.

Article 76-4 (Withdrawal of Member)
(1) Any member may withdraw with the approval of the Stock Exchange under the conditions as prescribed by the articles of association.

(2) If any of the following causes occurs, the member shall withdraw:
1. Disqualification;
2. Dissolution; or,
3. Expulsion.

Article 76-5 (Transfer and Return of Share)
(1) A share of a member may be transferred after obtaining the approval of the Stock Exchange only when the member intends to withdraw, under the conditions as prescribed by the articles of association.

(2) If a member withdraws from the Stock Exchange, the Stock Exchange shall return the member's entire shares under the conditions as prescribed by the articles of association.

(3) If it is deemed necessary to adjust the ratio of a member's share, the Stock Exchange may return a part of the member's share to the member under the conditions as prescribed by the articles of association.

Article 77 (General Meeting of Members)
(1) The general meeting of members shall resolve only the matters as provided for in this Act or the articles of association of the Stock Exchange.

(2) Deleted. *<by Act No. 5254, Jan. 13, 1997>*

(3) The matters that have been resolved in the general meeting of members shall be reported to the Minister of Finance and Economy.

Article 78 (Officers)
(1) The following officers shall be assigned to the Stock Exchange:
1. A chief director;
2. A managing director;
3. Nine or less directors (five or less directors shall be non-standing, and three or less of those directors shall be public interest representatives and the remaining shall be representatives of the members); and,
4. Two auditors (one of them shall be non-standing).

(2) The chief director shall be elected by the general meeting of members from among those who have extensive experience and knowledge of securities matters and have high moral virtue, and must be approved by the Minister of Finance and Economy.

(3) The managing and standing directors shall be appointed by the chief director with the approval of the Minister of Finance and Economy.

(4) The non-standing directors who are public interest representatives shall be appointed by the chief director.

(5) The non-standing directors who are representatives of the members shall be elected by a general meeting of members.

(6) Auditors shall be elected by a general meeting of members.

(7) The term of office of the chief director, managing director, other directors and auditor

shall be three years, respectively.

(8) Deleted. *<by Act No. 5736, Feb. 1, 1999>*

(9) Deleted. *<by Act No. 5254, Jan. 13, 1997>*

Article 79 (Duties of Officers)
(1) The chief directors shall represent the Stock Exchange, take charge of its affairs and preside over the general meeting of members and the board of directors.

(2) The managing director shall assist the chief director, and if the chief director is absent due to an accident, the managing director shall act on behalf of the chief director.

(3) The standing directors shall assist the chief and managing directors and take charge of the affairs of the Stock Exchange.

(4) The auditors shall inspect the affairs and accounting of the Stock Exchange, and deliver their opinion at the general meeting of members.

Article 80 (Ineligibility of Officers)
Any person falling under any of the following subparagraphs shall not be an officer of the Stock Exchange, and any officer who falls under any of the following subparagraphs shall lose their office:

1. Any person who is not a national of the Republic of Korea, any officer who belongs to a corporation of the Republic of Korea of which fifty percent or more of the amount of stated capital or fifty percent or more of the total combined voting rights is owned by foreign persons or foreign corporations, etc., or any officer of a foreign corporation;
2. A minor, an incapacitated person or a semi-incacitated person;
3. A bankrupt person who has not been reinstated;
4. A person who has been sentenced to a punishment heavier than the imprisonment without prison labor or to a punishment heavier than imposition of a fine pursuant to this Act, foreign securities statutes or subordinate statutes, or other statutes or subordinate statutes relating to finance and banking as prescribed by Presidential Decree, and for whom five years have not elapsed since the execution of such punishment was terminated (including the cases where the execution is deemed to have been terminated) or exempted;

4-2. A person who has been sentenced to a punishment heavier than imprisonment without prison labor and has been serving a suspended sentence; or,

5. A person who has been dismissed or discharged from their office pursuant to this Act, foreign securities statutes or subordinate statutes, or other statutes or subordinate statutes relating to the finance and banking as prescribed by (the) Presidential Decree, and five years have not elapsed since such discharge or dismissal.

Article 81 (Request for Dismissal of Officer)
If an officer of the Stock Exchange violates the provisions of statutes or subordinate statutes or the disposition made by an administrative agency pursuant to statutes or subordinate statutes, the Financial Supervisory Commission may suspend the execution of that person's duties or request that person's dismissal.

Article 82 Deleted. *<by Act No. 3945, Nov. 28, 1987>*

Article 83 (Liabilities of Officers, etc.)
(1) Any person who is or was an officer or employee of the Stock Exchange shall not divulge or illicitly use secrets which that person may have acquired in the course of performing their duties.

(2) The provisions of Article 42 shall apply *mutatis mutandis* to officers and employee of the Stock Exchange.

(3) Officer and employee of the Stock Exchange shall not have a special interest relationship with any securities institutions by offering funds or sharing profits or losses or engaging in any other business.

SECTION 2 Transactions on Securities Market

Article 84 Deleted. *<by Act No. 3945, Nov. 28, 1987>*

Article 85 (Restrictions on Traders on Securities Markets)

(1) No person other than members of the Stock Exchange shall perform transactions on the securities market: *Provided,* That where the articles of association of the Stock Exchange determine that a person may sell and buy specific securities, that person may do so.

(2) A person is able to perform transactions on the securities market based on the proviso of paragraph 1 shall be deemed a member of the Stock Exchange in applying the provisions of Articles 73 (1) 5, 74 (1) 4-2 and 4-3, 76-3 (2), 76-4, 87, 94 (2) 5, 95 through 97, 99, 100, and 206-3 (5).

Article 86 Deleted. ***<by Act No. 5736, Feb. 1, 1999>***

Article 87 (Completion of Transactions)
(1) When a member is suspended from transactions or loses its qualification, the Stock Exchange shall have the member or another member complete the transactions that have been initiated on the securities market by the member. In this case, the member who loses its qualification shall be regarded as having the qualification of a member within the objective of completing that transaction.

(2) In case the Stock Exchange has another member complete the transactions pursuant to paragraph (1), it shall be regarded as a trust contract has been forward between the member concerned and such other member.

Article 88 (Listing Regulations)
(1) Deleted. *<by Act No. 5254, Jan. 13, 1997>*

(2) The Stock Exchange shall adopt the Securities Listing Regulations (hereinafter referred to as the "Listing Regulations") in order to examine securities that are to be listed on the securities market and to administer the securities that have been listed on the securities market (hereinafter referred to as "listed securities").

(3) The Listing Regulations referred to in paragraph (2) shall provide for the following matters:

1. Matters relating to the listing standards for, listing examination of and delisting of securities;
2. Matters relating to suspending and releasing a suspension of securities transactions; and,
3. Matters necessary to the administration of listed securities other than those prescribed in subparagraphs 1 and 2 of this paragraph.

Article 89 Deleted. ***<by Act No. 4701, Jan. 5, 1994>***

Articles 90 through 93 Deleted. ***<by Act No. 5254, Jan. 13, 1997>***

Article 94 (Operating Regulations)
(1) Matters relating to securities transactions on the securities market shall be determined by the operating regulations of the Stock Exchange. In this case, matters relating to futures markets may be determined by separate operating rules.

(2) The operating regulations referred to in paragraph (1) shall provide for the following matters:

1. Types of transactions and matters relating to consignment;
2. Matters relating to the opening, closing, suspending or temporary closing of the securities market;
3. Method of concluding a transaction contract and settlement thereof;
4. Matters relating to the regulation of a transaction such as the payment of deposit money;
5. Matters relating to the supervision over members and disciplinary action against members, officers and employees as a result of such supervision;
6. Matters relating to the qualification and registration of agents who are engaged in the transaction affairs on behalf of members on the securities market; and,
7. Matters necessary for a transaction in addition to those as referred to in subparagraphs 1 through 6.

Article 95 (Joint Compensation Fund for Loss Incurred from Contravention of Contracts)
(1) The member shall set aside a joint fund (hereinafter referred to as the "compensation fund") in the Stock Exchange in order to compensate for the losses incurred from any contravention of a trading contract on the securities market.

(2) The member shall, within the extent of the

compensation fund referred to in paragraph (1), be jointly and severally liable for the losses incurred from any contravention of trading contract on the securities market.

(3) The rate of reserve, limit, use, management, repayment of the compensation fund referred to in paragraph (1), and other necessary matters relating to the operation of compensation fund shall be prescribed by Presidential Decree.

Article 96 (Appropriation of Deposit and Member's Guarantee Fund for Obligation)
If a member has not fulfilled its obligation based on transactions on the securities market for the Stock Exchange or other members, the Stock Exchange may appropriate the deposit and the member's guarantee fund for the payment of that obligation.

Article 97 (Compensation Liabilities of Stock Exchange)
(1) The Stock Exchange shall be liable to compensate for the loss incurred from contravention of *a* trading contract by any member.

(2) In case the Stock Exchange compensates for the loss under paragraph (1), the compensation fund set aside under the provisions of Article 95 shall be appropriated in preference.

(3) In case the Stock Exchange compensates for the loss under paragraphs (1) and (2), the Stock Exchange shall be entitled to the right to indemnification for the compensated amount and all expenses required to do so against the member who contravened the trading contract.

(4) The amount of money collected in accordance with paragraph (3) shall be, in preference, appropriated for such amount as the Stock Exchange has compensated with its own money and all expenses required todo so, and the remainder shall be held in reserve in the compensation fund.

(5) Matters with respect to the exercise of the right to indemnification referred to in paragraph (3) shall be prescribed by Presidential Decree.

Article 98 Deleted. ***<by Act No. 3945, Nov. 28, 1987>***

Article 99 (Preferential Right of Stock Exchange over Other Creditor)
(1) The Stock Exchange shall have a right to be paid in preference to any other creditors with respect to the deposit, member's guarantee fund and money or securities paid for the delivery and settlement.

(2) When a member, in case the Stock Exchange delivers securities to the member prior to the settlement, causes loss to the Stock Exchange due to the un-fulfillment of delivery or settlement by such member, the Stock Exchange shall have a right to be paid in preference to any other creditors with respect to property of such member: *Provided*, That the right shall not be in preference to obligations hypothecated by *a* right of a registered lease on a deposit basis, pledges or mortgages created prior to the expiration of settlement date.

Article 100 (Preferential Right of Entruster Due to Contravention of Contract by Entrustee and Right of Stock Exchange in Preference to Entruster)
(1) Any person who entrusts transaction on the securities market to a member shall, in case the member entrusted with the transactions contravenes the entrustment contract, have a right to satisfy a claim based upon such contravention in preference to any other creditors with respect to the deposit and member's guarantee fund.

(2) The preferential right referred to in Article 99 shall be in preference to such preferential right as prescribed by the provisions of paragraph (1).

Article 101 (Prohibition of Transaction in Contravention to Contract)
Any securities company that has been entrusted transact on the securities market shall have such transactions executed without fail only through the securities market. In this case, the provisions of Article 44 shall not apply.

Article 102 Deleted. *<by Act No. 5254, Jan. 13, 1997>*

Article 103 (Publication of Quotations)
The Stock Exchange shall, under the conditions as prescribed by Presidential Decree, make public the quotations showing

the daily trading volume, daily settled price, and the highest, lowest and closing prices of the securities on the securities market.

Article 104 Deleted. <*by Act No. 5736, Feb. 1, 1999*>

Articles 105 and 106 Deleted. <*by Act No. 5254, Jan. 13, 1997*>

Article 107 (Restriction on Discretionary Transactions)
(1) If a securities company is entrusted by a customer to make a securities transaction, the securities company may be given discretion to carry out such transaction only on the quantity, price and time of transaction. In this case, the types and items of securities, categories and methods of transaction shall be determined only according to a decision of the customer.

(2) If a securities company carries out a securities transaction pursuant to paragraph (1), it shall observe the conditions as prescribed by Ordinance of the Ministry of Finance and Economy.

Article 108 Deleted. <*by Act No. 5423, Dec. 13, 1997*>

SECTION 3 Entrustment with Transactions on Securities Market

Article 109 (Restrictions on Places of Entrustment)
(1) Deleted. <*by Act No. 5736, Feb. 1, 1999*>

(2) A securities company may be entrusted with securities transactions by means of electronic communication and other manners as prescribed by Presidential Decree.

Articles 110 and 111 Deleted. <*by Act No. 5736, Feb. 1, 1999*>

SECTION 4 Accounting and Supervision

Article 112 (Report and Inspection)
(1) The Financial Supervisory Commission may, if deemed necessary in the public interest or for the protection of investors, order the Stock Exchange to file reports or materials for reference with respect to its business and property, and have the FSS Governor inspect its business, status of property accounting books, records, and other related materials.

(2) The provisions of Article 53 (3) shall apply *mutatis mutandis* to the inspection referred to in paragraph (1).

(3) In case where the FSS Governor inspects according to the provisions of paragraph (1), the FSS Governor shall report the results of the inspection to the Financial Supervisory Commission.

Article 113 Deleted. <*by Act No. 3945, Nov. 28, 1987*>

Article 114 Deleted. <*by Act No. 6176, Jan. 21, 2000*>

Article 115 (Approval of Regulations)
(1) Where the Stock Exchange intends to adopt Business Regulations, Listing Regulations, Disclosure Regulations and other regulations (including rules; hereinafter the same shall apply) relating to the business necessary for the administration of the securities market, the Stock Exchange shall obtain the approval of the Financial Supervisory Commission. The same shall apply in case of the amendment or repeal thereof.

(2) Where the Financial Supervisory Commission intends to grant approval referred to in paragraph (1), it shall consult in advance with the Minister of Finance and Economy.

Article 116 Deleted. <*by Act No. 5254, Jan. 13, 1997*>

Article 117 (Disposition in Emergency)
(1) Deleted. <*by Act No. 5736, Feb. 1, 1999*>

(2) When the Minister of Finance and Economy deems that transactions cannot be normally executed because of natural disaster, warfare, disturbance, sudden and significant change in economic conditions or other incidents similar thereto, the minister may order the temporary closing of the securities market or take other necessary measures.

CHAPTER VII Deleted.

Articles 118 through 144 Deleted. <*by Act No. 5498, Jan. 8, 1998*>

CHAPTER VIII ORGANIZATIONS CONCERNED WITH SECURITIES

SECTION 1 Securities Finance Corporation

Article 145 (Establishment)
(1) Any person who engages in the business referred to in Article 147 (hereinafter referred to as a "Securities Finance Corporation") shall be a stock corporation licensed by the Minister of Finance and Economy.

(2) Any person who intends to obtain a license referred to in paragraph (1) shall file a written application including such information as designated in the following subparagraphs with the Minister of Finance and Economy:
1. Name;
2. Location of business office; and,
3. Matters relating to stated capital and assets.

(3) A written application referred to in paragraph (2) shall be accompanied by such documents as designated in the following subparagraphs:
1. Articles of incorporation and the regulations relating to the business;
2. *Curriculum vitae* and certificate of identity of promoters;
3. Project planning statement and the estimated income and expenditure statement for a period of two years after its establishment; and,
4. Documents prescribed by the Minister of Finance and Economy other than those referred to in subparagraphs 1 through 3.

Article 146 (Amount of Stated Capital)
Amount of stated capital of a Securities Finance Corporation shall be two billion or more won.

Article 147 (Business)
A Securities Finance Corporation may change in any business referred to in the following subparagraphs:
1. To lend money for securities market making and money for underwriting to underwriters;
2. To lend through the account setting organ of the Stock Exchange such money or securities necessary for transactions on the securities market;
3. To lend money by collateralizing securities or lend securities;
4. To lend money to public investors through underwriters for purchasing stocks of public offerings;
5. To effect transactions of bonds to the extent as prescribed by Presidential Decree;
6. To undertake safekeeping in connection with securities; and,
7. Business approved by the Minister of Finance and Economy other than those referred to in subparagraphs 1 through 6.

Article 148 Deleted. <*by Act No. 5254, Jan. 13, 1997*>

Article 149 (Restrictions on Officers)
(1) Any officer who is engaged in the management of executive affairs of a Securities Finance Corporation (including a person who defacto performs the functions of an officer; hereinafter the same shall apply) shall be a person other than the officers and employees of a securities company.

(2) The provisions of Articles 33 (2) and 80 shall apply *mutatis mutandis* to any officer of a Securities Finance Corporation: *Provided*, That the person falling under subparagraph 1 of Article 80 may be appointed as an officer of a Securities Finance Corporation, insofar as the officer is not engaged in the management of executive affairs thereof.

Article 150 Deleted. <*by Act No. 3945, Nov. 28, 1987*>

Article 151 (Report on Articles of Incorporation and Regulations)
(1) Any Securities Finance Corporation shall, when it amends its articles of incorporation, file a report thereof with the Financial Supervisory Commission.

(2) When a Securities Finance Corporation has adopted, amended or repealed the regulations relating to its business, it shall report such fact to the Financial Supervisory Commission.

(3) Deleted. *<by Act No. 5254, Jan. 13, 1997>*

Article 152 Deleted. <*by Act No. 5254, Jan. 13, 1997*>

Article 153 (Request to Discharge Officers)
When any officer of a Securities Finance Corporation is elected by illegal means, or violates this Act, the orders pursuant to this Act or the articles of incorporation of the Securities Finance Corporation, the Financial Supervisory Commission may request it to discharge such officer.

Article 154 (Liabilities of Officers)
The provisions of Articles 58 and 83 shall apply *mutatis mutandis* to a Securities Finance Corporation: *Provided*, That the provisions of Article 83 (3) shall not apply *mutatis mutandis* to officers who are not engaged in the management of executive affairs.

Article 155 (Dispositions against Violations of Statutes or Subordinate Statutes)
(1) The provisions of Article 55 (excluding subparagraphs 5 through 7 of the same Article (1)) shall apply *mutatis mutandis* to the cancellation of a securities financial business license for Securities Finance Corporations. In this case, the "Financial Supervisory Commission" shall be deemed the "Minister of Finance and Economy."

(2) Where any Securities Finance Corporation falls under any of the following subparagraphs, the Financial Supervisory Commission may order the suspension of its business in whole or in part for a specified period not exceeding six months:

1. Where it does business without obtaining approval under subparagraph 7 of Article 147;
2. Where it fails to comply with a request to discharge its officer under Article 153 without any justifiable cause; and,
3. Where it violates the provisions of Article 154.

Article 156 Deleted *<by Act No. 5254, Jan. 13, 1997>*

Article 157 (Inspection)
The provisions of Article 53 shall apply *mutatis mutandis* to a Securities Finance Corporation. In this case, the "cancellation of a securities business license" referred to in Article 53 (5) 1 shall be deemed a "request that the Minister of Finance and Economy cancel a license."

Article 158 (Discontinuance of Business and Dissolution)
A resolution by a Securities Finance Corporation to discontinue its business or dissolve itself shall be subject to the authorization of the Minister of Finance and Economy.

Article 159 Deleted. ***<by Act No. 5736, Feb. 1, 1999>***

Article 160 (Issuance of Corporate Bonds)
(1) Notwithstanding the provisions of Article 470 of the Commercial Act, any Securities Finance Corporation may issue corporate bonds up to 20 times the aggregate amount of its stated capital and reserve.

(2) The corporate bonds issued by a Securities Finance Corporation pursuant to the provisions of paragraph (1) shall be considered to be bonds pursuant to the provisions of Article 2 (1) 1.

(3) Any Securities Finance Corporation may temporarily issue corporate bonds in excess of the limit to redeem corporate bonds issued in accordance with paragraph (1). In this case, the corporate bonds that are issued must be redeemed within one month of their issuance.

(4) Matters necessary for the issuance of corporate bonds by a Securities Finance Corporation pursuant to the provisions of paragraph (1) shall be prescribed by Presidential Decree.

Article 161 (Deposit of Money)
(1) Any Securities Finance Corporation may receive a deposit of money from the Stock Exchange, a securities company, other securities institutions, and such persons as designated by Ordinance of the Ministry of Finance and Economy.

(2) Any Securities Finance Corporation may, if necessary for a deposit pursuant to paragraph (1), issue debt instruments under the conditions as prescribed by Ordinance of the Ministry of Finance and Economy.

(3) In case of paragraphs (1) and (2), the Bank of Korea Act and the Banking Act shall not apply.

SECTION 2 Korea Securities Dealers Association

Sub-Section 1 Establishment and Supervision

Article 162 (Establishment)
(1) The Korea Securities Dealers Association shall be established for the purpose of maintaining business orders between securities companies, assuring fair trading of securities, and protecting investors.

(2) The Association shall be a juristic person based on an organization of members.

(3) The Association shall place its principal office in the Seoul Special Metropolitan City, and may establish its branch offices in such places as deemed necessary.

(4) The Association shall come into existence by the registration of incorporation at the location of its principal office under the conditions as prescribed by Presidential Decree.

Article 162-2 (Business)
The Association shall do such business as described in the following subparagraphs:
1. Business relating to the maintenance of sound business order between members and for the protection of investors;
2. Business relating to the disclosure of the Association-registered corporation, supervision of members and other business relating to the operation of the association brokerage market;
3. Operation and management of fund managers in order to maintain sound order in business under Article 28 (2) 2;
4. Examination and research of the system relating to securities;
5. Business relating to the study and training with respect to securities;
6. Business incidental to that as referred to in subparagraphs 1 through 5; and,
7. Business as determined by the President Decree other than those as referred to in subparagraphs 1 through 6.

Article 163 (Matters to be Provided for in Articles of Association)
Matters to be provided for in the articles of association shall be prescribed by Presidential Decree.

Article 164 (Report on Regulations, etc.)
(1) Where the Association has adopted, amended or repealed regulations relating to its business, it shall report such fact to the Financial Supervisory Commission within ten days.

(2) The Association shall, where it intends to change matters prescribed by Presidential Decree in the articles of association, obtain approval from the Financial Supervisory Commission.

Article 165 (Membership Dues)
The Association may collect membership dues from members under the conditions as prescribed by the articles of association.

Article 166 Deleted. <*by Act No. 5423, Dec. 13, 1997*>

Article 167 Deleted. <*by Act No. 5254, Jan. 13, 1997*>

Article 168 (Order of Suspension of Business, etc.)
In case any event described in the following subparagraphs occurs, the Financial Supervisory Commission may order the Association to suspend its business or request it to discharge the officer concerned in the public interest and for the protection of investors:
1. When the Association has violated statutes or subordinate statutes or a disposition taken by administrative authorities pursuant to statutes or and subordinate statutes; and,
2. When any officer of the Association has violated the articles of association or regulations relating to the business of the Association or has abused their authorities.

Article 169 (Officers and Supervision, etc.)
The provisions of Articles 33, 42, 53 and 117 shall apply *mutatis mutandis* to the Association.

Article 170 (Provisions of Civil Act Applied *Mutatis Mutandis*)
The provisions of the Civil Act relating to an incorporated association shall apply *mutatis mutandis* to the Association except otherwise provided for in this Act or the orders pursuant to this Act.

Article 171 (Prohibition of Use of Similar

Name)
Any person other than the Korea Securities Dealers Association shall not use the name "Securities Dealers Association" or any other name similar thereto.

Article 172 (Securities Training Institute)
The Association may establish a Securities Training Institute in order to improve qualifications of persons who engage in securities business and to diffuse professional knowledge about securities.

Sub-Section 2 Securities Transactions on the Association Brokerage market

Article 172-2 (Registration with Association)
A juristic person who intends to have the securities as prescribed by Presidential Decree transacted at an Association brokerage market shall register with the Association through a securities company.

Article 172-3 (Adoption and Approval of Regulations)
(1) With respect to the operation of an Association brokerage market, the Association shall provide for the necessary regulations concerning the conditions and procedures for registration at the Association, securities transactions at such market, and other matters as prescribed by Presidential Decree.

(2) Where the Association intends to establish, alter or repeal the regulations referred to in paragraph (1), the Association shall obtain the approval of the Financial Supervisory Commission.

(3) Where the Financial Supervisory Commission intends to grant the approval referred to in paragraph (2), it shall consult in advance with the Minister of Economy and Finance.

SECTION 3 Korea Securities Depository

Article 173 (Establishment)
(1) The Korea Securities Depository (hereinafter referred to as the "Depository") shall be established in order to promote a concentrated deposition of securities, transfer between accounts, and harmonious trading.

(2) The Depository shall be a juristic person.

(3) The Depository shall come into existence by the registration of incorporation at the location of the principal office under the conditions as prescribed by Presidential Decree.

Article 173-2 (Business)
(1) The Depository shall carry on such business as prescribed in the following subparagraphs in order to attain its objective:

1. The business of concentrating the deposit of securities;
2. The business of transferring securities between accounts;
3. The business of depositing securities and transferring securities between accounts through the opening of an account with a foreign juristic person (hereinafter referred to as "foreign depository institution") that carries on business similar to the Depository;
4. Securities transfer agency business (including the agency business for payment of dividend, interest, and redemption of securities and that for issuing securities);
5. Undertaking the safekeeping of securities;
6. Business other than that as referred to in subparagraphs 1 through 5, that is authorized under this Act and other Acts;
7. Business incidental to those as referred to in subparagraphs 1 through 6; and,
8. Businesses as determined by the articles of incorporation other than those as referred to in subparagraphs 1 through 7.

(2) Deleted. *<by Act No. 5736, Feb. 1, 1999>*

Article 173-3 (Prohibition of Carrying on Depositing Business)
No person other than the Depository may carry on any business receiving securities, and settling accounts by means of a transfer between accounts in lieu of giving and receiving such securities.

Article 173-4 (Matters Provided for in Articles of Association)
The articles of incorporation of the Depository shall include the following matters:

1. Objectives;
2. Name;
3. Location of a principal office;

4. Matters relating to stocks and stated capital;
5. Matters relating to the general meeting of stockholders and the board of directors;
6. Matters relating to officers;
7. Matters relating to accounting; and,
8. Method of public notice.

Article 173-5 (Provisions of Commercial Act Applied *Mutatis Mutandis*)
The provisions of the Commercial Act concerning the stock company shall apply *mutatis mutandis* to the depositor unless otherwise prescribed by this Act or any order issued pursuant to this Act.

Article 173-6 (Officers)
(1) The officers of the Depository shall be the president, managing director, director and auditor.

(2) The president shall be appointed by the general meeting of stockholders but the president shall be subject to approval of the Minister of Finance and Economy. (3) The standing auditor shall be appointed by the general meeting of stockholders.

Article 173-7 (Designation of Securities to be Deposited)
(1) The securities that may be deposited at the Depository (hereinafter referred to as "securities to be deposited") shall be designated by the Depository.

(2) Deleted. *<by Act No. 5736, Feb. 1, 1999>*

Article 173-8 (Notification, etc., on Details of Issuance and on Details of Securities Stolen, Lost or Destroyed)
(1) Where an issuer of securities to be deposited newly issues securities, the issuer shall notify the type of such securities and other matters as prescribed by Ordinance of the Ministry of Finance and Economy to the Depository without delay.

(2) Where an issuer of securities to be deposited receives a report that the securities are stolen, lost or destroyed (including public summons and nullification judgments pursuant to the Civil Procedure Act), such issuer shall notify the type of such securities and other matters as prescribed by Ordinance of the Ministry of Finance and Economy to the Depository without delay.

(3) The Depository that has received the notifications pursuant to paragraphs (1) and (2) shall make public the details of such reports.

Article 174 (Deposition to Depository, etc.)
(1) Any person who intends to deposit securities to the Depository shall open an account in the Depository.

(2) Any person who has opened an account pursuant to paragraph (1) (hereinafter referred to as a "depositor") may deposit securities that they hold and securities that have been deposited by customers to the Depository with the consent of the customers.

(3) The Depository shall prepare and keep the depositors' account book in which the following matters are stated, but they shall distinguish between the portion owned by depositors and the portion deposited by customers:
1. Name and address of a depositor;
2. Type and number of securities that are deposited (hereinafter referred to as "deposited securities") and the name of an issuer; and,
3. Other matters as prescribed by Ordinance of the Ministry of Finance and Economy.

(4) The Depository may keep deposited securities in a integrated state by type and item.

(5) In case a depositor or its customer accepts or subscribes for securities or requests issuance of securities based on other grounds, an issuer of securities may, upon a request of the depositor or its customer, issue or register (this refers to a registration pursuant to the State Bond Act or the Registration of Bonds and Debentures Act; hereinafter the same shall apply) securities by the name of the Depository on their behalf.

Article 174-2 (Deposition, etc. to Depositor by Customers)
(1) Any depositor who re-deposits securities deposited by a customer in the Depository shall prepare and keep a customers' account book in which the following matters are stated:
1. Names and addresses of customers;
2. Types and number of deposited securities, and names of issuers; and,

3. Other matters as prescribed by Ordinance of the Ministry of Finance and Economy.

(2) When a depositor has stated matters referred to in paragraph (1), the depositor shall deposit without delay securities in the Depository specifying that such securities are deposited for its customers.

(3) When a depositor has stated matters referred to in paragraph (1), the depositor shall keep the securities separately from the depositor's own securities until the depositor deposits them in the Depository pursuant to paragraph (2).

(4) The securities recorded in the customers account pursuant to paragraph (1) shall be considered deposited in the Depository at the time they are recorded.

Article 174-3 (Effect of Statement in Account Book)
(1) Any person recorded in the customer's account book and the depositors' account book

(2) If a transfer between accounts is recorded in the customers' account book and the depositors' account book for the purpose of transferring or creating a pledge on securities, the statement of transfer shall have the same effect as if the securities had been delivered.

(3) Notwithstanding the provisions of Article 3 (2) of the Trust Act, a trust of deposited securities may withstand a challenge from a third person by stating that they are the trust properties.

(4) In case a transaction of stocks on a securities market or Association brokerage market is settled by means of a transfer between accounts in the customers' account book or the depositors' account book before the stock certificates thereof are issued, notwithstanding the provisions of Article 335 (3) of the Commercial Act, such stocks shall be effective against the issuing company.

Article 174-4 (Presumption of Right, etc.)
(1) Customers of a depositor and the depositor shall be presumed to have co-ownership share on the deposited securities according to the types, items and quantity of securities stated respectively in the customers' account book and the depositors' account book.

(2) Customers or pledgees of a depositor may request at any time that the depositor return the deposited securities corresponding to the co-ownership share to the Depository. In this case, a consent of the pledgee shall be required with respect to the deposited securities that are the object of the right of pledge.

(3) The Depository may, where such causes as prescribed by Presidential Decree occur, restrict the return of the portion deposited by customers among deposited securities under the conditions as designated by Ordinance of the Ministry of Finance and Economy.

Article 174-5 (Liability for Coverage)
(1) Where the deposited securities becomes insufficient, the Depository and the depositor as prescribed in Article 174-2 (2) shall make up such insufficient portion according to the methods and procedure as prescribed by Presidential Decree. In this case, the Depository and the depositor may exercise a right to indemnification to persons who are liable for such insufficiency.

(2) The depositor as referred to in paragraph (1) shall be liable for coverage pursuant to paragraph (1), even after closing an the account as prescribed in Article 174 (1) of this Act: *Provided*, That in case where five years has elapsed from the time at which the account is closed, the depositor's liability shall cease.

Article 174-6 (Exercise of Right to Deposited Securities)
(1) The Depository may exercise the right to the deposited securities according to a request by a depositor or customer. In this case, a request by a customer shall be made through the depositor.

(2) The Depository may request a change of entry in the register or a recordation in its own name with respect to the deposited securities.

(3) With respect to stocks for which the entry in the register is changed in the name of the Depository pursuant to paragraph (2), the Depository may exercise the right as a stockholder as to matters as prescribed in

Article 358-2 of the Commercial Act, as to statements in the register of stockholders and as to stock certificates, even though there is no request by the depositor.

(4) In case a company issuing stock certificates makes a notification or public notice of a convening a general meeting of stockholders, stockholders holding stock certificates for which the entry in the register has been changed in the name of the Depository, the company shall also notify personally or publicly the particulars concerning how the Depository exercised its voting rights as referred to in paragraph (5).

(5) If a stockholder holding stock certificates for which the entry in the register has been changed in the name of the Depository fails to express their intention to exercise directly or by proxy or not to exercise their voting right to the Depository not later than five days before the date of the general meeting of stockholders, the Depository may exercise such voting right: *Provided*, That the same shall not apply to the following cases:

1. Where a company issuing the stock certificates fails to make a notification or public notice on how the Depository exercised their voting rights pursuant to paragraph (4);
2. Where a company issuing the stock certificates requests the Financial Supervisory Commission to prevent the Depository from exercising its voting right;
3. Where subject matters of the general meeting of stockholders fall under any matters as prescribed in Articles 374, 438,518, 519, 522, 530-3 and 604 of the Commercial Act; and,
4. Where a stockholder concerned exercises directly or by proxy its voting right at the general meeting of stockholders.

(6) Matters necessary for the notification to stockholders by the issuing company and the exercise of voting right by the Depository, etc., pursuant to paragraphs (4) and (5) shall be determined by Presidential Decree.

Article 174-7 (Exercise of Right by Beneficial Owner, etc.)

(1) Co-owners of stock certificates of deposited securities (hereinafter referred to as a "beneficial owner") shall be considered to hold stocks equivalent to the co-ownership shares as prescribed in Article 174-4 (1) in exercising their rights as a stockholder.

(2) A beneficial owner may not exercise the right as prescribed in Article 174-6 (3): *Provided*, That the same shall not apply with respect to a notification to stockholders by a company, and an inspection or copy of the stockholders' register as prescribed in Article 396 (2) of the Commercial Act.

(3) When a company issuing stock certificates of deposited securities has fixed a certain period or date pursuant to Article 354 of the Commercial Act, the company shall notify the Depository of such fact without delay; and the Depository shall notify the company issuing the stock certificates concerned or the company that act as an agent in changing the entry in the register of the matters referred to in the following subparagraphs with respect to beneficial owners on the first day of the period or on the date (hereinafter referred to as "fixed date for the closing of register of stockholders") without delay:

1. Name and address; and,
2. Types and number of stocks as prescribed in paragraph (1).

(4) The Depository may request a depositor as prescribed in Article 174-2 (1) of this Act to notify matters as referred to in subparagraphs of paragraph (3) with respect to beneficial owners on the fixed date for the closing of the stockholders' register. In this case, the depositor, upon receiving the request, shall notify it without delay.

(5) The provisions of paragraphs (3) and (4) shall apply *mutatis mutandis* where the issuer of stocks whose tender offer statement was submitted requests the Depository to communicate matters on beneficial owners in order to determine the stock ownership status on a specified date.

Article 174-8 (Preparation of Register of Beneficial Owners, etc.)

(1) Any issuing company or company that act as an agent in changing the entry in the register shall, upon receiving a notification pursuant to Article 174-7 (3) of this Act, prepare and keep a register of beneficial owners, stating therein the notified matters and the date of notification.

(2) Any statement in a register of beneficial owners relating to stocks certificates that are deposited in the Depository shall have the same effect as a statement in a stockholders' register.

(3) When an issuing company or a company that acts as an agent to change the entry in the register pursuant to the provisions of paragraph (1) deems that a person stated in a stockholders' register as a stockholder is the same as a person stated in a register of beneficial owners as a beneficial owner, the issuing company or the company that acts as an agent in changing the entry in the register shall combine the number of stocks on the register of stockholders and those on the register of beneficial owners for the exercise of rights as a stockholder.

Article 174-9 (Civil Execution)
Matters necessary for compulsory execution, execution of provisional seizure and provisional disposition, or auction with respect to the deposited securities, shall be determined by the Supreme Court Regulations.

Article 174-10 (Certificate of Beneficial Ownership)
(1) In case a depositor or a customer of depositor requests the Depository to issue a document certifying the deposition of securities (hereinafter referred to as "certificate of beneficial ownership") in order to exercise the right of a stockholder, the Depository may issue the certificate of beneficial ownership under the conditions as prescribed by Ordinance of the Ministry of Finance and Economy. In this case, a request by a customer shall be made through the depositor.

(2) When issuing the certificate of beneficial ownership pursuant to paragraph (1), the Depository shall notify the issuing company concerned of such fact without delay.

(3) Where a Depository or a customer of depositor has filed the certificate of beneficial ownership that is issued pursuant to paragraph (1) to the issuing company, notwithstanding the provisions of Article 337 (1) of the Commercial Act, the depositor or the customer of depositor may withstand a challenge from the issuing company.

Article 174-11 (Special Treatment concerning Deposition in Foreign Depository Institutions)
The provisions of Articles 174-2, 174-5, 174-6 (4) through (6), 174-7 and 174-8 (3) shall not apply to foreign depository institutions: *Provided*, That this shall not apply where any foreign depository institution makes a request for its application.

Article 174-12 (Report and Confirmation, etc.)
The Depository may request a depositor to file a report or data concerning its depositing business, inspect the related accounting books, or confirm the status of custody, etc., of securities kept under the depositor's own custody.

Article 175 (Report on Regulations)
Where the Depository intends to make, change, or repeal the regulations relating to deposition and other business, it shall file a report thereof to the Financial Supervisory Commission.

Article 176 Deleted. *<by Act No. 5736, Feb. 1, 1999>*

Article 176-2 (Control of Securities Certificates)
(1) A listed corporation, Association-registered corporation and company that acts as an agent in changing the entry in the register (referred to a person who obtains a license pursuant to Article 180 (1); hereinafter the same shall apply) shall be subject to the Securities Certificates Handling Regulation as determined by the Depository with respect to printed forms, issuance, retirement, issuance for replacement, effacement, and other matters regarding control of securities certificates.

(2) The Depository may control the printed forms of securities certificates that any listed corporation or Association-registered corporation keeps as spares for issuance of securities (hereinafter referred to as "spare certificates").

(3) The Depository may, if it deems necessary, demand any listed corporation, Association-registered corporation and any company that acts as an agent in changing the entry in the register to submit data regarding

its procedures for handling securities certificates and the control of spare certificates pursuant to paragraph (1) and may direct its employees to confirm the data.

(4) When an unlisted corporation intends to use printed forms pursuant to the Securities Certificates Handling Regulation of the Depository with respect to securities of the corporation concerned, it shall obtain the approval of the Depository. In this case, the provisions of paragraphs (1) through (3) shall apply *mutatis mutandis*.

(5) If any listed corporation becomes an unlisted corporation, the provisions of paragraphs (1) through (3) shall apply *mutatis mutandis* to such corporation until all printed forms pursuant to the Securities Certificates Handling Regulation of the Depository and the certificates issued by using the printed forms are entirely destroyed.

Article 177 Deleted. ***<by Act No. 3945, Nov. 28, 1987>***

Article 178 (Officer and Supervision, etc.)
The provisions of Articles 59 through 61, 74 (2), 80, 81, 83, 117 and 157 shall apply *mutatis mutandis* to the Depository.

SECTION 4 Order Matching Company and Securities Transfer Agent, Etc.

Article 179 (Order Matching Company)
(1) Any person who conducts the business of matching orders of transactions on the securities market shall be a stock company that obtains a license from the Financial Supervisory Commission.

(2) Any person who obtains permission pursuant to paragraph (1) (hereinafter referred to as an "order matching company") may conduct the business of purchasing and selling of securities that is necessary to perform the function of matching orders on the securities market.

(3) Any order matching company shall be subject to inspection by the Stock Exchange with respect to its business and properties.

(4) The provisions of Articles 53, 149, 151 (1), 153, 154, 155 and 158 shall apply *mutatis mutandis* to an order matching company.

Article 180 (Securities Transfer Agent)
(1) A person who may act as a business of changing the entry in a register shall be a stock corporation registered with the Financial Supervisory Commission.

(2) A transfer agent may conduct the business of paying dividends, interests and redemption in connection with securities and issuing securities as an agent.

(3) The provisions of Articles 53, 70-2 (4), 70-11, 149, 151 (1), 153, 154, 155 (2), and 158 shall apply *mutatis mutandis* to a transfer agent.

Article 181 (License and Supervision of Other Organizations relating to Securities)
(1) Any person who intends to establish an organization that is composed of investors in securities, stock-listed corporations, or other persons prescribed by Presidential Decree for the purpose of assuring public interest, protecting investors or maintaining an orderly securities market, shall obtain a license from the Minister of Finance and Economy under the conditions as prescribed by Presidential Decree.

(2) The provisions of Articles 53, 151 (1) and 168 shall apply *mutatis mutandis* to organizations relating to securities that are established with a license pursuant to paragraph (1).

CHAPTER IX CONTROL OF LISTED CORPORATIONS, ETC.

SECTION 1 Disclosure by Listed Corporations, Etc.

Article 182 Deleted. ***<by Act No. 5254, Jan. 13, 1997>***

Articles 183 through 185 Deleted. ***<by Act No. 3541, Mar. 29, 1982>***

Article 186 (Duty of Report and Disclosure of Listed Corporations, etc.)
(1) Where a listed corporation or a corporation registered with the Association falls under any of the following subparagraphs, such corporation shall notify the Financial Supervisory Commission, the Stock Exchange or the Association of such

fact or of the contents of a resolution adopted at the meeting of the board of directors under the conditions as prescribed by Presidential Decree without delay:

1. Where any issued bill or check is dishonored, or when any transaction with a bank is suspended or prohibited;
2. Where the corporation's business is suspended in part or in whole;
3. Where the corporation files a petition for the reorganization (of the corporation) or where the reorganization procedure has actually commenced pursuant to the provisions of relevant laws;
4. Where the objective of the business changes;
5. Where the corporation suffers from enormous damages caused by a disaster;
6. Where a lawsuit that may have great influence upon the listed securities or the securities registered with the Association is filed against the corporation;
7. Where any of the events referred to in Articles 374, 522, 527-2, 527-3 and 530-2 of the Commercial Act occurs;
8. Where causes for dissolution pursuant to the provisions of relevant statutes occur;
9. Where there is a resolution of the board of directors on the increase or decrease of capital;
10. Where the operation is suspended or is unable to be continued due to special causes;
11. Where a correspondent bank assumes control of the corporation concerned;
12. Where there is a resolution of the board of directors, or a decision of the representative director or other person who is prescribed by Presidential Decree with respect to the acquisition and disposal of treasury stocks; and,
13. Where a fact occurs, as prescribed by Presidential Decree that has serious effects on the management and properties, etc., of the corporation other than subparagraphs 1 through 12;

(2) The Stock Exchange or the Association may, if it is necessary for the fair transaction of securities and the protection of investors, request a listed corporation or a corporation registered with the Association to confirm as to whether a rumor and news concerning such listed corporation or such corporation registered with the Association is true or not; and the Stock Exchange may, if the price or the trading volume of securities issued by a listed corporation significantly changes, request a listed corporation to disclose as to whether there is important information as prescribed in Article 188- 2. In this case, such corporation shall comply with this request without delay, except where it is difficult to make such disclosure due to other statutes or subordinate statutes, natural disaster or by other reasons similar thereto.

(3) If a listed corporation fails to discharge faithfully the duty to report pursuant to paragraph (1) or to comply with a request for confirmation or disclosure pursuant to paragraph (2), the Stock Exchange shall inform this to the Financial Supervisory Commission so as to take measures as prescribed in the provisions of Article 193.

(4) The provisions of Articles 8 (2), 14 through 16 shall apply *mutatis mutandis* to reports pursuant to the provisions of paragraph (1).

(5) Where the Financial Supervisory Commission, the Stock Exchange or the Association deems it necessary to promptly inform an investor of the contents of the matters listed in paragraph (1) 1, 3, 6, 8 and 11 and matters requested to be confirmed or disclosed under paragraph (2) as they threaten to have important effects on the investors' judgment to invest, it may request any administrative agency or other related agencies to provide or exchange necessary information pursuant to Presidential Decree. In this case, the agency that receives such request shall cooperate with it unless there exists any special cause.

Article 186-2 (Submission of Annual Business Report, etc.)

(1) A stock-listed corporation, Association-registered corporation or corporations as prescribed by Presidential Decree shall submit an annual business report to the Financial Supervisory Commission and, the Stock Exchange or the Association, as the case may be, within 90 days after the lapse end of each business year: *Provided*, That the same shall not apply to the case as prescribed by Presidential Decree.

(2) The objective, trade name, contents of business and matters concerning finance of a corporation and other matters as prescribed by Presidential Decree shall be stated in the

annual business report as provided under paragraph (1).

(3) Where a corporation must submit an annual business report as provided under paragraph (1) for the first time, it shall promptly (by the time limit for submission, where a corporation is subject to submission of an annual business report during the period to submit the business report referred to in paragraph (1)) submit an annual business report of the immediately preceding business year to the Financial Supervisory Commission and the Stock Exchange or the Association: *Provided*, That this shall not apply where the corporation has already disclosed the matters equivalent to the annual business report of the immediately preceding business year through a registration statement, etc., of the securities.

(4) The annual business report pursuant to paragraph (1) shall be prepared in accordance with such method and form determined by Ordinance of the Financial Supervisory Commission by type and line of business.

(5) Where a corporation that has to submit an annual business report pursuant to paragraph (1) is a company affiliated with a conglomerate group that has to prepare conglomerate group combined financial statements pursuant to Article 1-3 of the Act on External Audit of Stock Companies, it shall submit conglomerate group combined financial statements as prescribed by subparagraph 3 of Article 1-2 of the same Act to the Financial Supervisory Commission and the Stock Exchange or the Association within six months from the end of a business year.

Article 186-3 (Submission of Semiannual Report)
A corporation that must submit an annual report pursuant to the provisions of Article 186-2 (1) shall submit a business report for 6 months from the beginning of a business year (hereinafter referred to as a "semiannual business report") and a business report for both 3 months and 9 months from the beginning of a business year to the Financial Supervisory Commission and the Stock Exchange or the Association, as the case may be, within 45 days after the end of the period.

Article 186-4 (Special Treatment concerning Foreign Corporations, etc.)
Notwithstanding the provisions of Articles 186-2 and 186-3, different regulations, such as providing for different period of submission, etc., may apply with respect to a foreign corporation, etc., under the conditions as prescribed by Presidential Decree.

Article 186-5 (Provisions Applied *Mutatis Mutandis*)
The provisions of Articles 8 (2), 11 (1) through (3), 14 through 16, 18, 19 through 20 shall apply *mutatis mutandis* to the annual business report, semiannual business report, and quarterly business report.

Article 187 Deleted. *<by Act No. 5254, Jan. 13, 1997>*

SECTION 2 Prohibition of Unfair Trade, etc.

Article 188 (Disgorgement of Short Swing Profits of Insider, etc.)
(1) Officers, employees or major stockholders of a stock-listed corporation or Association-registered corporation (referring to those who hold stocks or contribution certificates of 10/100 or more of the total number of voting stocks issued and outstanding or contributions for their own account regardless of the title thereof, and those who are prescribed by Presidential Decree; hereinafter the same shall apply) shall not sell certificates of stocks (including contribution certificates), convertible bonds, bonds with warrants, warrants and securities as prescribed by Ordinance of the Ministry of Finance and Economy. (hereinafter referred to as "stock certificates, etc.") of a corporation listed on the Stock Exchange or registered with the Association, unless they own such stock certificates, etc.

(2) Where officers, employees or major stockholders of a stock-listed corporation or Association-registered corporation gain any profit by selling stock certificates, etc., of the corporation concerned within six months after purchasing them, or by purchasing such stock certificates within six months after selling them, the corporation concerned may request such officers, employees or major stockholders of a stock-listed corporation to give such profit to the corporation. In this case, necessary matters relating to standards for calculation of such profit and procedures for return, etc., shall be determined by

Presidential Decree.

(3) Stockholders of the corporation concerned or the Securities Futures Commission may demand such corporation to make the request pursuant to the provisions of paragraph (2), and such stockholders or the Securities Futures Commission may, unless the corporation concerned makes such request within two months after the date on which such stockholders or the Securities Futures Commission have demanded such request, make such request by subrogating the corporation concerned.

(4) When stockholders or the Securities Futures Commission instituting a legal action according to the provisions of paragraph (3) prevail, the Securities Futures Commission or such stockholders may claim the legal costs and other actual expenses actually incurred in the legal action against the corporation concerned.

(5) The right referred to in paragraphs (2) and (3) shall lapse, unless the right is exercised within two years after the date on which such profit is gained.

(6) Any officer or major stockholder of a stock-listed corporation or Association-registered corporation shall report the situation of such stocks of the corporation concerned, that they hold for their own account regardless of the title thereof to the Securities Futures Commission, and the Stock Exchange or the Association under the conditions as designated by Presidential Decree within ten days after that person becomes an officer or major stockholder; and if the number of stocks held by that person changes, that person shall report such fact to the Securities Futures Commission and the Stock Exchange or the Association under the conditions as designated by Ordinance of the Ministry of Finance and Economy within the 10th day of the month following the month in which such change occurs is included.

(7) The Securities Futures Commission and the Stock Exchange or the Association shall keep the registration statement pursuant to paragraph (6), and shall make it available for public inspection.

(8) The provisions of paragraph (2) shall not apply in such case as prescribed by Presidential Decree taking into consideration of the nature of selling or purchasing that was carried out in the capacity of an officer, employee or major stockholder, and in such case where a major stockholder does not hold such capacity at a time when that person sells or purchases stocks.

(9) The provisions of paragraph (2) or (3) shall apply *mutatis mutandis* to a securities company that makes arrangements for a public offering of new or outstanding securities or underwrites stocks issued by a stock-listed corporation or Association-registered corporation during the period as determined by Presidential Decree.

Article 188-2 (Prohibition of Using Nonpublic Information)

(1) Any person who is informed of material nonpublic information in relation with affairs, etc., of a listed corporation or Association-registered corporation (including corporations listed or registered with the Association within six months) in the course of performing their duties, from among those who fall under any of the following subparagraphs (including those for whom one year has not passed after they do not to fall under any of subparagraphs 1 through 5 of this paragraph), and those who are informed of such information from that person, shall not use or have another person use such information in connection with the sale and purchase or any other transaction of securities issued by the corporation concerned:

1. The corporation concerned and its officers, employees and agents;
2. Major stockholders of the corporation concerned;
3. A person who has the authority pursuant to statutes or subordinate statutes of permission, approval, direction, supervision or other authorities with respect to the corporation concerned;
4. A person who entered into a contract with the corporation concerned; and,
5. An agent and other employees of a person who falls under any of subparagraphs 2 through 4 (in case a person who falls under any of subparagraphs 2 through 4 is a corporation, officers, employees and agents of such corporation).

(2) The term "material nonpublic information " in paragraph (1) means information that

may have an important effect on investors' judgment on investment and has not yet been yet to the public by the corporation concerned that a large number of persons may be informed thereof under the conditions as prescribed by Ordinance of the Ministry of Finance and Economy from among any information on facts, etc., falling under any subparagraph of Article 186 (1).

(3) The provisions of paragraphs (1) and (2) shall apply *mutatis mutandis* to the case of performing a tender offer pursuant to Article 21. In this case, the term "the corporation concerned" in the main sentence of paragraph (1) shall be considered as the term "issuer of securities that are subject to a tender offer"; the term "material information," as the term "information on carrying out or preventing a tender offer"; and the term "the corporation concerned" in each subparagraph of paragraph (1), as the term "tender offerer".

Article 188-3 (Liability for Damages against Using Undisclosed Information)
(1) Any person who violates the provisions of Article 188-2, shall be liable for damages that a person who has made a purchase of securities and sale or other transaction suffers from that transaction.

(2) The claim for damages pursuant to paragraph (1) shall be extinguished by prescription, unless a claimant exercises such claim for damages within one year after the claimant is informed of the fact that an act in violation of the provisions of Article 188-2 has been committed or within three years after the offense has taken place.

Article 188-4 (Prohibition of Unfair Transaction such as Market Manipulation)
(1) No person shall do any acts that fall under any of the following subparagraphs for the purpose of creating a misleading appearance of active trading or causing any person to make a false judgment with respect to the transaction of securities listed on the securities market or registered on the Association brokerage market:

1. Selling securities after a person has conspired in advance with another person that the other person will purchase the securities at the same time and at the same price that the person sells the securities ;
2. Purchasing securities after a person has conspired in advance with another person that the other person will sell the securities at the same time and at the same price that the person purchases the securities ;
3. Fictitious transactions that do not accompany the transfer of ownership in a securities transaction; and,
4. Entrusting or being entrusted with actions as prescribed in subparagraphs 1 through 3 of this paragraph.

(2) No person shall do any acts which fall under any of the following subparagraphs for the purpose of inducing the transaction on a securities market or Association brokerage market:

1. To effect, to entrust or to be entrusted with, alone or in conspiracy with other persons, transactions in the securities, creating a false or misleading appearance of active trading or making the price of such securities fluctuate;
2. Disseminating rumors that the price of a concerned securities fluctuates as a result of their own or another person's market manipulation; and,
3. Willfully making representations that are false or misleading with respect to important matters in selling or purchasing the concerned securities.

(3) No person shall effect, entrust or to be entrusted with, independently or jointly, transactions on the securities market or Association brokerage market for the purpose of pegging or stabilizing the price of securities in violation of the conditions as prescribed by Presidential Decree.

(4) With respect to purchases and sales or other transaction of securities, no person shall commit an act that falls under any of the following subparagraphs:

1. Disseminating intentionally false quotations or untrue facts or other rumors or using a deceptive scheme for the purpose of gaining unjust benefits; and,
2. Intending to gain money or other benefits that has property value by inducing misunderstanding by other persons through false representations of any material facts or making use of documents in which a necessary fact is omitted.

Article 188-5 (Liability for Damages

against Market Manipulation)
(1) A person who violates the provisions of Article 188-4 shall be liable for damages that a person who has effected a securities transaction or has entrusted a securities transaction on a securities market or Association brokerage market at the price formed due to such violative act suffers from such transaction or entrustment.

(2) The claim for damages pursuant to paragraph (1) shall be extinguished by prescription, unless a claimant exercises such claim for damages within one year after the claimant is informed of the fact that an act in violation of the provisions of Article 188-4 is committed or within three years after the offense has taken place.

SECTION 3 Special Treatment for Listed Corporation, Etc.

Article 189 Deleted. ***<by Act No. 5736, Feb. 1, 1999>***

Article 189-2 (Acquisition of Treasury Stocks)
(1) Any stock-listed corporation or any corporation registered with the Association shall acquire treasury stocks (excluding the acquisition under the provisions of Article 341 of the Commercial Act) in a manner falling under any of the following subparagraphs under its name and for its own account. In this case, the acquisition amount shall be an amount as determined by Presidential Decree within the limit of allowing any dividend in accordance with the provisions of Article 462 (1) of the Commercial Act:

1. A manner in which the acquisition is made on the securities market or the Association brokerage market; and,
2. A manner in which the open purchase is made in accordance with the provisions of Chapter IV

(2) Where a stock-listed corporation or a corporation registered with the Association acquires treasury stocks through a money trust contract as prescribed by Presidential Decree, an amount calculated according to what is prescribed by Presidential Decree shall be deemed the acquisition amount as described in the provisions of the later part of paragraph (1).

(3) Where a stock-listed corporation or Association-registered corporation acquires treasury stock pursuant to paragraphs (1) and (2) or intends to dispose of treasury stock acquired pursuant to paragraphs (1) and (2), it shall report the matters relating to the acquisition or disposal of such treasury stock to the Financial Supervisory Commission and, the Stock Exchange or the Association according to the criteria as prescribed by Presidential Decree, such as the necessary conditions and procedures, etc.

(4) Where a stock-listed corporation or Association-registered corporation owns the treasury stock in excess of the limit as referred to in paragraph (1) due to a reduction of the limit to distribute the dividend, the stock-listed corporation shall dispose of the excessive portion within such period as prescribed by Presidential Decree from that day.

(5) The provisions of Articles 14 (1), 15, 16, 19 and 20 shall apply *mutatis mutandis* in the case of acquiring or disposing of treasury stock.

(6) The provisions of Article 341-2 (1) of the Commercial Act shall not apply to the case where a stock-listed corporation or a corporation registered with the Association acquires treasury stock pursuant to the provisions of paragraph (1).

Article 189-3 (Capital Increase by Public Offering)
(1) A stock-listed corporation or Association-registered corporation may issue new stocks by public offering as prescribed by Presidential Decree by a resolution of the board of directors in accordance with the articles of incorporation of the corporation.

(2) In case new stocks are issued by a public offering pursuant to paragraph (1), the price of new stock shall be not less than the price calculated by the methods as prescribed by Presidential Decree.

Article 189-4 (Stock Options)
(1) Notwithstanding the provisions of Article 340-2 through Article 340-5 of the Commercial Act, any stock-listed corporation or any corporation registered with the Association shall as prescribed by the articles

of incorporation offer newly issued stocks at a pre-determined price or as prescribed by Presidential Decree grant the right to purchase its stocks in accordance with the provisions of this Article to its officers and employees (excluding any officer or employee prescribed by Presidential Decree) who have contributed or are able to contribute to the establishment, management and to the technological innovations, etc., of such corporation a resolution (hereinafter in this Article referred to as a "special resolution") adopted in accordance with the provisions of Article 433 of the Commercial Act.

(2) Any stock-listed corporation or a corporation registered with the Association (hereinafter referred to as the "stock option granting corporation") that intends to grant stock options shall enter matters falling under each of the following subparagraphs in its articles of incorporation:

1. The fact that a corporation may grant stock options in certain cases;
2. Types and total number of stocks to be issued through the exercise of stock options;
3. Qualifications of a person who is to be granted stock options; and,
4. The fact that a corporation may cancel stock options in certain cases.

(3) Total limit of stocks to be granted by special resolution and such other matters determined by such special resolution, including the names of persons who are granted stock options and the option price, shall be prescribed by Presidential Decree.

(4) stock options under paragraph (1) may be exercised after the lapse of three years from the date on which a resolution thereof is adopted, and stock options shall be exercisable against the corporation concerned during the period from the date of resolution to the date on which the exercise of stock options expires. In this case, any person who has been granted stock options may exercise such stock option only after that person holds office or works for not less than 2 years from the date of resolution under paragraph (1) except as otherwise prescribed by Ordinance of the Ministry of Finance and Economy.

(5) stock options shall not be transferred to other persons: *Provided*, That when a person who has been granted stock options dies, a successor of the person shall be deemed to be granted such option.

(6) The provisions of Articles 340-3 (3), 350 (2), the latter part of 350 (3), 351, 516-8 (1), (3) (4) and the former part of 516-9 of the Commercial Act shall apply *mutatis mutandis* to the case in which new stocks are issued by the exercise of stock options.

(7) The Financial Supervisory Commission may give necessary recommendations to a corporation granting stock options under the conditions as prescribed by Presidential Decree.

(8) A corporation granting stock options shall, when making a resolution pursuant to paragraph (1), report such fact to the Financial Supervisory Commission and the Stock Exchange under the conditions as prescribed by Presidential Decree, and the Financial Supervisory Commission and the Stock Exchange shall keep the registration statement during the period from the date of report to the end of the duration of the stock options and shall make it available for public inspection.

(9) Matters necessary for stock options other than those provided in paragraphs (1) through (8) shall be prescribed by Presidential Decree.

Article 190 (Merger of Stock-Unlisted Corporation)

In case of a merger between a stock-listed corporation and a stock-unlisted corporation, the approval by a general meeting of stockholders pursuant to Article 522 of the Commercial Act shall not take effect unless it is made after two months from the date on which the stock-unlisted corporation has registered pursuant to Article 3.

Article 190-2 (Merger, etc.)

(1) A stock-listed corporation or Association-registered corporation shall, where it intends to merge with other corporations, report to the Financial Supervisory Commission and the Stock Exchange or the Association. In this case, the stock-listed corporation shall report the matters relating to the merger according to standards for merger conditions such as the requirements and procedures as prescribed by Presidential Decree.

(2) The provisions of paragraph (1) shall apply *mutatis mutandis* where a stock-listed corporation or Association-registered corporation intends to spin-off or do a spin-off merger, or transfer or take over important business as prescribed by Presidential Decree.

(3) The provisions of Articles 8 (2), 14 through 16, 19 and 20 shall apply *mutatis mutandis* in case of a report under paragraphs (1) and (2).

Article 191 (Appraisal Rights of Stockholders)

(1) A stockholder (including stockholders who has no voting right pursuant to Article 370 (1) of the Commercial Act; hereinafter the same shall apply in this Article) who opposes a resolution made at the meeting of the board of directors of a stock-listed corporation with regard to the matters under Articles 374, 522, 527-2 and 530 of the Commercial Act (limited to a spin-off merger by referred to in Article 530-2 of said Act) may demand that the corporation concerned purchase the stocks that the stockholder owns within twenty days after the date on which such resolution is made at the general meeting of stockholders (the date on which two weeks have passed since the public notice or notification referred to in Article 527-2 (2) of the Commercial Act for stockholders of a company to be extinguished referred to in Article 527-2 of the said Act) by a written request that states the class and number of stocks, only if the stockholder has made written notification that the stockholder opposes the resolution of the corporation concerned prior to the general meeting of stockholders (within two weeks from the date on which a public notice or notification under Article 527-2 (2) of the Commercial Act for stockholders of a company to be extinguished under Article 527-2 of the same Act).

(2) A stock-listed corporation that has received a demand pursuant to paragraph (1) shall purchase the stocks concerned within one month after the expiration of the period of the demand for purchase.

(3) The purchase price under paragraph (2) shall be determined by consultation between the stockholder concerned and the corporation concerned: *Provided*, That the purchase price shall, where a purchase agreement has not been concluded, be an amount calculated through the methods as prescribed by Presidential Decree based on the transaction values of the stocks concerned traded on the securities market prior to the date of the board of directors' resolution, and where the corporation concerned or 30/100 or more of the total number of stockholders who have demanded such purchase object to this purchase price, the Financial Supervisory Commission may adjust it. In this case, an application for adjusting the purchase price shall be made ten days prior to the date on which such a purchase is to be finalized pursuant to paragraph (2).

(4) A stock-listed corporation shall, where it purchases stock pursuant to paragraph (1), dispose of them within a period as prescribed by Presidential Decree.

(5) Where a stock-listed corporation makes notification or public notice for the convening of a general meeting of stockholders in order to resolve the matters prescribed in Articles 374, 522 and 530-3 of the Commercial Act (limited to spin-off mergers referred to in Article 530-2 of the said Act) or makes notification or public notice pursuant to Article 527-2 (2) of the Commercial Act under the conditions as prescribed by Article 363 of the Commercial Act, it shall specify the contents and exercising method of appraisal rights of stockholders pursuant to paragraph (1). In this case, a stock-listed corporation shall notify stockholders without voting rights pursuant to Article 370 (1) or give a public notice thereof to them.

Article 191-2 (Special Treatment of Nonvoting Stocks)

(1) In applying the limit on the number of nonvoting stocks pursuant to Article 370 (2) of the Commercial Act, where a stock-listed corporation (including a corporation that makes a public offering of new or outstanding stocks for the purpose of listing them initially) or an Association-registered corporation (including a corporation that makes a public offering of new or outstanding stocks for the purpose of trading them initially on the Association brokerage market) falls under any of the following subparagraphs, the nonvoting stocks issued by such corporation shall not be counted in the calculation of the limit:

1. Where such corporation issues stocks in

a foreign country as prescribed by Ordinance of the Ministry of Finance and Economy or issues stocks as a result of the exercise of the rights upon convertible bonds, bonds with warrants or any other certificates or instruments related to stocks issued in a foreign country; and,

2. Where a corporation that is deemed necessary to issue nonvoting stocks in the public interest by the Financial Supervisory Commission and satisfies the criteria as prescribed by Presidential Decree from among corporations engaging in an important industry for the national economy, such as key national industries, issues stocks.

(2) The aggregate number of nonvoting stocks falling under any subparagraph of paragraph (1) and those pursuant to Article 370 (2) of the Commercial Act shall not exceed 1/2 of the total number of issued and outstanding stocks.

(3) A corporation of which the total number of nonvoting stocks exceeds 1/4 of the total number of issued and outstanding stocks may issue nonvoting stocks within that amount, by means of exercising preemptive rights, capitalization of reserve or stock dividend, etc., as prescribed by Presidential Decree.

Article 191-3 (Special Treatment of Stock Dividend)

(1) Notwithstanding the proviso of Article 462-2 (1) of the Commercial Act, a stock-listed corporation or Association-registered corporation may grant a dividend by newly issuing stock up to the limit of the total amount of dividend: *Provided*, That in case the current price of the concerned stock is less than par value thereof, the same shall not apply.

(2) The method of calculating the price of stock pursuant to paragraph (1) shall be prescribed by Presidential Decree.

Article 191-4 (Issuance of New Type Corporate Bonds)

(1) A stock-listed corporation or Association-registered corporation may issue new types of bonds that are different from those under Articles 513 (1) and 516-2 (1) of the Commercial Act such as bonds entitled to participate in dividends, bonds with rights to demand an exchange with stocks or other securities, or other bonds as prescribed by Presidential Decree.

(2) Necessary matters such as the contents or method of issuance of bonds issued pursuant to the provisions of paragraph (1) shall be prescribed by Presidential Decree.

Article 191-5 (Special Treatment of Issuance of Bonds)

The portion that can be converted into stocks or which preemptive rights can be exercised among the convertible bonds or bonds with warrants that are issued by a stock-listed corporation or Association-registered corporation shall not be subject to the limits of the issuance of bonds pursuant to the provisions of Article 470 of the Commercial Act.

Article 191-6 (Special Treatment of Dividend by Public Corporation)

(1) In paying dividend of profits or interest, a public corporation (referring to a public corporation pursuant to the provisions of Article 199 (2) of this Act) may, notwithstanding the provisions of Article 464 of the Commercial Act, pay all or part of the dividends to which the Government is entitled to persons who fall under any of the following subparagraphs from among stockholders of the concerned corporation under the conditions as prescribed by Presidential Decree:

1. Employees who are members of an employee stock ownership association of the corporation that issued the stocks concerned; and,
2. Any person as prescribed by Presidential Decree, taking into consideration their yearly income level and amount of property owned, etc.

(2) In capitalizing all or a part of a reserve, a public corporation may, notwithstanding the provisions of Article 461 (2) of the Commercial Act, issue stocks, to which the Government is entitled for all or in part to stockholders who hold stocks issued by the public corporation for a period as prescribed by Presidential Decree.

Article 191-7 (Preferential Allocation to Member of Employee Stock Ownership Association)

(1) In case a stock-listed corporation or a corporation that intends to list stocks publicly

offers or sells its stocks, members of a employee stock ownership association of such corporation shall have the right to be allocated preferentially such stocks within the limit of 20/100 of the total number of stocks to be offered or sold: *Provided*, That where it falls under any of the following subparagraphs, this shall not apply:

1. A case where a corporation as prescribed by Presidential Decree from among foreign-invested enterprises pursuant to the Foreign Investment Promotion Act issues stocks; and,
2. Other cases prescribed by Presidential Decree such as where preferential allocation to member of employee stock ownership association is difficult.

(2) Where the number of stocks owned by members of employee stock ownership association is more than 20/100 of the total number of stocks issued newly and stocks to have been issued already, paragraph (1) shall not apply.

(3) The Minister of Finance and Economy may determine the criteria necessary for the stock dividends for members of a employee stock ownership association pursuant to paragraph (1) and for the disposal of such stocks.

Article 191-8 (Payment of Deposit with Listed Securities, etc.)
(1) Deposit or deposit money as prescribed by Presidential Decree from among those which are to be paid to the State, a local government or a government-invested institution pursuant to the Framework Act on the Management of Government-Invested Institutions (hereinafter referred to as a "government-invested institution") may be paid with listed securities (including securities registered with the Association pursuant to Article 172-2; hereinafter the same shall apply in this Article).

(2) The State, a local government or a government-invested institution may not refuse a payment with listed securities pursuant to paragraph (1).

(3) The listed securities that are eligible for payment to the State, local government or government-invested institution pursuant to paragraph (1) and the valuation standard of such securities shall be prescribed by Presidential Decree.

Article 191-9 Deleted. *<by Act No. 6176, Jan. 21, 2000>*

Article 191-10 (Public Notice on Convocation of General Meeting)
(1) In case a stock-listed corporation or Association-registered corporation convenes a general meeting of stockholders, with respect to stockholders who hold stocks not more than the number as prescribed by Presidential Decree, the notice of (convocation) convening pursuant to Article 363 (1) of the Commercial Act may be substituted by setting the date of a general meeting of stockholders under the conditions as prescribed by the articles of incorporation of the corporation and giving two or more public notices concerning the convening of a general meeting of stockholders and the subject matters of the meeting two or more daily newspapers at least two weeks before the date of the general meeting of stockholders.

(2) A stock-listed corporation or Association-registered corporation shall, in case it gives a notice of convocation of a general meeting of stockholders or a public notice thereof, give a notice or public notice of such (matters for reference) reference matters relating to the management of the corporation as prescribed by Presidential Decree or keep them at the place as determined by Ordinance of the Ministry of Finance and Economy.

Article 191-11 (Appointment and Dismissal of Auditor)
(1) Where the total number of voting stocks of a stock-listed corporation or Association-registered corporation owned by the largest shareholder and their specially related persons or other persons as prescribed by Presidential Decree exceeds 3/100 of the total number of issued and outstanding stocks of such corporation (in case the articles of incorporation of the corporation designates a ratio lower than 3/100, such ratio shall apply), such stockholders shall not exercise their voting rights for those stocks exceeding such ratio in the appointment or dismissal of an auditor or a member of the audit committee (limited to any member who is not an outside director).

(2) Where a stock-listed corporation or

Association-registered corporation proposes to appoint an auditor or determine the remuneration of an auditor as an agenda matter for a general meeting of stockholders, they should propose and resolve such agenda matters separately from an appointment of a director or for determination of remuneration for a director.

(3) An auditor or a member of the audit committee of a stock-listed corporation or Association-registered corporation may, notwithstanding Article 447-4 (1) of the Commercial Act, submit an audit report to the directors until one week before the date of general meeting of stockholders.

Article 191-12 (Qualifications for Auditor)
(1) A stock-listed corporation or Association-registered corporation as prescribed by Presidential Decree shall appoint one or more standing auditors: Provided That the same shall not apply to the case in which an audit committee is established in accordance with this Act or other Acts.

(2) Deleted. *<by Act No. 5736, Feb. 1, 1999>*

(3) A person who falls under any of the following subparagraphs shall not become a standing auditor of a stock-listed corporation or Association-registered corporation, and any auditor of a stock-listed corporation who falls under any of the following subparagraphs shall lose their office:

1. A minor, an incapacitated person or quasi-incapacitated person;
2. A bankrupt person who has not been reinstated yet;
3. A person who has been sentenced to a punishment heavier than imprisonment without prison labor, and two years has not elapsed since the execution of such punishment has terminated or since the final judgment was rendered that the punishment on such person would not be executed;
4. A person who was discharged or dismissed from a stock-listed corporation, and two years has not elapsed since the date of such discharge or dismissal under this Act;
5. A major stockholder of the corporation concerned;
6. A full-time officer or employee of the corporation concerned or a person who has been a full-time officer or employee thereof in the last two years; and,
7. A person who is capable of having influence on the management of the corporation concerned other than those under subparagraphs 5 and 6 and who is prescribed by Presidential Decree.

Article 191-13 (Exercise of Minority Stockholders' Rights)
(1) A person who has held 1/10,000 or more of the total number of issued and outstanding shares of a stock-listed corporation or Association- registered corporation for six months as prescribed by Presidential Decree may exercise the stockholder's rights prescribed in Article 403 (including where it is applicable *mutatis mutandis* under Articles 324, 415, 424-2, 467-2 and 542 of the Commercial Act) of the Commercial Act.

(2) A person who has held 50/10,000 or more (in case of a corporation as prescribed by Presidential Decree, 25/10,000) of the total number of issued and outstanding shares of a stock-listed corporation or Association-registered corporation for six months as prescribed by Presidential Decree may exercise the stockholder's rights prescribed in Article 385 (including cases applied *mutatis mutandis* under Article 415 of the Commercial Act) of the Commercial Act.

(3) A person who has held 10/1000 or more (in case of a corporation as prescribed by Presidential Decree, 5/1000 or more) of the total number of issued and outstanding shares of a stock-listed corporation or Association-registered corporation for six months as prescribed by Presidential Decree may exercise the stockholder's rights prescribed in Article 466 of the Commercial Act.

(4) A person who has held 30/1000 or more (in case of a corporation as prescribed by Presidential Decree, 15/1000 or more) of the total number of issued and outstanding shares of a stock-listed corporation or Association-registered corporation for six months as prescribed by Presidential Decree may exercise the stockholder's rights prescribed in Articles 366 and 467 of the Commercial Act. In this case, when a person exercises the stockholder's rights prescribed in Article 366 of the Commercial Act, the number of shares shall be calculated based on voting shares.

(5) When a stockholder pursuant to paragraph

(1) of this Article institutes a legal action as prescribed in Article 403 (including where it is applicable *mutatis mutandis* under Articles 324, 415, 424-2, 467-2 and 542 of the Commercial Act) and prevails in such legal action, the stockholder may request the payment of the costs of the legal action and all other costs resulting from such legal action.

Article 191-14 (Stockholder's Proposal)
(1) A person who has 10/1000 or more (in case of a corporation as prescribed by Presidential Decree, 5/1000 or more) of the total number of issued and outstanding shares of a stock-listed corporation or Association-registered corporation for six months as prescribed by Presidential Decree may propose to the directors that such directors place certain matters as agenda matters of the general meeting of stockholders under the conditions as prescribed by Presidential Decree (hereinafter referred to as "stockholder's proposal").

(2) Any person who makes a proposal as a shareholder pursuant to the provisions of paragraph (1) may ask directors to enter the summary of their proposal in a publication and a notice thereof in accordance with the provisions of Article 363 of the Commercial Act in addition to matters to be placed on the agenda of a general meeting of shareholders on the conditions as prescribed by Presidential Decree.

(3) The board of directors shall submit stockholder's proposals before the general meeting of stockholders as the agenda matters thereof, except where the contents of the stockholder's proposal violate statutes or subordinate statutes, the articles of incorporation or in the case as prescribed by Presidential Decree, and where a person who makes a stockholder's proposal requests, the board of directors shall give that person an opportunity to explain the concerned proposal at the general meeting of stockholders.

Article 191-15 (Special Cases for Issuance Below Par Value)
(1) Notwithstanding the provisions of Article 417 of the Commercial Act, a stock-listed corporation may issue stock below par value only by a resolution of the general meeting of stockholders under Article 434 of the Commercial Act without authorization of a court: *Provided,* That this shall not apply where the corporation concerned fails to complete a redemption under Article 455 (2) of the Commercial Act.

(2) The minimum issue value for stock shall be determined by a resolution of the general meeting of stockholders under paragraph (1). In this case, the minimum issue value shall be higher than the price calculated according to the methods as determined by Presidential Decree.

(3) Except as otherwise determined by the general meeting of stockholders, stock under paragraph (1) shall be issued within one month from the date on which a resolution of the general meeting of stockholders is made.

Article 191-16 (Appointments of Outside Directors)
(1) Stock-listed corporations must make outside directors not less than one fourth of the total number of directors: Provided, That certain stock-listed corporations as prescribed by Presidential Decree must have not less than three outside directors, but must make the number of such outside directors not less than half of the total number of directors.

(2) The provisions of paragraph (1) shall not apply to a stock-listed corporation that is a securities investment company incorporated pursuant to the Securities Investment Company Act.

(3) The provisions of Article 54-5 (4) and (5) shall apply *mutatis mutandis* to any outside director of a stock-listed corporation referred to in paragraph (1) and the provisions of Article 54-5 (2) and (3) shall apply *mutatis mutandis* to the stock-listed corporation referred to in the proviso of paragraph (1).

(4) Any non-standing or any outside director appointed under the Act on the Improvement of Managerial Structure and Privatization of Public Enterprises, the Banking Act and other Acts shall be deemed to be appointed under this Act.

(5) Where any stock-listed corporation appoints any outside director or dismisses an outside director or any outside director resigns prior to the expiration of their term of

office, such stock-listed corporation shall file a report thereof to the Financial Supervisory Commission and the Stock Exchange by the day following the day on which such appointment, dismissal or resignation occurs.

Article 191-17 (Audit Committee)
(1) Any stock-listed corporation prescribed by Presidential Decree shall establish an audit committee.

(2) The provisions of Article 54-6 (2) through (5) shall apply *mutatis mutandis* to the composition of the audit committee referred to in paragraph (1).

Article 192 (Standards for Financial Management of Stock-Listed Corporation)
(1) The Financial Supervisory Commission may, for the protection of investors and the establishment of a fair transaction order, prescribe the standards for financial management of any stock-listed corporation or any corporation registered with the Association and may give necessary recommendations, with respect to the matters falling under any of the following subparagraphs on the conditions as prescribed by Presidential Decree:

1. Matters relating to requirements for increases in paid-in capital;
2. Matters relating to reserves for the improvement of the financial structure;
3. Matters relating to dividends;
4. Matters relating to the issue of overseas securities prescribed by Presidential Decree; and,
5. Other matters that are corresponding to subparagraphs 1 through 4 and prescribed by Presidential Decree.

(2) A stock-listed corporation shall act in accordance with the standards for financial management referred to in paragraph (1).

Article 192-2 Deleted. ***<by Act No. 5591, Dec. 28, 1998>***

Article 192-3 (Special Cases on Dividends)
(1) A stock-listed corporation or Association-registered corporation that which settles its accounts annually may pay profit dividends in cash (hereinafter referred to as "interim dividends") through a resolution of the board of directors to the stockholders only once during a business year by fixing a given date under the conditions as determined by the articles of incorporation.

(2) A resolution of the board of directors listed in paragraph (1) shall be made not less than 45 days from the given date referred to in paragraph (1).

(3) The interim dividends referred to in paragraph (1) shall be paid not less than one month from the date on which the resolution of the board of direction has been made: *Provided*, That this shall not apply in case the articles of incorporation otherwise provide the time of paying the interim dividends.

(4) The interim dividends shall be within the limit of the net amount of property in a balance sheet in the immediately preceding term for the settlement of accounts:

1. The amount of capital in the immediately preceding term for the settlement of accounts;
2. The total amount of capital surplus reserve and earned surplus reserve accumulated until the immediately preceding term for the settlement of accounts;
3. The amount determined to pay profits at a regular general meeting in the immediately preceding term for the settlement of accounts; and,
4. The earned surplus reserve to be accumulated in the term for the settlement of accounts pursuant to interim dividends.

(5) Where the net amount of property in a balance sheet in the term for the settlement of accounts is likely to fall short of the total amount listed in subparagraphs of Article 462 (1) of the Commercial Act, no interim dividends shall be paid.

(6) Where the net amount of property in a balance sheet in the term for settlement of accounts falls short of the total amount listed in subparagraphs of Article 462 (1) of the Commercial Act, any directors' dividends shall be liable to compensate for the difference (where the interim dividends are smaller than the difference, the interim dividends) jointly against the corporation: *Provided*, That this shall not apply in case the director has proved that the director could not know that there was a concern listed in paragraph (5) even though the director had paid considerable attention to it.

(7) In applying the provisions of Articles 340 (1), 344 (1), 350 (3) (including where the provisions of Article 350 (3) are applicable *mutatis mutandis* under Articles 423 (1), 516 (2) and 516-9 of the Commercial Act), 354 (1), 370 (1), 457 (2), 458, 464 and subparagraph 3 of Article 625, interim dividends shall be deemed profit dividends referred to in Article 462 (1) of the Commercial Act, in applying the provisions of Article 350 (3) of the Commercial Act, a given date listed in paragraph (1) shall be deemed the end of a business year, and in applying the provisions of Article 635 (1) 22-2, the period listed in paragraph (3) shall be the period listed in Article 464-2 (1) of the Commercial Act.

(8) The provisions of Articles 399 (3) and 400 of the Commercial Act shall apply where directors bear joint and several liability pursuant to paragraph (6) and the provisions of Article 642 (2) and (3) of the Commercial Act shall apply where interim dividends are paid in violation of paragraph (4).

Article 193 (Measures against Listed Corporation, etc.)
If any listed corporation or Association-registered corporation violates this Act, any orders or regulations pursuant to this Act or any orders of the Financial Supervisory Commission, the Financial Supervisory Commission may recommend to a general meeting of stockholders of such corporation that they terminate the directors or officers concerned, or may restrict the issuance of securities or take such measures as prescribed by Presidential Decree.

CHAPTER X SUPPLEMENTARY PROVISIONS

Article 194 (Over-the-Counter Transactions)
(1) Transactions outside the securities market and an Association brokerage market, the method of settlement and other necessary matters shall be prescribed by Presidential Decree.

(2) Deleted. *<by Act No. 3945, Nov. 28, 1987>*

Article 194-2 (Report, etc. by Electronic Document)
Where a statement, report or other documents or data, etc., are filed with the Financial Supervisory Commission and the Securities Futures Commission, the Stock Exchange or the Association pursuant to this Act, such submission may be executed by electronic document under the conditions as prescribed by Presidential Decree.

Article 194-3 (Audit Certification by External Auditor)
(1) A person as prescribed by Presidential Decree who files financial documents with the Financial Supervisory Commission, the Stock Exchange or the Association pursuant to this Act, shall receive a financial accounting audit in accordance with the Act on External Audit of Stock Companies: *Provided*, That the same shall not apply in case Presidential Decree prescribes.

(2) The Financial Supervisory Commission may, if it deems necessary to the public interest or the protection of investors, request that an external auditor pursuant to the Act on External Audit of Stock Companies who has conducted a financial accounting audit pursuant to paragraph (1) (hereinafter referred to as an "external auditor") or that such corporation that has been audited submit data a to report, and may take other necessary measures toward such external auditor or corporation.

(3) Where a foreign corporation, etc., receives a financial accounting audit based upon foreign securities statutes or subordinate statutes, and when the audit meets the standards as prescribed by Presidential Decree, it shall be considered that the foreign corporation, etc., has been audited pursuant to paragraph (1).

Articles 195 and 196 Deleted. ***<by Act No. 3541, Mar. 29, 1982>***

Article 197 (Compensation Liabilities of Auditors)
(1) The provisions of Article 17 (2) through (7) of the Act on External Audit of Stock Companies shall apply *mutatis mutandis* to the compensation liabilities of auditors toward *good faith* investors.

(2) The provisions of Article 15 shall apply *mutatis mutandis* in calculating the amount of compensation pursuant to paragraph (1).

(3) Deleted. *<by Act No. 5423, Dec. 13, 1997>*

Article 198 Deleted. *<by Act No. 3541, Mar. 29, 1982>*

Article 199 (Restriction on Proxy Solicitation as to Voting Rights)
(1) No one shall solicit a proxy to exercise voting rights either through themselves or through other persons with respect to listed stocks or stocks registered in the Association in violation of the provisions of Presidential Decree.

(2) Where a listed corporation or registered corporation as prescribed by Presidential Decree engages in an important industry for the national economy, such as a national key industry, etc., (hereinafter referred to as a "public corporations"), only such public corporations may solicit a proxy to exercise the voting rights of its stocks under the conditions as prescribed by Presidential Decree.

Article 200 (Restriction, etc., on Ownership of Stocks Issued by Public Corporation)
(1) No one shall own for their account, regardless of whose or whoever name it is in, stocks issued by a public corporation in excess of the criteria prescribed in the following subparagraphs. In this case, nonvoting stocks shall not be counted in the total number of issued and outstanding stocks, and stocks owned in the name of specially related persons shall be regarded as those owned for that person's account:

1. The rate of ownership at the time of the registration of the securities concerned with the Financial Supervisory Commission pursuant to Article 3, in case of stockholders who owned 10/100 or more of the total number of issued and outstanding stocks at such time; and,
2. The rate as determined by the articles of incorporation within the limit of 3/100 of the total number of issued and outstanding stocks, in case of persons other than stockholders pursuant to subparagraph 1.

(2) Notwithstanding the provisions of paragraph (1), if any person obtains the approval of the Financial Supervisory Commission on the rate limit of ownership, that person may own the stocks issued by a public corporation up to such limit.

(3) Any person whose beneficial ownership is in excess of the criteria referred to in paragraphs (1) and (2) shall not exercise voting rights on the stocks in excess, and the Financial Supervisory Commission may order such person to adjust their stockholding position so as to comply with the criteria concerned.

Article 200-2 (Report on Mass Holding, etc. of Stocks)
(1) Any person (excluding those who are prescribed by Presidential Decree) who holds voting stocks of a stock-listed corporation or Association- registered corporation in large quantities (this refers to such cases where the number of the stocks, etc., owned by the person himself and specially connected person is 5/100 or more of the total number of such stocks, etc.,), shall report the situation of their holdings to the Financial Supervisory Commission and the Stock Exchange (meaning the Association in case of an Association-registered corporation; hereinafter the same shall apply in this Article, within five days (the day as prescribed by Presidential Decree is not counted; hereinafter the same shall apply in this paragraph) from the day on which that person comes to hold such stocks, under the conditions as prescribed by Presidential Decree, and if the rate of that person's holding exceeds 1/100 of the total number of stocks, etc., of such corporation (excluding such cases as prescribed by Presidential Decree), shall report the contents of such change to the Financial Supervisory Commission and the Stock Exchange, within five days after such change occurs, under the conditions as prescribed by Presidential Decree: *Provided*, That with respect to the institutional investors, etc., as prescribed by Presidential Decree, the time, contents, etc., of such report may be determined separately by Presidential Decree.

(2) The provisions of Article 21 (4) shall apply *mutatis mutandis* with respect to the method of calculating the number as prescribed in paragraph (1) and total number of stocks, etc.

(3) Where a report on a large holding of

stocks, etc., or change therein is to be filed pursuant to paragraph (1), and (another) a new cause for a report occurs by the day immediately preceding the day on which the original report should be filed, such new change shall be reported together when the original large holding of stocks, etc., or a change therein has to be reported.

(4) The Financial Supervisory Commission and the Stock Exchange shall keep the reports as referred to in paragraph (1) and make them available for public inspection.

(5) If it is deemed necessary for protecting the public interest or investors, the Financial Supervisory Commission may order the reporter as referred to in paragraph (1), the company that has issued the stocks, etc., and other interested persons to file any report or materials for reference, or have the FSS Governor investigate any accounting books, documents and other matters.

(6) Any person who conducts the investigation as referred to in paragraph shall carry with them any credentials indicating their competence, and present it to any interested person.

Article 200-3 (Restriction on Exercise of Voting Rights of Stocks, etc.)
Any person who fails to report a large holding of stocks, etc., or a change therein (including a modification report thereof) in violation of the provisions of Article 200 (1) and (3) of this Act may not exercise the voting rights with respect to stocks held in violation of the provisions thereof that are held in excess of 5/100 of the total number of issued and outstanding voting stocks during the period as prescribed by Presidential Decree, and the Financial Supervisory Commission may order the disposal of the violating portion concerned.

Article 200-4 (Provisions to Apply *mutatis mutandis*)
The provisions of Articles 11 (1) through (3) and 20 shall apply *mutatis mutandis* to the case of reports on the situation of large holdings or reports on changes of the situation of large holdings.

Article 201 Deleted. *<by Act No. 3541, Mar. 29, 1982>*

Articles 202 and 202-2 Deleted. *<by Act No. 5498, Jan. 8, 1998>*

Article 203 (Restrictions on Acquisition of Securities by Foreigners)
(1) Acquisition of securities by a foreigner or foreign corporation, etc., may be restricted as prescribed by Presidential Decree.

(2) With respect to an acquisition of stocks of a public corporation by a foreigner or foreign corporation, etc., it may be restricted separately under the conditions as prescribed by the articles of incorporation of the public corporation in addition to the restriction pursuant to paragraph (1).

(3) Any person who has acquired stocks in contravention of the provisions of paragraph (1) or (2) may not exercise the voting rights to the stocks, and the Financial Supervisory Commission may order a correction to the person who acquired stocks in contravention of the provisions of paragraph (1) or (2).

(4) Deleted. *<by Act No. 5254, Jan. 13, 1997>*

Articles 204 through 206 Deleted. *<by Act No. 5498, Jan. 8, 1998>*

Article 206-2 (Delegation of Authority)
(1) The Financial Supervisory Commission may delegate part of its authority under this Act to the Securities Futures Commission under the conditions as prescribed by Presidential Decree.

(2) Where the Securities Futures Commission divides the matters delegated pursuant to paragraph (1), it shall make a report thereon without delay to the Financial Supervisory Commission.

(3) Where it is deemed that a decision by the Securities Futures Commission referred to in paragraph (2) is illegal, extremely unjust, or fails to protect the public interest or investors, the Financial Supervisory Commission may cancel all or part of such decision or suspend its execution.

(4) Matters under the authority of the Financial Supervisory Commission or the Securities Futures Commission under this Act that require urgent disposition may be delegated to the Chairman of the Financial

Supervisory Commission or the Chairman of the Securities Futures Commission, respectively, and minor matters may be entrusted to the FSS Governor.

(5) Urgent matters and the scope of minor matters listed in paragraph (4) shall be determined as prescribed by Presidential Decree.

Article 206-3 (Investigation by Financial Supervisory Commission and Securities Futures Commission)

(1) Where there is a violation of this Act or an order under this Act or, a violation of the regulations of or an order under the Financial Supervisory Commission, or where it is deemed necessary to protect the public interest or investors, the Financial Supervisory Commission (meaning the Securities Futures Commission for matters in violation of Articles 188, 188-2 and 188-4; hereinafter the same shall apply in this Article) may order a person concerned to submit a report or materials for reference or have the FSS Governor investigate books, documents or other matters.

(2) The Financial Supervisory Commission may demand the following matters from persons concerned in order to make an investigation referred to in paragraph (1):

1. Submission of a statement on the facts and situation concerning matters to be investigated;
2. Appearance for testimony concerning the matters to be investigated; and,
3. Submission of books, document or other matters necessary for an investigation.

(3) Where it is deemed necessary to make an investigation referred to in paragraph (1), the Financial Supervisory Commission may request a securities-related institution to submit documents necessary for an investigation under the conditions as determined by Presidential Decree.

(4) Where a violation of this Act or an order under this Act, or a violation of the regulations of or an order under the Financial Supervisory Commission has been established as a result of an investigation referred to in paragraph (1), the Financial Supervisory Commission may make an order for correction or take other measures as prescribed by Presidential Decree, and may determine the procedures and standards and other matters necessary for an investigation and for taking measures therein.

(5) Where the Stock Exchange or the Association suspects a violation of this Act or an order under this Act or a violation of the regulations of or an order under the Financial Supervisory Commission as a result of a member's supervision over an abnormal sale, it shall notify the Financial Supervisory Commission.

Article 206-4 (Exchange of Information with Foreign Securities Supervisory Agencies)

(1) The Financial Supervisory Commission may exchange information with foreign securities supervisory agencies.

(2) Where the Financial Supervisory Commission intends to exchange information under paragraph (1), it shall consult the Minister of Finance and Economy: *Provided,* That this shall not apply to cases as prescribed by Presidential Decree.

(3) The Financial Supervisory Commission (referring to the Securities Futures Committee in case of matters relating to a violation of the provisions of Article 188-2 and Article 188-4) may, where a foreign securities supervisory agency asks for its cooperation in conducting a survey or an inspection under this Act, and expressly gives its objective and scope, etc., of such survey or inspection, cooperate with such foreign securities supervisory agency.

Article 206-5 (Deliberation by Securities Futures Commission)

In a case falling under any of the following subparagraphs, the Financial Supervisory Commission shall pass deliberation by the Securities Futures Commission:

1. Where it provides for matters falling under any of the following:
   (a) Documents for registration referred to in Article 4;
   (b) Criteria for administration of registered corporations referred to in Article 6;
   (c) Procedures and criteria for taking measures referred to in Article 20 (including where it is applicable *mutatis mutandis* under Articles 27-2, 186-5, 189-2 (5), 190-2 (3) and 200-

4);

(d) Standards for financial management of listed corporations or corporations registered with the Association referred to in Article 192 (1); and,

(e) Procedures and standards for investigation and measures taken by the Financial Supervisory Commission referred to in Article 206-3 (4).

2. Where it takes measures or issue orders falling under any of the following:

(a) Measures referred to in Article 20 (including where it is applicable *mutatis mutandis* under Articles 27-2, 186-5, 189-2 (5), 190-2 (3) and 200-4);

(b) Orders referred to in Article 54 (including where it is applicable *mutatis mutandis* under Article 70-7);

(c) Adjustment of purchase price of stocks referred to in Article 191 (3);

(d) Approval of the issuance of nonvoting stocks referred to in Article 191-2 (1) 2;

(e) Measures referred to in Article 193;

(f) Approval of stockholding rate limit referred to in Article 200 (2);

(g) Measures pursuant to the results of investigation referred to in Article 206-3 (4);

(h) Disposition to impose penalties referred to in Article 206-11; and,

(i) Disposition to impose a fine for negligence referred to in Article 213 (3).

3. Matters other than those listed in subparagraphs 1 and 2 that the Financial Supervisory Commission deems deliberation by the Securities Futures Commission to be necessary.

Article 206-6 (Direction and Supervision, etc. over FSS Governor)

Where the Financial Supervisory Commission or the Securities Futures Commission deems it necessary in order to exercise its powers under this Act, it may supervise the FSS Governor and have the FSS governor change the governor's method of executing the governor's duties or give other supervisory orders.

Article 206-7 (Duties of Financial Supervisory Service)

The Financial Supervisory Service shall carry out the following duties under the direction and supervision of the Financial Supervisory Commission or the Securities Futures Commission:

1. Matters regarding the registration of issuers of securities;
2. Matters regarding the registration statement;
3. Matters regarding the lender offer of securities;
4. Matters regarding the inspections of institutions that are subject to inspection by the FSS Governor under this Act;
5. Matters regarding the administration of listed corporations;
6. Matters regarding the public notification of the analysis and substance of business of registered corporations and listed corporations;
7. Matters regarding the supervision over transactions of securities on markets other than a securities market or Association brokerage market;
8. Business entrusted by the Government;
9. Business assigned under this Act other than those listed in subparagraphs 1 through 8; and,
10. Business incidental to those listed in subparagraphs 1 through 9.

Article 206-8 (Contributions)

(1) Any person falling under any of the following subparagraphs shall bear part of the working expenses of the Financial Supervisory Service:

1. Securities companies that charge commissions from customers;
2. Issuers who submit a report to the Financial Supervisory Commission pursuant to Article 8;
3. Institutions that are subject to inspection by the FSS Governor under this Act; and
4. Registered corporations.

(2) The amount and limit of the contribution referred to in paragraph (1) and other matters necessary for the payment of contributions shall be prescribed by Presidential Decree.

Article 206-9 (Liabilities of Members and Officers, etc., of the Financial Supervisory Commission, Securities Futures Commission and Financial Supervisory Service)

The provisions of Article 83 shall apply *mutatis mutandis* to the liabilities of those falling under any of the following subparagraphs:

1. Members and public officials of the Financial Supervisory Commission;
2. Members of the Securities Futures Commission; or,
3. Governor, Vice-Governor, Assistant Vice-Governor, auditor and employees of the Financial Supervisory Service.

Article 206-10 (Hearing)
Where the Minister of Finance and Economy or the Financial Supervisory Commission intends to take a disposition falling under any of the following subparagraphs, it shall hold a hearing:

1. Cancellation of a license or registration of securities companies, investment advisory companies, and transfer agencies under Article 55 or 70-11 (including where the provisions of Article 70-11 are applicable *mutatis mutandis* under Article 180 (3)); and,
2. Cancellation of a license of securities financial companies and brokerage companies referred to in Article 155 (1) (including where it is applicable *mutatis mutandis* under Article 179 (4)).

CHAPTER X-II IMPOSITION AND COLLECTION OF PENALTIES

Article 206-11 (Penalties)
(1) The Financial Supervisory Commission may impose penalties of up to 3/100 of the subscription or sales value on a statement of securities (five hundred million won where the price exceeds five hundred million won) on a person falling under any subparagraph of Article 14 (1) where that person falls under any of the following subparagraphs:

1. Where that person makes a false entry or indication or fails to enter or indicate important matters in any registration statement, prospectus, or other documents to be submitted under Article 8, 11 or 12; and,
2. Where that person fails to submit a registration statement, prospectus, or other documents to be submitted under Article 8, 11 or 12.

(2) The Financial Supervisory Commission may impose penalties of up to 3/100 of the total estimated amount for a tender offer stated in a tender offer statement on a person falling under any subparagraph of Article 25-3 (1) where that person falls under any of the following subparagraphs. In this case, a total estimated amount for a tender offer shall be an amount calculated by multiplying the tender offer price per stock by the number of stocks:

1. Where that person makes a false entry or indication or fails to enter or indicate important matters in any statement, prospectus, or other documents to be submitted under Article 21-2, 22, 23-2 or 24; or,
2. Where that person fails to submit any statement, prospectus, or other documents to be submitted under Article 21-2, 22, 23-2 or 24, or fails to make public notice of matters to be publicly notified.

(3) The Financial Supervisory Commission may impose penalties of up to five hundred million won on any listed corporation or any corporation registered with the Association where it falls under any of the following subparagraphs:

1. Where it makes a false statement or indication in matters to be reported or disclosed under Article 186 (1) or (2) or fails to enter or indicate important matters therein; and
2. Where it fails to report or disclose matters to be reported or disclosed under Article 186 (1) or (2).

(4) The Financial Supervisory Commission may impose penalties of up to 10/100 of the daily average transaction volume (five hundred million won where an amount exceeds five hundred million won or stocks issued by the corporation are not traded on the securities market or Association brokerage market) of the stocks issued by a corporation as quoted on the securities market or Association brokerage market in the immediately preceding year where such corporation that has to submit an annual business report or semiannual business report pursuant to Article 186-2 (1) or 186-3 falls under any of the following subparagraphs:

1. Where it makes a false entry or indication or fails to enter or indicate important matters in a report under Article 186-2 (1) or 186-3; or,
2. Where it fails to submit a report under Article 186-2 (1) or 186-3.

(5) The Financial Supervisory Commission may impose penalties of up to 2/100 (1/100 for a consolidation and five hundred million

won where the amount exceeds five hundred million won) of the total amount (based on the amount entered in reported documents submitted under Article 190-2) of the book value (for a transfer or takeover of business, the amount acquired or paid in compensation for the transfer or takeover) of stock granted in compensation for a merger (including a spin-off merger) or spin-off and obligations taken over by a stock-listed corporation or Association- registered corporation where it falls under any of the following subparagraphs):

1. Where it makes a false entry or indication or fails to enter or indicate important matters in making a report under Article 190-2; and,
2. Where it fails to make a report under Article 190-2.

(6) Penalties prescribed in paragraphs (1) through (5) shall be imposed on a person subject to the imposition of such penalties who violates the respective corresponding provisions intentionally or through gross negligence.

Article 206-12 (Imposition of Penalties)

(1) In imposing penalties pursuant to Article 206-11, the Financial Supervisory Commission shall take into account of the following matters according to the standards as prescribed by Presidential Decree:

1. Contents and severity of the offense;
2. Duration and frequency of the offense; and,
3. Scope of benefits acquired by the offense.

(2) The Financial Supervisory Commission shall seek opinions from the Stock Exchange or the Association in advance where it imposes penalties pursuant to Article 206-11 (3).

(3) Where a corporation that has violated the provisions of this Act merges, the Financial Supervisory Commission may impose and collect penalties on and from the corporation, deeming the offense committed by the previous corporation to be an offense committed by the corporation that continues to exist or is newly established.

(4) Matters necessary for the imposition of penalties shall be determined by Presidential Decree.

Article 206-13 (Presentation of Opinions)

(1) The Financial Supervisory Commission shall, in advance, give a concerned party or person, etc., an opportunity to present their opinions prior to the imposition of penalties.

(2) A concerned party or person, etc., under paragraph 1 may attend the meeting of the Financial Supervisory Commission and state their opinions or present necessary materials.

Article 206-14 (Formal Objection)

(1) A person who is dissatisfied with a disposition of a fine for negligence under Article 206-11 may file an objection with the Financial Supervisory Commission within thirty days from the date of receipt of notice of said disposition by giving the reasons.

(2) The Financial Supervisory Commission shall make a decision on an objection under paragraph (1) within thirty days: *Provided*, That where it cannot make a decision within such period for compelling cause, it may extend the period up to thirty days.

(3) A person who is dissatisfied with a decision under paragraph (2) may apply for administrative appeal.

Article 206-15 (Extension of Time Limit for Payment for and Installment Payment of Penalties)

(1) Where the Financial Supervisory Commission deems that a person who has been subject to penalties (hereinafter referred to as a "person liable for the payment of penalties") has difficulty in paying the penalties in a full lump sum for a cause falling under any of the following subparagraphs, it may extend the time limit for payment or allow that person to pay them in installments. In this case, it may, if deemed necessary, have that person offer a security:

1. Where that person suffers a serious loss of property due to a disaster or theft;
2. Where that person's business is in a serious crisis due to worsening business conditions;
3. Where that person is expected to face serious financial difficulties due to the payment of penalties in a lump sum; or,
4. Where there exists any other causes equivalent to those listed in subparagraphs 1 through 3.

(2) Where a person liable for the payment of penalties intends to have the time limit for payment extended or pay them in installments, that person shall apply for such extension or installments to the Financial Supervisory Commission ten days prior to the expiration of the time limit for payment.

(3) Where the time limit for payment is extended or a person liable for the payment of penalties who is allowed to pay them in installments pursuant to paragraph (1) falls under any of the following subparagraphs, the Financial Supervisory Commission may cancel the extension of the time limit for payment or decision on payment in installments and collect penalties in a lump sum:

1. Where that person fails to pay penalties in installments within the time limit for payment;
2. Where that person fails to fulfill an order by the Financial Supervisory Commission that is necessary to change the security or otherwise preserve the security;
3. Where it deems that it cannot collect all or the residual of penalties due to compulsory execution, opening of an auction, declaration of bankruptcy, dissolution of the corporation, disposition on default of national or local taxes; or,
4. Where there exists any other causes equivalent to those listed in subparagraphs 1 through 3.

(4) Matters necessary for the extension of the time limit for payment of penalties, payment in installments, or security, etc., under paragraphs (1) through (3) shall be prescribed by Presidential Decree.

Article 206-16 (Collection of Penalties and Disposition on Default)

(1) The Financial Supervisory Commission may collect additional dues as determined by Presidential Decree for the period from the date following the expiration date of the time limit for payment to the date preceding the date of payment where a person liable for the payment of penalties fails to pay penalties within the time limit for payment.

(2) Where a person liable for the payment of penalties fails to pay penalties within the time limit, the Financial Supervisory Commission may urge that person to pay the penalties, by specifying a period, and where that person fails to pay penalties and additional dues under paragraph (1) within the specified period, the Financial Supervisory Commission may collect them according to the situation of a disposition of national taxes in arrears.

(3) The Financial Supervisory Commission may entrust its duties of the collection or disposition on default of penalties and additional dues under paragraphs (1) and (2) to the Commissioner of the National Tax Administration.

(4) Matters necessary for the collection of penalties shall be determined by Presidential Decree.

Article 207 Deleted. ***<by Act No. 5736, Feb. 1, 1999>***

CHAPTER XI PENAL PROVISIONS

Article 207-2 (Penal Provisions)

A person who falls under any of the following subparagraphs shall be punished by imprisonment for not more than ten years or a fine of not more than twenty million won: *Provided*, That if the amount equivalent to three times of the profit gained or loss evaded by the violation exceeds twenty million won, that person shall be punished by a fine of the amount equivalent to three times of such profit or loss evaded:

1. A person who violates the provisions of Article 188-2 (1) or (3); and,
2. A person who violates the provisions of Article 188-4.

Article 207-3 (Penal Provisions)

A person who violates the provisions of Article 52-3 shall be punished by imprisonment for not more than five years or a fine of not more than thirty million won.

Article 208 (Penal Provisions)

A person who falls under any of the following subparagraphs shall be punished by imprisonment for not more than three years or a fine not exceeding twenty million won:

1. A person who conducts the business concerned without a license therefor in accordance with the provisions of Article 28 (1), 28-2 (1), 145 (1) or 179 (1), or who conducts the business concerned

after cancellation of a license therefor in accordance with the provisions of Article 55 or 155 (including where the provisions of Article 155 are applicable *mutatis mutandis* under Article 179);

2. A person who violates the provisions of Articles 28-2 (3) and 35 (1);
3. A person who violates the provisions of Articles 63 (including where the provisions of Article 63 are applicable *mutatis mutandis* under Article 70-7), 76, 95 (1), 107 (1) or 173-3;
4. A person who violates the provisions of Articles 59 (including where the provisions of Article 59 are applicable *mutatis mutandis* under Article 70-7 or 178), Article 60 (1) (including where it is applicable *mutatis mutandis* under Article 70-7 or 178), or Article 61 (including where it is applicable *mutatis mutandis* under Article 70-7 or 178), or who refuses any investigation conducted by the Financial Supervisory Commission referred to in Article 206-3 (2) (meaning the Securities Futures Commission in case of violation of Articles 188, 188-2 and 188-4);
5. A person who violates the provisions of Article 83 (including where they are applicable *mutatis mutandis* under Article 206-9); and
6. Deleted. <by Act No. 5254, Jan. 13, 1997>

Article 209 (Penal Provisions)

A person who falls under any of the following subparagraphs shall be punished by imprisonment for not more than two years, or a fine of not more than ten million won:

1. A person who makes a public offering of new or outstanding securities or issues new stocks in violation of the provisions of Article 8;
2. A person who makes arrangements for a public offering of new or outstanding securities in violation of the provisions of Article 8;
3. A person who violates the provisions of Article 10;
4. A person who violates the provisions of Article 21(1), Article 21-2 (1) or 23 (including where the provisions of Article 23 are applicable *mutatis mutandis* under Article 23-2 (2));
5. A person who carries out the business concerned after being suspended from such business in accordance with the provisions of Article 57 or 155 (2) (including the provisions of Article 155 (2) are applicable *mutatis mutandis* under Article 179 (4));
6. A person who violates the provisions of Article 62 or 70-10;
7. A person who violates any order issued upon the basis of the provisions of Article 54 (including where they are applicable *mutatis mutandis* under Article 70-7) or 168;
8. A person who establishes an organization concerned with securities without a license in accordance with the provisions of Article 181 (1); and,
9. A person who violates the provisions of Article 188 (1), 189-2 (3), 190-2 (1) and (2) or 199, or orders issued pursuant to Article 21 (3), 200 (3), 200-3 or 203 (3).

Article 210 (Penal Provisions)

A person who falls under any of the following subparagraphs shall be punished by imprisonment for not more than one year or a fine of not more than five million won:

1. A person who violates any disposition of the Financial Supervisory Commission taken upon the basis of the provisions of Article 20 (including where they are applicable *mutatis mutandis* under Article 27-2, 186-5, 189-2 (5), 190-2 (3) or 200-4);
2. A person who violates the provisions of Article 13 (including where they are applicable *mutatis mutandis* under Article 24) or Article 42 (including where they are applicable *mutatis mutandis* under Article 70-7, 154, 169, 178, 179 or 180) through 44 or 70-2 (5);
3. Deleted; <by Act No. 5254, Jan. 13, 1997>
4. Deleted; <by Act No. 5736, Feb. 1, 1999>

4-2. A person who conducts the business concerned without a registration as prescribed in Article 70-2 (1) and (2), 70-9 (1) or 180 (1), or who conducts the business concerned after their registration is cancelled under Article 70-11 (including where it is applicable *mutatis mutandis* under Article 180 (3));

5. A person who violates the provisions of Article 70-6 (including where they are applicable *mutatis mutandis* under Article 70-8 (2)), 101, 188 (6), 194-3 or 200-2 (1);
6. A person who makes a false statement

with regard to material facts contained in the registration statement as referred to in Article 8, the additional documents of shelf registration statement as referred to in Article 10 (2), the amendment statement as referred to in Article 11 (including where it is applicable *mutatis mutandis* under Article 186-5 or 200-4), the tender offer statement as referred to in Article 21-2 (1), the amendment statement as referred to in Article 23-2, the annual report as referred to in Article 186-2, the semiannual report as referred to in Article 186-3, or the report as referred to in Article 190-2 (1) and (2), or who fails to file an amendment statement report in contravention of the latter part of Article 11 (3) (including where it is applicable *mutatis mutandis* under Article 186-5 or 200-4); and,

7. A person who fails to prepare and keep a depositors account book as prescribed in Article 174 (3) or a customers account book as prescribed in Article 174-2 (1), or who has made a false statement.

Article 211 (Penal Provisions)

Any person who falls under any of the following subparagraphs shall be punished by a fine of not more than five million won:

1. A person who conducts the business concerned notwithstanding that it is suspended under Article 57 (including where it is applicable *mutatis mutandis* under Article 70-7) or 155 (2) (including where it is applicable *mutatis mutandis* under Article 180 (3));
2. A person who violates the provisions of Article 186 (1) and (2), 186-2 or 186-3;
3. A person who fails to report pursuant to the provisions of Article 189-4 (8); and,
4. A person who violates the provisions of Article 200 (1).

Article 212 (Penal Provisions)

A person who violates the provisions of Article 171 shall be punished by a fine of not more than two million won.

Article 213 (Fine for Negligence)

(1) A person who falls under any of the following subparagraphs shall be punished by a fine for negligence of not more than two million won:

1. A person who has failed to file a registration in contravention of the provisions of Article 3;
2. A person who has committed a violation of the provisions of Article 18-2;
3. A person who has refused, interfered with, or evaded the inspection, investigation or confirmation under Article 19 (1) (including where it is applicable *mutatis mutandis* under Article 27-2, 186-5, 189-2 (5) or 190-2 (3)), 53 (1) (including where it is applicable *mutatis mutandis* under Articles 70-7, 157, 169 or 178 through 181) 174-12 or 200-2 (5);
4. A person who has committed a violation of the provisions of Article 37 (including where they are applicable *mutatis mutandis* under Article 70-7) or 70-8 (1); and,
5. A person who has neglected the disposal of stocks in contravention of the provisions of Article 189-2 (4) or 191 (4).

(2) A person who falls under any of the following subparagraphs shall be punished by a fine for negligence of not more than five hundred thousand won:

1. A person who violates the provisions of Article 17 (including where they are applicable *mutatis mutandis* under Article 27-2), 36, 46 or 107 (2);
2. A person who fails to comply with a demand for the report, etc., pursuant to Article 19 (1) (including where it is applicable *mutatis mutandis* under Article 27-2, 186-5, 189-2 (5) or 190-2 (3)) or 53 (2) (including where it is applicable *mutatis mutandis* under Article 70-7, 157, 159 or 178 through 181), or who violates the order pursuant to Article 19 (1) (including where it is applicable *mutatis mutandis* under Article 27-2, 186-5, 189-2 (4) or 190-2 (3)) or 53 (2) (including where it is applicable *mutatis mutandis* under Article 70-7, 157, 159 or 178 through 181);
3. A person who violates the provisions of Article 47 (including where it is applicable *mutatis mutandis* under Article 70-7);
4. A person who violates the provisions of Article 174-2 (2) or who fails to make a notification, or makes a false notification, to the beneficial owners in violation of the provisions of Article 174-7 (3) through (5); and,
5. A person who violates the provisions of Article 174-6 (4) or 174-8 (1).

(3) The fine for negligence as referred to in

paragraphs (1) and (2) shall be imposed and collected by the Financial Supervisory Commission under the conditions as prescribed by Presidential Decree.

(4) A person who is dissatisfied with the disposition of the fine for negligence as referred to in paragraph (3) may make an objection against the person who is authorized to take the disposition within thirty days after that person is informed of such disposition.

(5) If the person who is subject to a disposition of fine for negligence pursuant to paragraph (3) has made an objection pursuant to paragraph (4) of this Article, the person who is authorized to take the disposition shall notify such fact to the competent court, which shall, upon receiving the notification, bring the case of fine for negligence to a trial under the Non-Contentious Case Procedure Act.

(6) If no objection is made and no fine for negligence is paid in the period as referred to in paragraph (4) of this Article, it shall be collected according to the situation of a disposition of national taxes in arrears.

Article 214 (Concurrent Punishment)
A person who commits a crime as referred to in Articles 207-2 through 210 may be confined to imprisonment and fined concurrently.

Article 215 (Joint Penal Provisions)
If a representative of a juristic person, or an agent, servant or other employee of a juristic person or individual commits any offense as prescribed in Articles 207-2 through 212 in connection with the affairs of the juristic person or individual, the fine as prescribed in the respective article shall also be imposed on such juristic person or individual, in addition to a punishment of the offender.

ADDENDA
<Act No. 6176, Jan. 21, 2000>

Article 1 (Enforcement Date)
This Act shall enter into force on April 1, 2000: Provided, That the amended provisions of Articles 2, 3, 54-5, 54-6, 58, 64, 160, 174-6 (5), 189-2, 189-4, 191-9, 191-11, 191-12, 191-14, 191-16 and 191-17 shall enter into force on the date of its promulgation.

Article 2 (Transitional Measures concerning Disqualifications)
Where any officer of a securities company, an investment advisory company, a securities finance company or the Association is disqualified due to a cause under the amended provisions of Article 33 (2) (including the case in which the provisions of Articles 70-7, 149 (2) and 169 are applied *mutatis mutandis*) that has occurred prior to the enforcement of this Act at the time that this Act is enforced, that person's case shall be dealt with according to the previous provisions notwithstanding the amended provisions.

Article 3 (Transitional Measures concerning Equity Capital Regulation Ratio)
The amended provisions of Article 54-2 shall not apply to any securities company falling under any of the following subparagraphs by the day prescribed by Presidential Decree:

1. A securities company converted from another a financial institution or a securities company that has merged with a financial institution under the Act on the Structural Improvement of the Financial Industry; or,
2. A securities company that, after having been ordered to take timely and corrective measures, is presently implementing a plan for such measures under the Act on the Structural Improvement of the Financial Industry.

Article 4 (Transitional Measures concerning Internal Control Standards of Securities Company)
Any securities company shall set its internal control standards in accordance with the provisions of Article 54-4 within 6 months after the enforcement of this Act.

Article 5 (Transitional Measures concerning Appointments of Outside Director of Securities Company)
Any securities company that has to appoint outside directors in accordance with the amended provisions of Article 54-5 shall appoint such outside directors in accordance with such amended provisions at the first regular general meeting of shareholders that is convened after the enforcement of this Act. In this case, any outside director appointed at the regular general meeting of shareholders

shall be deemed to be recommended by the outside director candidate nominating committee in accordance with the provisions of Article 54-5 (2) and (3).

Article 6 (Transitional Measures concerning Establishment of Audit Committee of Securities Company)
Any securities company that has to establish an audit committee in accordance with the amended provisions of Article 54-6 shall establish such audit committee the first regular general meeting of shareholders that is convened after the enforcement of this Act.

Article 7 (Transitional Measures concerning Corporation Granting Stock Options)
Any corporation that grants its officers and employees stock options under the previous provisions at the time that this Act is enforced shall be deemed to grant them such stock options in accordance with the amended provisions of Article 189-4.

Article 8 (Transitional Measures concerning Appointments of Outside Directors of Stock-Listed Corporation)
(1) Any stock-listed corporation that has to appoint outside directors in accordance with the amended provisions of Article 191-16 shall appoint such outside directors in accordance with such amended provisions at the first regular general meeting of shareholders that is convened the first time after the enforcement of this Act. In this case, any person appointed as an outside director at the regular general meeting of shareholders shall be deemed to be recommended by the outside director candidate nominating committee in accordance with the provisions of Article 54-5 (1) and (3) that are applied *mutatis mutandis* by the amended provisions of Article 191-16 (3).

(2) Any stock-listed corporation under the provisions of the proviso of Article 191-16 (1) shall increase the number of outside directors to at least 3 prior to the first regular general meeting of shareholders that is convened the first time after the end of the 2000 business year, but may make the number of outside directors not more than half of the total number of directors on the board.

(3) Any outside director who holds office at a stock-listed corporation at the time that this Act is enforced shall be deemed to be appointed as an outside director under this Act by the time when that person's term of office expires.

Article 9 (Transitional Measures concerning Establishment of Audit Committee of Stock-Listed Corporation)
Any stock-listed corporation that has to establish an audit committee in accordance with the amended provisions of Article 191-17 shall establish such audit committee in accordance with the amended provisions at the first regular general meeting of shareholders that is convened after the enforcement of this Act.

Article 10 (Transitional Measures concerning Standing Auditor following Establishment of Audit Committee of Stock-Listed Corporation)
With respect to any standing auditor (in case that there are at least two standing auditors, the standing auditor designated by the board of directors of a stock-listed corporation) who holds an office at a stock-listed corporation that has to establish an audit committee in accordance with the amended provisions of Article 191-17, where that person's term of office does not expire by the date on which a regular general meeting of shareholders is convened to establish an audit committee in accordance with the provisions of Article 9 of the Addenda and is not dismissed at such regular general meeting of shareholders, that person shall not be deemed an outside director but a member of the audit committee until that person's term of office expires. In this case, such standing auditor shall be deemed a director appointed at a general meeting of shareholders in accordance with the provisions of Article 382 (1) of the Commercial Act.

FUTURES TRADING ACT

Amended by Law No.6171 on January 21, 2000

CHAPTER I GENERAL PROVISIONS

Article 1 (Purpose)
The purpose of this Act is to contribute to protection of customers and investors through promotion of fair and harmonious futures trading and also to national economic development through promotion of the growth of futures business and the development of futures market.

Article 2 (Scope of Application)
This Act shall apply to futures trading of products falling under any of the following:

1. Agricultural, livestock, fishery, forestry, mining or energy goods, any good that is manufactured or processed by such goods and other similar goods thereto (hereinafter referred to as "commodity products");
2. Currency, securities, claims, service fees, or similar items other than commodity products (including products for which interest rates and other trading terms are standardized for effective execution of futures trading; hereinafter referred to as "financial products"); and
3. Indexation of prices, interest rates, etc. of the products referred to in subparagraphs 1 and 2 thereof (hereinafter referred to as "index").

Article 3 (Definitions)
The definitions of terms used in this Act shall be as follows:

1. The term "futures trading" means any transaction which is executed on a futures market in accordance with such standards and procedures prescribed in this Act and determined by the Futures Exchange, which falls under any of the following items and other similar transaction:
   (a) A transaction in which parties agree to deliver and receive a particular commodity product or financial product at specified prices at the specified time in the future, which may be settled by payment or receipt of the difference between the price agreed in advance and the price for resale or repurchase of the products:
   (b) A transaction in which parties agree to pay or receive an amount calculated on the basis of the difference between the agreed-upon value (hereinafter referred to as "agreed value") established in advance with respect to a particular index and the value of such index at a specified date in the future; or
   (c) A transaction in which a party agrees to grant to the other party a right to effectuate transaction falling under any of the following and the other party promises to pay an amount in return for such right:
   (i) Transaction referred to in item (a) or (b) above;
   (ii) Purchase or sale of commodity products or financial products; or
   (iii) Transaction for which the subject matter is an index;
2. The term "overseas futures trading" means a transaction conducted in an overseas futures market and falling under any of subparagraph 1 (a) through (c) or other similar transaction as prescribed by the Presidential Decree;
3. The term "futures market" means a market established by a futures exchange which has obtained an approval in accordance with this Act for the purpose of carrying out futures trading;
4. The term "overseas futures market" means a market similar to a futures market which is located overseas;
5. The term "futures business" means a business involving the execution of futures trading or overseas futures trading (hereinafter referred to as "futures trading, etc.") for its own account or on behalf of a customer or business assuming the duties of a broker, intermediary or agent for a customer;
6. The term "futures dealer" means a person who has obtained an approval under this Act and is engaged in the futures business;
7. The term "customer" means a person who entrusts the execution of futures trading, etc. to a futures dealer;

8. Deleted; <by Act No. 5737, Feb. 1, 1999>
9. The term "foreigner" means an individual who is not a citizen of the Republic of Korea or a foreign corporation;
10. The term "foreign corporation" means:

(a) Corporation established under the laws of a foreign country;
(b) International institution or organization as prescribed by the Presidential Decree;
(c) Entity similar to those mentioned in items (a) and (b) and prescribed in the Presidential Decree; or
(d) Corporation established under the laws of the Republic of Korea, in which persons who do not have Korean nationality or those falling under items (a) through (c) make a capital contribution representing a majority stake or hold a controlling stake.

CHAPTER II FUTURES EXCHANGES

SECTION 1 General Provisions

Article 4 (Organization and Legal Status)
A Futures Exchange (hereinafter referred to as the "Exchange") shall be a juristic person formed by membership.

Article 5 (Activities)
(1) The Exchange shall open and operate a futures market for the purposes of achieving its goals.

(2) Deleted. *<by Act No. 5737, Feb. 1, 1999>*

Article 6 (Prohibition of Opening Similar Facility)
(1) No entity other than the Exchange may open a facility similar to a futures market.

(2) No entity may carry out transactions similar to futures trading in facilities similar to a futures market referred to in paragraph (1).

(3) Deleted. *<by Act No. 5737, Feb. 1, 1999>*

Article 7 (Application *mutatis mutandis* of Civil Act)
Except as otherwise provided in this Act, the provisions for incorporated associations in the Civil Act (except for Article 39 of the said Act) shall apply *mutatis mutandis* to the Exchange. In this case, members, members' general meeting and officers of the Exchange are deemed as members, members' general meeting and directors or other representatives of an incorporated association, respectively.

SECTION 2 Establishment and Dissolution

Article 8 (Permission of Establishment)
(1) Ten or more promoters shall participate in the establishment of the Exchange.

(2) Where promoters referred to in paragraph (1) intend to establish the Exchange, they shall satisfy the relevant capital and facility requirements prescribed by the Presidential Decree and prepare the articles of incorporation referred to in Article 9, business regulations referred to in Article 24, and brokerage contract rules referred to in Article 35 by being equipped with capital stock and facilities as determined by the Presidential Decree and obtain permission thereon from the Minister of Finance and Economy under the conditions as prescribed by the Presidential Decree.

(3) The Minister of Finance and Economy shall, where granting permission referred to in paragraph (2), consult with the other competent Ministers in charge of the pertinent commodity products.

Article 9 (Articles of Incorporation)
(1) Promoters shall prepare the articles of incorporation of the Exchange containing the following and shall have it sealed with their names written or signed:

1. Purpose;
2. Title;
3. Location of office;
4. Matters relating to capital and contributions;
5. Matters relating to members;
6. Matters relating to contributions and member deposits by members;
7. Matters relating to expenses and losses;
8. Matters relating to officers;
9. Matters relating to members' general meeting and board of directors;
10. Matters relating to execution of business;
11. Matters relating to types and products of futures trading to be handled;
12. Matters relating to settlement of futures

trading;
13. Matters relating to accounting; and
14. Method of public notice.

(2) Where the Exchange intends to amend the articles of incorporation, it shall obtain approval from the Minister of Finance and Economy.

(3) Where the Minister of Finance and Economy intends to give approval as referred to in paragraph (2), he shall consult in advance with the Financial Supervisory Commission.

Article 10 (Registration of Establishment)
The Exchange shall come into existence upon registration of its establishment at the location of its main office under the conditions as prescribed by the Presidential Decree.

Article 11 (Reasons for Dissolution and Authorization of Resolution of Dissolution)
(1) The Exchange shall be dissolved in cases falling under any of the following:
1. Where there occurs a cause for dissolution prescribed in the articles of incorporation;
2. Where a members' general meeting adopts a resolution of dissolution;
3. Where the number of members is less than 10;
4. Where it receives a bankruptcy order; or
5. Where approval of establishment is revoked.

(2) Resolution of dissolution referred to in paragraph (1) 2 shall take effect on the date on which the Minister of Finance and Economy grants authorization.

(3) Where the Exchange is dissolved under paragraph (1) 1, 3 or 4, its representative shall without delay report to the Minister of Finance and Economy.

Article 12 (Distribution of Residual Assets)
Except as otherwise provided in the articles of incorporation, remaining assets after dissolution shall be distributed to the members in proportion to their respective contributions.

SECTION 3 Members

Article 13 (Qualifications of Members)
(1) Members of the Exchange shall be futures dealers who meet qualification standards referred to in the articles of incorporation.

(2) Promoters referred to in Article 8 (1) who meet qualifications standards referred to in the articles of incorporation shall become members immediately upon the Exchange's establishment.

(3) Persons other than those referred to in paragraph (2) who intend to become members shall obtain approval from the Exchange under the conditions as prescribed by the articles of incorporation.

Article 14 (Contributions and Liabilities)
(1) Members shall make contributions in accordance with the articles of incorporation. In this case, contributions made by promoters pursuant to Article 8 (2) shall be deemed as contributions satisfying methods prescribed in the articles of incorporation.

(2) Except otherwise provided in this Act and in the articles of incorporation, a member's liability to the Exchange shall be limited to the respective contributions of such member.

Article 15 (Transfer of Shares)
A member may transfer its shares after obtaining approval from the Exchange under the conditions as prescribed by the articles of incorporation.

Article 16 (Withdrawal of Member)
(1) A member may withdraw from its membership of the Exchange after obtaining approval from the Exchange under the conditions as prescribed by the articles of incorporation.

(2) A member shall be deemed to have withdrawn from the Exchange where any of the following cases occur under the conditions as prescribed by the articles of incorporation:
1. Failure to satisfy qualification standards under Article 13 (1);
2. Dissolution of a corporation which is a member; or
3. Expulsion.

(3) Where a member withdraws from the Exchange, the Exchange shall return to such member a sum equivalent to its contributions under the conditions as prescribed by the

articles of incorporation.

Article 17 (Settlement of Remaining Business in Case of Withdrawal)
(1) Where a member withdraws from the Exchange, the Exchange shall, in accordance with the articles of incorporation, direct such member or another member to settle futures trading conducted by such member on the Exchange. In this case, the withdrawing member shall be deemed to maintain his membership to the extent of the settlement of such futures trading.

(2) Where the Exchange directs a member other than the withdrawing member to settle the futures trading pursuant to paragraph (1), a mandate contract shall be deemed to have been concluded between the withdrawing member and such other member.

Article 18 (Member Deposits)
(1) Members shall deposit member deposits with the Exchange to secure the fulfillment of potential liabilities in connection with futures trading.

(2) The Exchange shall not set off the claims obtained pursuant to Article 28 (1) as a result of the fulfillment or acceptance of liabilities on behalf of its members against such member's deposits.

(3) A person who has entrusted futures trading to a member shall have the right to receive payment in preference to other creditors from such member's deposits with respect to claims arising from such entrustment.

(4) The necessary matters regarding the minimum deposit limit, operation and management of member deposits referred to in paragraph (1) shall be determined by the articles of incorporation of the Exchange.

SECTION 4 Organization

Article 19 (Members' General Meeting, etc.)
(1) The Exchange shall have the members' general meeting and the board of directors as its decision-making bodies.

(2) The articles of incorporation shall prescribe necessary matters with respect to the deliberation and administration of the members' general meeting and the board of directors.

Article 20 (Officers)
(1) The Exchange shall have one chairman, two or more directors and one or more auditors, as its officers, under the conditions as prescribed by the articles of incorporation.

(2) The chairman shall be elected at a members' general meeting from among individuals who have sufficient experience and expertise in futures trading as well as high moral and shall be approved by the Minister of Finance and Economy.

(3) Election procedures of directors shall be prescribed by the articles of incorporation.

(4) Auditors shall be elected at a members' general meeting.

(5) The term of each of the chairman, directors and auditors shall be three years.

(6) Deleted. *<by Act No. 5737, Feb. 1, 1999>*

Article 21 (Disqualification of Officers)
Persons who fall within any of the following may not become an officer and shall lose his office if he has already become an officer:

1. A person who is not a Korean national;
2. An officer of a Korean corporation in which either at least one half of its capital or a majority of voting rights belongs to foreigners or foreign corporations;
3. An officer of a foreign corporation;
4. A minor, a person of incompetence, or a person of quasi-incompetence;
5. A person who was bankrupt and has not been reinstated;
6. A person who was sentenced to imprisonment without prison labor or a more severe punishment, and five years have not passed since the completion of (including cases where he is deemed to have completed the execution), or exemption from the execution of, such punishment;

6-2. A person who was sentenced to the suspension of execution of the punishment of imprisonment and whose probation period has not expired;

7. A person who was sentenced to a fine or

a severer punishment under this Act, foreign laws relating to futures trading, or other finance-related laws as prescribed by the Presidential Decree (hereinafter referred to as "finance-related laws"), and five years have not passed since the completion of (including cases where he is deemed to have completed the execution) or exemption from the execution of such punishment; and

8. A person for whom five years have not passed since he was discharged or dismissed under this Act or finance-related laws.
9. A person who was an officer or employee of a juristic person or company whose permit, authorization, etc. for business has been cancelled under this Act, foreign laws relating to futures trading , or other finance-related laws (limited to a person prescribed by the Presidential Decree who is responsible directly or commensurately with regard to the occurrence of causes for such cancellation), and five years have not passed from the date on which such cancellation was made against the relevant juristic person or company.

Article 22 (Trading Restrictions on Officers and Employees)
Except as otherwise provided in the Presidential Decree, an officer or an employee of the Exchange may not become a customer or an investor for his account, regardless of whose account name it may be under.

CHAPTER III FUTURES TRADING

Article 23 (Capacity to Trade)
(1) No person other than a member of the Exchange shall carry out futures trading on the Exchange: p*rovided* that specific futures trading may be carried out by a person other than a member of the Exchange where the articles of incorporation of the Exchange permit such specific futures trading.

(2) A person who can carry out futures trading on the Exchange pursuant to the proviso of paragraph (1) shall be deemed to be a member of the Exchange in applying the provisions of Articles 9 (1) 5 and 6, 14 (2), 16 through 18, 24 (2) 7, 26 through 29, 34, 35 and 36.

Article 24 (Business Regulations)
(1) Necessary matters pertaining to the trading on a futures market shall be prescribed in the business regulations of the Exchange.

(2) Business regulations referred to in paragraph (1) shall contain the following matters:

1. Types and products of the futures trading to be handled;
2. Settlement month of futures trading;
3. Opening and closing of the futures market;
4. Suspension of futures trading;
5. Matters relating to the execution of contract relating to futures trading and restrictions thereon;
6. Method of settlement;
7. Matters on the supervision of members, and disciplinary actions against members and the officers and employees thereto; and
8. Additional necessary matters for futures trading other than those matters given in subparagraph 1 through 7.

(3) Where the Exchange intends to amend its business regulations, it shall obtain approval from the Financial Supervisory Commission.

(4) Where the Financial Supervisory Commission intends to give approval referred to in paragraph (3), it shall consult in advance with the Minister of Finance and Economy.

Article 25 Deleted. *<by Act No. 5737, Feb. 1, 1999>*

Article 26 (Trading Margins)
(1) In order to guarantee the fulfillment of its obligation to the Exchange, a member shall, when carrying out futures trading, deposit a trading margin with the Exchange.

(2) The necessary matters regarding the minimum deposit limit, operation and management of trading margins referred to in paragraph (1) shall be determined by business regulations of the Exchange.

Article 27 (Indemnity Fund for Compensating for Damages)
(1) In order to compensate for damages

arising from the default of obligations with respect to futures trading, the Exchange may have its members reserve an indemnity fund (hereinafter referred to as the "Indemnity Fund").

(2) The necessary matters for the reserve rates, reserve limit, use or operation of the Indemnity Fund shall be determined by the Presidential Decree.

Article 28 (Performance of Obligations, etc. by Exchange)
(1) For effective futures trading, the Exchange may, in accordance with the articles of incorporation and on behalf of its members, exercise or acquire the rights of claims or fulfill or accept the relevant obligations, with respect to such claims and obligations resulting from the futures trading conducted by such members.

(2) Where the Exchange has incurred a loss as a result of such fulfillment or acceptance of obligations as provided in paragraph (1), the Exchange may, in accordance with the articles of incorporation, hold such member or other members liable for either the total amount or a portion of such loss.

Article 29 (Order of Priority in Discharge of Liabilities)
(1) Where a member of the Exchange causes loss to the Exchange or other members due to default of his obligations with respect to futures trading, the Exchange or such non-defaulting member holds the right to preference payment over any other creditors against the defaulting member's member deposits, trading margins (excluding the trading margins belonging to accounts of the customer who is not liable for the default of obligations) and his share in the Indemnity Fund.

(2) Notwithstanding the provisions of paragraph (1), the rights to member deposits by a customer referred to in Article 18 (3) shall prevail over the rights of the Exchange or members.

Article 30 (Public Notice of Price Quotations and Submission, etc. of Reports)
(1) The Exchange shall publish its price quotations that detail each trading day's total volume, the opening, the highest, lowest and closing prices quoted or agreed values for each of all listed futures trading product types.

(2) Deleted. *<by Act No. 5737, Feb. 1, 1999>*

Article 31 (Prohibition of Unfair Trading Practices such as Price Manipulation, etc.)
(1) No person shall, in connection with futures trading, commit any of the following:

1. Submission of an offer of futures trading through prior agreement with other person whereby such other person will simultaneously submit a matching offer to necessarily effectuate the relevant futures trading with an identical price or an agreed value;
2. A false or fictitious transaction without the real intention to transfer the concerned rights in the transactions;
3. Entrustment or acceptance of such entrustment with respect to activities referred to in subparagraph 1 or 2;
4. Trading activities, alone or in co-operation with other persons, giving the wrong impression that the pertinent futures trading is experiencing active trading or attempting to either fix or change market prices of futures trading, for the purpose of soliciting a certain futures trading;
5. Dissemination of rumors to the effect that the market price of futures trading shall change as a result of a market manipulation by itself or other person, for the purpose of soliciting a certain futures trading;

5-2. An attempt to fix or change market prices of the product types subject to futures trading by alone or in co-operation with other persons for the purpose of obtaining unjust profits by itself or the third party in futures trading; or

6. Other activities as prescribed by the Presidential Decree that are in conflict with fair execution of futures trading.

(2) Persons that have violated paragraph (1) shall be liable for the pertinent damages incurred by a person who executed the futures trading, entrusted the futures trading or accepted such entrustment in the futures market based on prices established by such act of violation in connection with the relevant futures trading, and giving or accepting such entrustment.

(3) The right to claim for damages pursuant to paragraph (2) shall lapse by prescription in the event it has not been exercised within 1 year since the claimant became aware of such act of violation of paragraph (1) or within 3 years since such act was committed.

Article 32 (Limits on Trading)
The Financial Supervisory Commission may, in accordance with the Presidential Decree, take measures including limitation on the volume of futures trading of futures dealers and customers and other necessary measures in order to maintain order in the futures market.

Article 33 (Prohibition of Disclosure of Information Obtained While Performing Duties)
Neither persons falling within any of the following, who have obtained, in connection with the duties of their office, information that may have an impact on the determination of prices in the futures market nor any other who have obtained such information from such persons, shall disclose such information, make a profit for themselves or enable a third party to make a profit by using such information:

1. Persons engaged in licensing, approval, permission or supervision pursuant to this Act over futures-related institutions mentioned in Article 81 (1);
2. Officers and employees of an Exchange; and
3. Persons who prepare, establish or execute the policies which may have an impact on the prices of the product types that are subject to futures trading.

Article 34 (Conclusion of Remaining Business in Case of Suspension of Futures Trading)
In the event futures trading are suspended in accordance with this Act or the articles of incorporation or business regulations of an Exchange, Article 17 shall apply *mutatis mutandis* to the settlement of remaining business.

Article 35 (Brokerage Contract Rules)
(1) In accepting consignment of futures trading, members of an Exchange shall comply with brokerage contract rules prescribed by the Exchange.

(2) Brokerage contract rules under paragraph (1) shall contain the following:

1. Conditions for entrustment of futures trading;
2. Method of settlement;
3. House margin and method of deposit thereof;
4. Commission fee and method of collection thereof; and
5. Necessary matters other than those given in subparagraphs 1 through 4 with respect to entrustment of futures trading.

(3) Where the Exchange intends to change its brokerage contract rules, it shall obtain approval from the Financial Supervisory Commission.

(4) Where the Financial Supervisory Commission intends to give approval referred to in paragraph (3), it shall consult in advance with the Minister of Finance and Economy.

Article 36 (House Margin)
(1) Where a member of the Exchange accepts entrustment of futures trading, he shall receive from the customer the house margin in such amount as prescribed by the Exchange.

(2) The necessary matters regarding the minimum deposit limit, operation and management, etc. of house margin under paragraph (1) shall be determined by brokerage contract rules.

CHAPTER IV FUTURES BUSINESS

Article 37 (Permission on Futures Business)
(1) A person who desires to be engaged in futures business shall obtain approval from the Financial Supervisory Commission.

(2) Deleted. . *<by Act No. 5737, Feb. 1, 1999>*

(3) Where a futures dealer which is a foreign corporation (hereinafter referred to as "foreign futures dealer") wishes to open a branch or other forms of business office in order to be engaged in futures business in Korea, it shall obtain approval from the Financial Supervisory Commission.

(4) The branch or other forms of business office of foreign futures dealer established

with an approval under paragraph (3) shall be deemed as a futures dealer for the purpose of this Act, and its operating fund shall be deemed as its capital.

(5) The Financial Supervisory Commission may impose certain conditions to an approval under paragraphs (1) and (3).

Article 38 (Requisites for Permission)
(1) A person intending to obtain the permission for the futures business under Article 37 (1) shall satisfy any of the following:

1. A company with the capital of not less than three billion won;
2. To be capable of protecting the customers, and fully equipped with the manpower and physical facilities such as the computer facilities, etc. sufficient to operate the futures business;
3. Its business plans shall be adequate and sound; and
4. Major shareholders prescribed by the Presidential Decree shall have the sufficient ability for contribution, sound financial status and social standings or credibility.

(2) The foreign futures dealer wishing to obtain an approval to establish a branch or other forms of business offices under Article 37 (3) shall satisfy the any of the following:

1. Operating fund for a branch or other forms of business offices shall be not less than three billion won;
2. To be engaged in and operate futures business under foreign laws;
3. The status of assets, financial soundness and business soundness are sufficient to operate futures business in Korea, and having a high international credibility; and
4. To satisfy the requirements set forth in paragraph (1) 2 and 3.

(3) Matters necessary for the detailed requirements for approval under paragraphs (1) and (2) shall be prescribed by the Presidential Decree.

Article 39 (Public Notice of Approval)
Where a license is granted pursuant to Article 37 (1) and (3), the Financial Supervisory Commission shall, without delay, publicly notify its content on the Gazette as well as notify the public by utilizing a form of computer communications, etc.

Article 39-2 (Maintenance of Quality in Asset Holdings)
(1) A futures dealer shall observe the matters prescribed by the Presidential Decree with respect to the operation of assets, maintenance of sound management, and improvement in business operation in carrying out the futures business.

(2) A branch or other business office of a foreign futures dealer shall hold assets equivalent to the total amount of its operating fund and liabilities in Korea.

(3) A branch or other business office of a foreign futures dealer shall settle accounts independently of its head office, and if the assets held in Korea pursuant to paragraph (2) fall, as a result of the settlement, short of the total amount of its operating fund and liabilities, it shall compensate for such deficiency within sixty days from the date on which its accounts are finalized.

(4) Where a branch or other business office of a foreign futures dealer is liquidated or bankrupt, it shall preferentially appropriate its assets held in Korea for the performance of obligations payable to parties related to carrying out the futures business of the branch or other forms of business office, who have their addresses in Korea at the time of performing the business activities.

Article 39-3 (Ineligibility of Officers)
The provisions of subparagraphs 4 through 9 of Article 21 shall apply *mutatis mutandis* to the officers of futures dealer.

Article 40 (Internal Control Standards)
(1) The futures dealer shall set forth the basic procedures and standards (hereinafter referred to as "internal control standards" in this Article) to be observed by its officers and employees in carrying out their duties, in order to observe the Acts and subordinate statutes, keep a sound asset management, and protect the customers.

(2) Detailed matters to be included in the internal control standards under paragraph (1) shall be prescribed by the Presidential Decree.

Article 41 (Permission for Change of

Business, etc.)
If falling under any of the following, a futures dealer shall obtain authorization from the Financial Supervisory
Commission:

1. Merger, dissolution, or closure of its business;
2. Changes in matters as determined by the Presidential Decree in connection with approval referred to in Article 37 (1) and (3); and
3. Transfer or assumption of all of its business operations (including the cases corresponding thereto).

Article 41-2 (Matters for Report)
The futures dealer shall without delay report on its content to the Financial Supervisory Commission in case it falls under any of the following:

1. Where the trade name is changed;
2. Where the officers are appointed or dismissed;
3. Where there exist changes in the largest shareholders;
4. Where a branch or other form of business office is newly established;
5. Where the location of head office, branch or other from of business office is altered, or its business is suspended, reopened or discontinued; and
6. Where the matters prescribed by the Presidential Decree, which would have a material impact on the performance of its duties, occur.

Article 42 (Settlement of Remaining Business)
In case of revocation of permission, the suspension of all or partial business operations, etc., the futures dealer or its successor shall be deemed to be a futures dealer to the extent of the settlement of futures trading which were executed by such futures dealer.

Article 43 (Prior Notification of Risk in Trading, etc.)
(1) A futures dealer shall, prior to execution of a contract with a customer, notify in writing the customer of potential risk exposure associated with price fluctuation arising from futures trading as well as the possibility of additional liabilities.

(2) A futures dealer shall deliver in writing to the customer the terms and conditions of the contract for the pertinent futures trading with respect to business operations of such futures trading.

(3) The matters to be entered in the written documents, and necessary matters for the notification and delivery referred to in paragraphs (1) and (2) shall be determined by the Presidential Decree.

Article 44 (Prohibition of Self-Contracts)
Where a futures dealer receives an entrustment of a futures trading, etc. or is engaged in brokerage, intermediary or agency of such entrustment (hereinafter referred to as "brokerage, etc."), it shall not become the counter-party effectuating the transaction without filing an application pertaining to the pertinent entrustment with the Exchange or an overseas futures market, or performing the pertinent brokerage, etc.

Article 45 (Prohibition of Improper Solicitation, etc.)
(1) A futures dealer and its officer and employees shall not do any of the following:

1. To solicit the execution of a contract by making a promise to compensate for all or part of the losses incurred by a customer or to guarantee a profit to a customer;
2. To solicit the execution of a contract by presenting a conclusive judgment that leads the customer to the wrong impression that a profit would be guaranteed;
3. To make an offer or a brokerage, etc. without executing a contract and then seek *ex post facto* confirmation from a customer;
4. To acquire entrustment margins or brokerage commissions by using false prices or by employing unjust methods in connection with a contract;
5. To refuse or to unjustifiably delay either the making of an offer or brokerage, etc. of a futures trading, etc. pursuant to a contract or the fulfillment of all or part of the obligations arising from such contracts; or
6. Other acts of conduct prescribed by the Presidential Decree that are in conflict with customer protection in the acceptance of entrustment with respect to futures trading, etc., or that are harmful to the fair execution of futures trading, etc.

(2) A futures dealer and its officers and employees who have violated paragraph (1) shall be liable for the damages incurred by the customer resulting from such transaction.

Article 46 (Documents on Business Operations)
A futures dealer shall prepare and maintain documents on business operations in such manner as prescribed by the Financial Supervisory Commission.

Article 47 (Submission of Business Reports)
A futures dealer shall every financial year prepare a business report in such manner as prescribed by the Financial Supervisory Commission and shall submit the same to the Financial Supervisory Commission within three months after the close of each financial year.

Article 48 (Trading Limits of Officers and Employees, etc.)
(1) Except for cases prescribed by the Presidential Decree, officers and employees of a futures dealer may not commit an entrustment of futures trading, etc. on their account, no matter in what account name it may be under.

(2) A futures dealer may not accept an entrustment of futures trading, etc. whereby the customer gives the futures dealer the full discretion to decide all or a part of trade terms such as the types of futures trading, the price or the volume.

Article 49 (Management of Customer's Assets and Accounting Treatment in Connection with Acceptance of Entrustment of Futures Trading, etc.)
A futures dealer shall comply with the matters prescribed by the Financial Supervisory Commission with respect to the management of monies or securities deposited by the customer in connection with the futures trading, etc., and any other assets belonging to the customer's account, and with respect to the accounting treatment.

Article 49-2 (Separate Custody of Customer Deposits)
(1) A futures dealer shall deposit money deposited from customers, in connection with futures trading or other money belonging to customer's property (hereinafter referred to as "customer deposits") separately from its own property, with a securities finance company referred to in Article 145 of the Securities and Exchange Act (hereinafter referred to as "depository institution").

(2) Where a futures dealer deposits customer deposits with a depository institution pursuant to paragraph (1), it shall specify that such deposits are customer's property.

(3) A futures dealer who has deposited customer deposits pursuant to paragraph (1) (hereinafter referred to as "depository futures dealer") shall not assign or offer customer deposits as security and no person shall set off or attach (including provisional attachment) them, unless the Presidential Decree may otherwise determine.

(4) A depository futures dealer shall withdraw customer deposits deposited with the depository institution and preferentially pay them to customers where the futures dealer falls hereunder. In this case, the futures dealer shall make public notice of such facts such as payment time and place of customer deposits, and other matters relating to the payment of customer deposits in at least two daily newspapers within the period as prescribed by the Presidential Decree:

1. Where it resolves to discontinue its business operations;
2. Where it receives an order for suspension of business operations;
3. Where it has his permission cancelled;
4. Where it resolves to be dissolved;
5. Where it is declared bankrupt; and
6. Where any equivalent cause listed in subparagraphs 1 through 5 occurs.

(5) The depository institution, where it falls under any of the items under paragraph (4), shall preferentially pay customer deposits to the depository futures dealer.

(6) The depository shall operate customer deposits in any method hereunder:

1. Purchase of government bonds and/or municipal bonds;
2. Purchase of bonds for which payment is guaranteed by the Government, local governments or financial institutions; and
3. Other method, prescribed by the Presidential Decree, by which it is

deemed possible to operate customer deposits safely.

(7) The scope, deposit ratios, matters on the withdrawal, and matters on the management of customer deposits to be deposited by a futures dealer with the depository institution under paragraph (1), and other matters necessary for depositing customer deposits shall be determined by the Presidential Decree.

Article 49-3 (Deposit of Customer Securities in Custody)
(1) A futures dealer shall promptly deposit customer securities and bonds or deeds as determined by the Presidential Decree which he is entitled to hold under entrustment of futures trading or other transaction with the Korea Securities Depository established pursuant to Article 173 of the Securities and Exchange Act (hereinafter in this Article referred to as the "Korea Securities Depository").

(2) A futures dealer shall promptly deposit securities, bonds and deeds which he is entitled to hold in connection with management of assets, and which are determined by the Presidential Decree, with the Korea Securities Depository.

Article 50 (Liability Reserve)
(1) A futures dealer shall accumulate a liability reserve to indemnify the customers from any losses that may be incurred due to the default of obligations, violation of laws or negligence by its officers or employees during the course of carrying out futures business.

(2) A futures dealer shall comply with the matters prescribed by the Presidential Decree with respect to the accumulation, operation and management of liability reserves.

Article 51 (Overseas Futures Trading)
(1) Any person wishing to carry out overseas futures trading shall do so through a futures dealer.

(2) Necessary matters pertaining to a futures dealer's acceptance of entrustment with respect to overseas futures trading and fulfillment of a pertinent brokerage, etc. shall be prescribed by the Presidential Decree.

Articles 52 through 60 Deleted. <*by Act No. 5737, Feb. 1, 1999*>

CHAPTER V (Articles 61 through 74)

Deleted. <*by Act No. 5504, Jan. 13, 1998*>

CHAPTER VI FUTURES ASSOCIATION

Article 75 (Establishment)
(1) Futures dealers may, on permission by the Financial Supervisory Commission, establish a futures association (hereinafter referred to as the "Association") for the purpose of maintaining the business order and pursuing sound development of the futures industry.

(2) The Association shall be a juristic person.

(3) If the association wants to change matters as determined by Presidential Decree in articles of association, it shall obtain approval from the Financial Supervisory Commission.

Article 76 (Member Fees)
The Association may, in accordance with the articles of incorporation, impose membership fees on its members.

Article 77 (Affairs)
(1) The Association shall carry out any of the following:

1. Maintenance of mutually autonomous operating environment and protection of the customers;
2. Operation and management of the specialized manpower for the promotion of specialty of the futures dealers;
3. Survey and research of the futures-related systems;
4. Training affairs in regard to the futures transactions;
5. Affairs incidental to the affairs under subparagraphs 1 through 4; and
6. Other affairs prescribed by the Presidential Decree.

(2) The Association shall, in case where it enacts, amends or repeals the regulations concerning its affairs, report thereon without delay to the Financial Supervisory Commission.

Article 78 (*Mutatis mutandis* Application of Civil Code)

Except for special provisions in this Act pertaining to the Association, provisions for corporate juridical persons in the Civil Act (except for Article 39 of the Civil Act) shall apply *mutatis mutandis* to the Association.

Article 79 (Provisions Applied m*tatis mutandis*)
The subparagraphs 4 through 9 of Article 21 shall be applied *mutatis mutandis* to the officers of the Association, and Article 22 to its officers and employees.

Article 80 (Futures Research and Training Institute)
The Association may establish a futures research and training institute for the purposes of enhancing expertise of persons engaged in futures business and spreading expert knowledge of futures trading.

CHAPTER VII SUPERVISION

Article 81 (Report and Inspection)
(1) The Financial Supervisory Commission may order the Exchange, the Association, and futures dealers (hereinafter referred to as "futures-related institutions") to make a report or submit data on their business and property and may have the Governor of the Financial Supervisory Service established under the Act on the Establishment, etc. of Financial Supervisory Organization (hereinafter referred to as the "Financial Supervisory Service") inspect their business, financial status, books, documents or other articles.

(2) A person who conducts an inspection pursuant to paragraph (1) shall carry a certificate showing his powers and produce it to the persons concerned.

(3) The Financial Supervisory Commission may determine the methods and procedures of an inspection and standards for measures for results thereof and other necessary matters.

Article 81-2 (Investigations by Financial Supervisory Commission and Securities and Futures Commission)
(1) Where there exists a violation of this Act, an order under this Act, or any rules or order of the Financial Supervisory Commission or where it is deemed necessary for public interests or the protection of investors, the Financial Supervisory Commission (or the Securities Futures Commission under the Act on the Establishment, etc. of Financial Supervisory Organizations (hereinafter referred to as the "Securities and Futures Commission") where Articles 31 through 33, 44, 45, 48, 51, 93 and 94 are violated; hereinafter in this Article the same shall apply) may order the persons concerned to make a report or submit data for reference or may have the Governor of the Financial Supervisory Service (hereinafter referred to as the "Financial Supervisory Service Governor") inspect books, documents or other articles.

(2) The Financial Supervisory Commission may, if it is deemed necessary for an investigation under paragraph (1), request the persons concerned to perform the following:

1. Submission of a statement on the fact and situations relating to matters to be investigated;
2. Presence for a testimony relating to matters to be investigated; and
3. Submission of books, documents or other articles necessary for an investigation.

(3) The Financial Supervisory Commission may request futures-related institutions to submit data necessary for an investigation on conditions as the Presidential Decree may determine in case where deemed necessary for conducting an investigation referred to in paragraph (1).

(4) Where there exists a violation of this Act, or an order under this Act or any rules or an order of the Financial Supervisory Commission as a result of an investigation referred to in paragraph (1), the Financial Supervisory Commission may give a corrective order or take other measures as determined by the Presidential Decree.

(5) Where it deems that any act is in violation of this Act or an order under this Act or any rules or an order of the Financial Supervisory Commission as a result of surveillance of suspicious transactions, the Exchange shall notify the Financial Supervisory Commission.

(6) The Financial Supervisory Commission may determine standards for procedures and

measures necessary for an investigation referred to in paragraph (1) and measures referred to in paragraph (4) or other necessary matters.

Article 82 Deleted. *<by Act No. 5504, Jan. 13, 1998>*

Article 83 (Supervisory Measures against Exchange)

(1) The Minister of the Ministry of Finance and Economy may revoke the approval for establishment of the Exchange if any of the following occurs:

1. Where it has obtained the approval for establishment in a wrongful manner;
2. Where it violates the content or condition of such approval; or
3. Deleted. <by Act No. 5504, Jan, 13, 1998>

(2) Deleted. *<by Act No. 5504, Jan, 13, 1998>*

(3) Where the Financial Supervisory Commission finds out that an officer or employee of the Exchange has been appointed or employed in a wrongful manner or has violated this Act, orders under this Act, the articles of incorporation, business regulations, or brokerage contract rules of the Exchange, or other rules relating to business, it may, with presenting the reasons, request that the Exchange suspend the exercise of duties of such officer or employee or dismiss such officer or employee.

(4) The Minister of Finance and Economy may, if deemed necessary for maintaining fair trading in the Exchange or for protecting interests of customers or investors, order that such Exchange amend its articles of incorporation, after consultation with the Financial Supervisory Commission.

(5) Where it is deemed necessary for the maintenance of fair trading in the Exchange or the protection of the customers' and investors' interests, the Financial Supervisory Commission may order the Exchange to amend business regulations or brokerage contract rules, after consultation with the Minister of Finance and Economy.

Article 84 (Supervisory Measures against Futures Dealers)

(1) The Financial Supervisory Commission may revoke the business approval of a futures dealer where such futures dealer does any of the following:

1. Where it obtains approval under Article 37 (1) and (3) in a wrongful manner;
1-2. Where it violates the content and condition of the permission under provision of Article 37 (1), (3) or (5)
2. Where it violates the provisions of Article 41;
3. Where it continues to be engaged in business in violation of a business suspension order pursuant to paragraph (2) or receives a business suspension order more than twice; or
4. Where it violates this Act, other than subparagraphs 1 and 3, or orders under this Act and therefore is deemed to be unfit to conduct business activities as a futures dealer.

(2) The Financial Supervisory Commission may order the suspension of the whole or part of a futures dealer's operation for the specified period of one year or less if any of the following occurs:

1. Where the futures dealer violates Articles 39-2, 40, or 43 through 50; or
2. Where the futures dealer is likely to be insolvent in view of his business operations and financial standing and such suspension is deemed inevitable for protecting investors.

(3) Deleted. *<by Act No. 5737, Feb. 1, 1999>*

(4) The provisions of Article 83 (3) shall apply *mutatis mutandis* to other supervisory measures against futures dealers. In this case, the Exchange and its officers or employees shall be deemed to be a futures dealer and its officers or employees, respectively.

(5) The provisions of Article 39 shall apply *mutatis mutandis* to the revocation of approval under the provision of paragraph (1).

Article 84-2 (Hearing)

Where the Minister of Finance and Economy or Financial Supervisory Commission shall hold hearings if it intends to take the following dispositions:

1. Revocation of approval for establishment of the Exchange referred to in Article 83 (1); and
2. Revocation of approval for futures business referred to in Article 84 (1).

Article 85 (Supervisory Measures against Association)
(1) The Financial Supervisory Commission may order the partial suspension of business operations, or other necessary measures against the Association if deemed necessary for public interest and protection of investors.

(2) The provisions of Article 83 (3) shall apply *mutatis mutandis* to other supervisory measures against the Association. In this case, the Exchange and its officers and employees shall be deemed to be a member of the Association and its officers and employees, respectively.

Article 86 (Measures in Emergency Situations)
The Minister of Finance and Economy may order the closure of the futures market or other appropriate measures, in case where it is deemed that the normal execution of futures trading is impossible due to natural disaster, war, national emergency, radical changes in the economic situation or incidents equivalent to the foregoing.

Article 87 (Consultation)
The Minister of Finance and Economy or the Financial Supervisory Commission determines that the measures taken pursuant to Articles 83, 84, 85, and 86 are deemed to have a material impact on the commodity products market, it shall consult with the relevant Minister in charge of such general commodity.

CHAPTER VIII SUPPLEMENTARY PROVISIONS

Article 88 Deleted. <*by Act No. 5737, Feb. 1, 1999*>

Articles 89 through 91 Deleted. <*by Act No. 5504, Jan. 13, 1998*>

Article 92 (Relation with Other Acts)
(1) The Exchange, futures dealers and depository institution shall be deemed as a foreign exchange agency under Article 8 of the Foreign Exchange Transactions Act, in connection with intermediary business of foreign exchange transactions accompanied by futures trading: in case where there are special provisions in this Act pertaining to the Exchange, futures dealers and depository institution, such provisions shall prevail over the Foreign Exchange Transactions Act.

(2) Where foreign exchange transactions (excluding the acceptance and delivery of foreign exchange) of a resident are accompanied by the futures trading under this Act, Article 18 of the Foreign Exchange Transactions Act shall apply only to cases prescribed by the Presidential Decree.

Article 93 (Orders on Over-the-Counter Trading)
(1) Where certain transactions between concerned parties are pursued for the purposes of making a profit or averting risk without going through a futures market (including similar facilities prohibited from being established pursuant to Article 6 (1)) or overseas futures market, which are similar to those of a futures trading, and are in conflict with the underlying purposes of this Act or are deemed to be harmful to the public interest or to the sound order of the market. the Financial Supervisory Commission may issue an order of disclosure of information on transactions or an order of implementation of internal control system or other necessary orders against concerned parties to the relevant transactions in accordance with the Presidential Decree,

(2) The Financial Supervisory Commission may entrust the operation on the supervision of futures trading in other places than futures markets to the Financial Supervisory Service Governor as prescribed by the Presidential Decree.

Article 94 (Restrictions on Futures Trading by Foreigners)
The Financial Supervisory Commission may, if deemed necessary, impose restrictions on the futures trading by foreigners.

Article 95 (Delegation and Entrustment of Powers)
(1) The Financial Supervisory Commission may delegate part of the powers under this Act to the Securities and Futures Commission on such terms and conditions as the Presidential Decree may determine.

(2) The Minister of Finance and Economy may delegate part of the powers under this Act to the Financial Supervisory Commission

and the Securities and Futures Commission on such terms and condition as the Presidential Decree may determine.

(3) The Minister of Finance and Economy or the Financial Supervisory Commission may entrust part of the powers under this Act to the Exchange or the Association on such terms and conditions as the Presidential Decree may determine.

(4) The Financial Supervisory Commission and the Securities and Futures Commission may delegate the power to administer the matters of urgency under this Act to the Chairman of the Financial Supervisory Commission or the Chairman of the Securities and Futures Commission, and minor matters thereof to the Financial Supervisory Service Governor, on such terms and conditions as the Presidential Decree may determine.

(5) The scope of matters of urgency and minor matters referred to in paragraph (4) shall be determined by the Presidential Decree.

Article 95-2 (Deliberation by Securities Futures Commission)
The Financial Supervisory Commission shall refer to the Securities and Futures Commission for prior deliberation in case of any of the following:

1. Where it determines any of the following items:
(a) Deleted. <by Act No. 6171, Jan. 21, 2000>
(b) Matters on the preparation of documents by futures dealers referred to in Article 46;
(c) Matters on the preparation of business reports by futures dealers referred to in Article 47;
(d) Matters on the management and accounting of entrusted property by futures dealers referred to in Article 49;
(e) and (f) Deleted. <by Act No. 6171, Jan. 21, 2000>
2. and 3. Deleted. <by Act No. 5737, Feb. 1, 1999>
4. Where it takes measures or gives orders falling under any of the following items:
(a) Restriction on the size of futures trading and other measures referred to in Article 32;
(b) Order for business suspension to futures dealers referred to in Article 84 (2);
(c) Deleted. <by Act No. 5737, Feb. 1, 1999>
(d) Orders for partial suspension of business operation, etc. against the Association referred to in Article 85 (1);
(e) Orders in respect of over-the-counter transactions referred to in Article 93;
(f) Measures to impose restriction on futures trading by foreigners referred to in Article 94;
5. Where it consults with any competent Minister under Article 87;
6. Where it imposes a fine for negligence pursuant to Article 101 (3); and
7. Where the Financial Supervisory Commission deems that it needs any prior deliberation by the Securities and Futures Commission other than subparagraphs 1 through 6.

Article 95-3 (Direction to and Supervision over Financial Supervisory Service Governor)
The Financial Supervisory Commission or the Securities and Futures Commission may, in case where deemed necessary for the exercise of powers under this Act, give orders to the Financial Supervisory Service Governor such as directions, supervision, and alteration in the method of execution of its affairs, and other orders necessary for supervision.

Article 95-4 (Operations of Financial Supervisory Service)
The Financial Supervisory Service shall carry out the following affairs under directions or supervision of the Financial Supervisory Commission or the Securities and Futures Commission under this Act:

1. Affairs on the inspection of futures-related institutions subject to inspection by the Financial Supervisory Service pursuant to this Act;
2. Affairs on the supervision of futures trading in places other than futures markets;
3. Affairs entrusted from the Government;
4. Affairs assigned under this Act other than subparagraphs 1 through 3; and
5. Affairs incidental to those listed in subparagraphs 1 through 4.

Article 95-5 (Sharing Expenses)

(1) A person who falls under any of the following subparagraphs shall share part of operating expenses of the Financial Supervisory Service:

1. Futures dealers who receive commission fees from customers;
2. Deleted. and <by Act No. 5737, Feb. 1, 1999>
3. Futures-related institutions which undergo an inspection by the Financial Supervisory Service Governor pursuant to Article 81.

(2) The necessary matters for the sharing ratio, limit or the payment of the part of expenses referred to in paragraph (1) shall be determined by the Presidential Decree.

Article 95-6 (Restrictions on Trading by Members and Employees of Financial Supervisory Commission, Securities and Futures Commission, and Financial Supervisory Service)

Article 22 shall apply *mutatis mutandis* to the restrictions on trading by persons falling under any of the following subparagraphs:

1. Commissioners and public officials belonging to the Financial Supervisory Commission;
2. Members of the Securities and Futures Commission; and
3. Governor, Vice Governor, assistant vice governors, auditor and employees of the Financial Supervisory Service.

Article 95-7 (Information Exchange with Foreign Futures Supervisory Authorities)

(1) The Financial Supervisory Commission may exchange information with foreign futures supervisory authorities.

(2) Where the Financial Supervisory Commission intends to exchange information referred to in paragraph (1), it shall consult in advance with the Minister of Finance and Economy: p*rovided* that this shall not apply where the Presidential Decree may otherwise determine.

(3) The Financial Supervisory Commission (or the Securities Futures Commission in case of matters in violation of the provisions of Articles 31 through 33, 44, 45, 48, 51, 93 and 94) may render assistance to the foreign futures supervisory authorities in case where they request the survey or investigation under Articles 81 and 81-2 with the clear statement of purposes and scopes, etc.

CHAPTER IX PENAL PROVISIONS

Article 95-8 (Penal Provisions)

A person who violates the provisions of Article 31 (1) or 33 shall be punished by imprisonment of not more than 10 years or a fine not exceeding 20 million won (or the amount equivalent to three times the profits or evaded loss amount, in case where the amount corresponding to three times the profits gained by the violating acts or evaded loss amount is in excess of 20 million won).

Article 96 (Penal Provisions)

A persons falling under any of the following cases shall be punished by imprisonment of not more than 3 years or a fine not exceeding 20 million won:

1. A person who violates the provisions of Article 6 (1);
2. A person who establishes and operates the Exchange without obtaining approval pursuant to Article 8 (2) or obtains such approval in a wrongful manner;
3. A person who is engaged in futures trading in violation of Article 23;
4. A person who violates the provisions of Articles 44 or 45 (1);
5. A person who is engaged in futures brokerage business without obtaining approval pursuant to Article 37 (1) and (3) or has obtained such approval in a wrongful manner; and
6. Deleted. <by Act No. 5737, Feb. 1, 1999>

Article 97 (Penal Provisions)

A person falling under any of the following cases shall be punished by imprisonment of not more than 2 years or a fine not exceeding 10 million won:

1. A person who violates Article 6 (2);
2. A person who violates Article 9 (2), 24 (3) or 35 (3);
3. Deleted. <by Act No. 5737, Feb. 1, 1999>
4. A person who violates Article 41 ;
5. A person who violates Article 51 (1);
6. Deleted. <by Act No. 5737, Feb. 1, 1999>
7. A person who violates an order issued pursuant to Articles 83 (4) and (5), 84 (2), 85 (1), 86 or 93.

Article 98 (Penal Provisions)
A person falling under any of the following cases shall be punished by imprisonment of not more than 1 year or a fine not exceeding 5 million won:

1. Deleted. <by Act No. 5737, Feb. 1, 1999>
2. A person who violates Article 22 (including the cases where that Article shall apply *mutatis mutandis* pursuant to Articles 79 and 95-6) or 48 (1) and (2);
3. A person who announces a false price chart under Article 30 (1);
4. A person who fails to fulfill written notification or delivery or fulfilled the same in violation of Article 43;
5. Deleted. <by Act No. 5737, Feb. 1, 1999>
6. A person who refuses to comply with a request for investigation by the Financial Supervisory Commission referred to in Article 81-2 (2) (or the Securities and Futures Commission where Articles 31 through 33, 44, 45, 48, 51, 93 and 94 are violated).

Article 99 (Cumulative Imposition of Imprisonment and Fine)
Imprisonment and a fine may be cumulatively imposed on persons who have committed an offence referred to in Articles 95-8, 96 through 98.

Article 100 (Joint Penal Provisions)
Where a representative of a juristic person, or an agent, employer or other employee of a juristic person or individual, violates Articles 96 through 98, during the course of carrying out business of such juristic person or individual, such juristic person or individual, in addition to the very person who committed such offence, shall be subject to a fine to the extent of the amount prescribed in respective Articles.

Article 101 (Fine for Negligence)
(1) A person falling under any of the following cases shall be subject to a fine for negligence not exceeding 5 million won:

1. A person who fails to make a report under Article 11 (3) or makes a false report;
2. A person who violates Article 49;
3. through 5. Deleted. <by Act No. 5737, Feb. 1, 1999>
6. A person who fails to prepare or maintains a report pursuant to Article 46 or make a false representation in such report;
7. A person who fails to submit a business report pursuant to Article 47 or make a false representation in such business report;
8. A person who fails to submit a report or other materials pursuant to Article 81 (1), or makes a false representation in such reports or submits false materials; and
9. A person who refuses, interrupts or avoids an inspection pursuant to Article 81 (1).

(2) A person falling under any of the following cases shall be punished by a fine for negligence not exceeding 3 million won:

1. A person who has failed to keep on file a property ownership list or a register of members or has made a false representation in such list or register in violation of Article 55 of the Civil Code which shall apply *mutatis mutandis* pursuant to Article 7;
2. Deleted. <by Act No. 5504, Jan. 13, 1998>
3. A person who has violated limits under Article 32;
4. A person who has violated Article 41-2, 50 (1) and (2) or 77 (2); and
5. Deleted. <by Act No. 5504, Jan. 13, 1998>

(3) A fine for negligence referred to in paragraphs (1) and (2) shall be imposed and collected by the Financial Supervisory Commission on such term and conditions as the Presidential Decree may determine: *Provided*, that a fine for negligence referred to in paragraph (1) 1 shall be imposed and collected by the Minister of Finance and Economy.

(4) A person who objects to the imposition of a fine for negligence referred to in paragraph (3) may file an objection with the person who is authorized to impose such fine for negligence not later than 30 days after the notification date of such imposition.

(5) Where a person subject to the imposition of a fine for negligence under paragraph (3) files an objection under paragraph (4), the

person who is authorized to impose such fine for negligence shall without delay notify the competent court of such fact, which shall judge the fine for negligence in accordance with the Non-Contentious Case Procedure Act.

(6) Where neither an objection is filed nor a fine for negligence is paid within the period referred to in paragraph (4), the fine for negligence shall be collected according to the examples of the disposition of national taxes in arrear.

ADDENDA
<Act No. 6171, Jan. 21, 2000>

Article 1 (Enforcement Date)
This Act shall enter into force from April 1, 2000.

Article 2 (Transitional Measures on License for Futures Brokerage Business)
Any person who has obtained a license for operating futures brokerage business under the former provisions of Article 37 (1) at the time of entry into force of this Act shall be deemed to have obtained a license under the amendment to Article 37 (1).

Article 3 (Transitional Measures on Ineligibility)
(1) Where a person who was an officer of futures exchange at the time of entry into force of this Act comes to fall into an ineligibility under the amendment to subparagraph 9 of Article 21 due to a cause occurred prior to the enforcement of this Act, he shall, notwithstanding the said amendment, be governed by the former provisions.

(2) Where a person who was an officer of a futures dealer or the Futures Association at the time of entry into force of this Act comes to fall into subparagraphs of 4 through 9 of Article 21 applicable *mutatis mutandis* by the amendment to Articles 39-3 and 79 due to a cause occurred prior to the enforcement of this Act, he shall, notwithstanding the said amendment, be governed by the former provisions.

Article 4 (Transitional Measures on Internal Control Standards of Futures Dealers)
The futures dealer at the time of entry into force of this Act shall confirm its internal control standards referred to in the amendment to Article 40 (1) within six months after the enforcement of this Act.

Article 5 (Relations with Other Acts and Subordinate Statutes following Changes of Name of Futures Trading, etc.)
Where other laws have quoted the futures brokerage business, futures broker or foreign futures broker at the time of entry into force of this Act, they shall be deemed to have quoted the futures trading, futures dealer or foreign futures dealer, respectively.

SECURITIES INVESTMENT TRUST BUSINESS ACT

Amended by Law No. 6179 on January 21, 2000

CHAPTER I GENERAL PROVISIONS

Article 1 (Purpose)
The purpose of this Act is to contribute to the development of the national economy by establishing a securities investment trust system to facilitate investment by investors in securities, etc., and by protecting the beneficiaries of the securities investment trust.

Article 2 (Definitions)
(1) For the purpose of this Act, the term "securities investment trust" (hereinafter referred to as "investment trust") means a trust in which a truster entrusts a trustee with the funds, etc., (hereinafter referred to as "trust property") received from investors for the purpose of investing such funds in securities, etc., and has the trustee invest and manage funds in such specified securities as the truster instructs, and divide the beneficial rights thereof so that investors can acquire them.

(2) For the purpose of this Act the term " securities, etc." means that which falls under any of the following subparagraphs:

1. Securities and securities index (hereinafter referred to as "securities") under the provisions of Article 2 (1) and (2) and Article 2-2 (1) of the Securities and Exchange Act;
2. Bills and obligations issues, sold and intermediated by financial institutions as prescribed by Presidential Decree;
3. Foreign currency securities prescribed by Ordinance of the Ministry of Finance and Economy from among the foreign currency securities under the Foreign Exchange Transactions Act; and,
4. What is prescribed by Ordinance of the Ministry of Finance and Economy from among written instruments that demonstrate a right that has property value.

(3) For the purpose of this Act, the term "management company" means a company that is in the business of acting as truster of the investment trust, and that obtains the license therefor as prescribed in Article 9.

(4) For the purpose of this Act, the term "trustee company" means a company that is in the business of acting as trustee, and is either a trust company prescribed under the Trust Business Act or a financial institution that is concurrently engaging in the trust business.

(5) For the purpose of this Act, the term "selling company" means a company falling under any of the following subparagraphs that is in the business of selling beneficiary certificates as prescribed in Article 10 (1) 2:

1. A securities company under Article 2 (9) of the Securities and Exchange Act;
2. A financial institution established under the Banking Act; and,
3. Other financial institutions as prescribed by Presidential Decree.

(6) For the purpose of this Act, the term "beneficiary" means a person holding the beneficiary certificates issued by the management company under Article 6: Provided, That in case of a registered beneficiary certificates, it refers to a person registered as beneficiary.

Article 3 (Trust Deemed as Securities Investment Trust)
Any trust in which the trustee invests and manages any trust property in any specified securities according to the instructions therefor of the truster for the purpose of having the trustee of the investment trust acquire the beneficial right to them shall be considered as an investment trust.

Article 4 (Prohibition of Similar Investment Trust)
Except as provided by this Act, no person shall engage in any service of receiving cash and any other property, and investing and managing them in any securities with the intention of dividing the beneficial rights there of so that they can be acquired by the general public.

Article 5 Deleted. <by Act No. 5740, Feb. 1, 1999>

Article 6 (Beneficiary Certificates)
(1) The beneficial right to the investment trust shall be divided equally, and the divided beneficial rights shall be represented by the beneficiary certificates.

(2) Issuance of the beneficiary certificates shall be reported in advance to the Financial Supervisory Commission.

(3) A transfer of the divided beneficial right to any investment trust and any other exercise of rights thereunder shall be done by means of the beneficiary certificates: Provided, That in case of the registered beneficiary certificates, it shall be subject to the conditions prescribed by Presidential Decree.

(4) The beneficiaries of the investment trust shall have equal right in proportion to the number of their shares with respect to redemption of the trust principal and distribution of the profits.

(5) The beneficiary certificates shall be issued as securities with no par value and in bearer form: Provided, That they may be issued in the registered form upon request of the beneficiaries.

(6) The registered beneficiary certificates may be converted into the bearer ones upon request of the beneficiaries.

(7) The beneficiary certificates shall be issued by the management company, upon confirmation of the trustee company with respect to the matters prescribed in the subparagraphs of paragraph (10) and the receipt, etc., of the trust money.

(8) The beneficiary certificates shall not be issued unless the total amount of the issue price therefor is paid in full in cash or securities.

(9) If any beneficiary certificate is damaged and becomes unsuitable for circulation, the beneficiary may request the management company for an immediate delivery of a new one.

(10) The beneficiary certificates shall include the following matters and shall be signed and sealed by the representative director of the management company:

1. Serial number;
2. Trade names of the management and trustee companies;
3. Names or titles of the beneficiaries, in case of the registered ones;
4. Amount of the trust principal and number of the total shares of the beneficial right, at the time the securities investment trust contract referred to in Article 2 (1) (hereinafter referred to as "securities trust contract") is concluded;
5. Time and place of distribution of profits;
6. Method of calculation, and method and time of payment, of the trust remuneration and other fees to be paid to the management and trustee companies;
7. Condition of repurchase of the beneficiary certificates, and in case of issuance under Article (8) the notice that request for repurchase cannot be made;
8. In case of an open-end investment trust, the maximum amount of the principal that can be entrusted additionally;
9. In case of beneficiary certificates issued by any additional trust, the total amount of the trust principal and the total number of the shares of the beneficial right, including the original trust principal and the additional principal;
10. In case the management company agrees to make up for the principal or the shortage of profits under Article 19 (2), the details thereof;
11. Calculation method of the base price of the beneficiary certificates; and,
12. The period of contract, if the period of trust contract is fixed.

Article 7 (Repurchase of Beneficiary Certificates)
(1) Any beneficiary may request the management company that has issued the beneficiary certificates to repurchase them in cash: Provided, That if the management company is unable to comply with the request for repurchase due to the dissolution, revocation of permission, suspension of business or any other reason as prescribed by Presidential Decree (hereinafter in this Article referred to as "dissolution, etc."), the beneficiary may request it directly to the trustee company under the conditions as prescribed by Ordinance of the Ministry of Finance and Economy.

(2) Notwithstanding the provisions of paragraph (1), if the beneficiary certificates

are purchased from a selling company, the request for repurchase of such beneficiary certificates shall be made to the selling company: Provided, That if the selling company is unable to comply with the request for repurchase due to a dissolution, etc., under the Securities and Exchange Act or other statutes, the request for repurchase may be made to the management company.

(3) If the management company is, upon receiving the request for repurchase under the proviso of paragraph (2), unable to comply with it due to dissolution, etc., the provisions of the proviso of paragraph (1) shall apply *mutatis mutandis*.

(4) A selling company that has received a request for repurchase under the main sentence of Article 2 shall promptly demand the management company (meaning the trustee company where it falls under paragraph (3)) to comply with the request for repurchase.

(5) The management company or trustee company that is obliged to comply with the request for repurchase pursuant to paragraphs (1) through (4) shall repurchase beneficiary certificates with only cash created by the partial cancellation of a trust.

(6) Where beneficiary certificates are repurchased pursuant to paragraphs (1) through (5), the repurchase price shall be calculated by applying the base price under Article 29 (1).

(7) Where the management company, trustee company, or selling company that has received a request for repurchase pursuant to paragraphs (1) through (3) is unable to repurchase beneficiary certificates by the date specified under the terms and conditions of securities investment trust in Article 21 (1) due to a cause such as a delay in selling securities, it shall promptly notify the beneficiary.

Article 8 (Issue of Irredeemable Beneficiary Certificates)
(1) Notwithstanding the provisions of Article 7, the management company may issue irredeemable beneficiary certificates in the case of an invest trust for which the trust contract period is fixed. In this case, no additional trust shall be made.

(2) In case the management company issues irredeemable beneficiary certificates, and it fails to provide for any separate method to guarantee redemption thereof by the beneficiaries in the terms and conditions of trust prescribed in Article 21, it shall list such beneficiary certificates on the Korea Stock Exchange (hereinafter referred to as the "Stock Exchange") as prescribed in Article 71 of the Securities and Exchange Act: Provided, That such listing on the Stock Exchange may be waived when necessary for the sale of the beneficiary certificates.

(3) If the management company issues any irredeemable beneficiary certificates, the provisions of Articles 6 (10) 11, 21 (2) 11, and 29 shall not be applicable.

CHAPTER II MANAGEMENT COMPANY

SECTION 1 License, etc., for a Management Company

Article 9 (License for Management Company)
(1) Any person who intends to carry out the business of a management company shall obtain a license from the Financial Supervisory Commission with respect to the business of such management company as a stock corporation according to the classification falling under each of the following subparagraphs:
1. Business prescribed in Article 10 (1) 1; and,
2. Businesses prescribed in Article 10 (1) 1 and 2.

(2) The Financial Supervisory Commission may attach conditions to the permission granted under paragraph (1). (3) through (5) Deleted. <by Act No. 6179, Jan. 21, 2000>

Article 9-2 (License Procedures)
(1) Any person who intends to obtain a license in accordance with the provisions of Article 9 (1) shall file an application for such license with the Financial Supervisory Commission as prescribed by Presidential Decree.

(2) The Financial Supervisory Commission shall, when it grants such license in

accordance with the provisions of Article 9 (1), promptly publish the content of such license in the Official Gazette and disclose it to the public through computer telecommunications, etc.

Article 10 (Business of a Management Company)

(1) The management company shall carry on the business falling under each of the following subparagraphs:

1. Management operations of a investment trust:
   (a) Establishment and termination of investment trusts;
   (b) Instruction on the investment and management of trust property; and,
   (c) Other incidental business thereto that is prescribed by Ordinance of the Ministry of Finance and Economy; and,
2. Sale of beneficiary certificates:
   (a) Subscription for and sales of beneficiary certificates;
   (b) Sales and repurchase of beneficiary certificates; and,
   (c) Other incidental business thereto that is prescribed by Ordinance of the Ministry of Finance and Economy.

(2) The management company may engage in the investment advisory business upon registration as prescribed in Article 70-2 (1) of the Securities and Exchange Act (hereinafter referred to as "investment advisory business").

(3) The provisions of Articles 70-3, 70-4, 70-6 and 70-7 of the Securities and Exchange Act shall not be applicable to the case of a management company also engaged in the investment advisory business under paragraph (2): Provided, That the provisions of Article 70-6 shall be applicable limited to the investment advisory business of such a management company.

Article 11 (License Requirements)

(1) Any person who intends to obtain a license under the provisions of Article 9 (1) shall satisfy requirements falling under the following subparagraphs:

1. Paid-in capital of at least 10 billion won;
2. Sufficient personnel and physical facilities including computer equipment to implement the business of the management company;
3. A proper and sound business plan; and,
4. Any major investor prescribed by Presidential Decree is required to have sufficient investment capability, sound financial standing and good social credit.

(2) Necessary matters concerning detailed requirements needed for the license under paragraph (1) shall be prescribed by Presidential Decree.

Article 12 (Qualification of Officers)

(1) Deleted. <by Act No. 5740, Feb. 1, 1999>

(2) Any person falling under any of the following subparagraphs shall be prohibited from being appointed as an officer of any management company and shall be dismissed when found to fall under any of the following subparagraphs after being appointed as such officer:

1. A minor, an incapacitated person or a quasi-incapacitated person;
2. A person who has been declared bankrupt and not yet reinstated;
3. A person who has been sentenced to a punishment heavier than imprisonment without prison labor, or who has been sentenced to a punishment heavier than a fine under this Act or such finance-related statutes or subordinate statutes as determined by Presidential Decree (including the foreign statutes or subordinate statutes equivalent to them; the same shall apply in this Article) and for whom five years have not passed after the execution of sentence is terminated (including cases in which the execution is deemed to have been completed) or becomes exempt;
4. A person who has been sentenced to a punishment heavier than imprisonment without prison labor, and is under its grace period;
5. Any former officer or employee of a corporation or a company whose license, authorization and registration of the business has been cancelled under this Act and other statutes or subordinate statutes related to financial institutions prescribed by Presidential Decree (limited to any person prescribed by Presidential Decree who is responsible directly or indirectly for the occurrence of the cause for the revocation of license, etc.) and for such corporation or

company five years have yet to elapse from the date of the cancellation of the permission, etc.; and,

6. A person for whom five years have not elapsed since that person was dismissed or removed from their office under this Act or such finance-related statutes or subordinate statutes as prescribed by Presidential Decree.

(3) In case that Presidential Decree determines that any standing officer of a management company is in conflict with the interest of any investor or is feared to impair the sound management of such management company, such officer shall be prohibited from working as a managing director of another company or engaging in the business of such company.

Article 13 (Obligation to Secure Fund Managers)
(1) In order to increase the specialization and protect the beneficiaries in investing and operating investment trust property in securities, a management company shall secure fund managers as prescribed by Presidential Decree.

(2) A management company shall not have any person other than the fund managers perform such duties as prescribed by Presidential Decree.

(3) The management company shall register the matters concerning the fund managers referred to in paragraph (1) with the Investment Trust Association prescribed in Article 49 (1).

Article 14 (Trade Name)
(1) A management company shall use in its trade name the terms "investment trust" (in case of a management company that is not engaged in the business prescribed in Article 10 (1) 2, "investment trust management"): Provided, That this shall not apply where a merchant bank prescribed under the Merchant Bank Act is concurrently engaging in the business of a management company.

(2) No person who is not a management company shall use in its trade name the characters "investment trust" or "investment trust management": Provided, That where a management company is converted into a securities company as prescribed by the Securities and Exchange Act, this shall not apply to the securities company during the period as prescribed by Presidential Decree.

Article 14-2 (Internal Control Standards)
(1) Any management company shall set basic procedures and standards (hereinafter referred to as the "internal control standards") for its officers and employees to follow when they perform their duties in order to observe the statutes or subordinate statutes, soundly manage its assets and protect investors.

(2) Any management company shall monitor whether the internal control standards are observed and appoint not more than one person (hereinafter referred to as the "compliance officer") assigned to inspect and report, when any person commits a violation of the internal control standards, such violation to the auditor or the audit committee.

(3) Necessary matters concerning the internal control standards referred to in paragraph (1) and the compliance officer referred to in paragraph (2) shall be prescribed by Presidential Decree.

Article 14-3 (Minority Shareholders' Right)
(1) Any person who has continued to hold not less than 5/100,000 of the total number of stocks issued by a management company (limited to a management company prescribed by Presidential Decree considering the size of its trust property; hereinafter the same shall apply in this Article) for not less than 6 months as prescribed by Presidential Decree may exercise its right as a shareholder in accordance with the provisions of Article 403 (including the case in which Articles 324, 415, 424-2, 567-2 and 542 of the Commercial Act are applied *mutatis mutandis*) of the Commercial Act.

(2) Any person who has continued to hold not less than 25/10,000 (25/20,000 in case of a corporation prescribed by Presidential Decree) of the total number of stocks issued by a management company for not less than 6 months as prescribed by Presidential Decree may exercise its rights as a shareholder in accordance with the provisions of Articles 385 (including the case in which Article 415 of the Commercial Act is applied *mutatis mutandis*) 402 and 539.

(3) Any person who has continued to hold not less than 5/1,000(5/2,000 in case of a corporation prescribed by Presidential Decree) of the total number of stocks issued by a management company for not less than 6 months as prescribed by Presidential Decree may exercise its rights as a shareholder in accordance with the provisions of Articles 363-2 and 466 of the Commercial Act. In this case, the exercise of any right as a shareholder in accordance with the provisions of Article 363-2 of the Commercial Act shall be based on any voting stocks.

(4) Any person who has continued to hold not less than 15/1,000 (15/2,000 in case of a corporation prescribed by Presidential Decree) of the total number of stocks issued by a management company for not less than 6 months as prescribed by Presidential Decree may exercise its rights as a shareholder. In this case, the exercise of any right as a shareholder in accordance with the provisions of Article 366 of the Commercial Act shall be based on any voting stocks.

(5) When the shareholder referred to in paragraph (1) files a legal action in accordance with the provisions of Article 403 of the Commercial Act (including the case in which the provisions of Articles 324, 425, 424-2, 467-2 and 542 of the Commercial Act are applied *mutatis mutandis*) and prevails in such legal action, that person may ask the management company for payment of the expenses of the legal action and other expenses involved in such legal action.

Article 14-4 (Appointment of Outside Directors)
(1) Any management company prescribed by Presidential Decree considering its trust property shall appoint not less than 3 outside directors (referring to persons who have not worked for such management company as managing directors and do not fall under any of the subparagraphs of Article 54-5 (4) of the Securities and Exchange Act; hereinafter the same shall apply). In this case, the number of outside directors shall be not less than half of the total number of directors.

(2) The provisions of Article 54-5 (2) through (5) of the Securities and Exchange Act shall apply *mutatis mutandis* to the appointment of outside directors as described in paragraph (1). In this case, the "securities company" shall be deemed the "management company."

Article 14-5 (Establishment of Audit Committee)
(1) Any management company prescribed by Presidential Decree considering the size of its trust property, etc., shall establish an audit committee (referring to the audit committee under the provisions of Article 415-2 of the Commercial Act; hereinafter the same shall apply).

(2) The provisions of Article 54-6 (2) through (5) of the Securities and Exchange Act shall apply *mutatis mutandis* to the establishment of the audit committee as described in paragraph(1). In this case, the "securities company" in Article 54-6 (4) of the Securities and Exchange Act shall be deemed the "management company."

Article 15 (License Matters)
(1) If a management company falls under any of the following subparagraphs, it shall obtain a license from the Financial Supervisory Commission:
1. Dissolution or suspension of business; or,
2. Merger and transfer or takeover of the entire business (including any equivalent cases).

(2) The Financial Supervisory Committee, when it grants a license as prescribed in paragraph (1), shall take into account matters prescribed by Presidential Decree

Article 15-2 (Matters to be Reported)
When a management company intends to suspend or resume the businesses of its headquarters, branches, or business offices, it shall report thereof to the Financial Supervisory Commission.

Article 16 Deleted. <by Act No. 5740, Feb. 1, 1999>

SECTION 2 Management and Operation of Trust Property

Article 17 (Management of Trust Property)
(1) A management company shall be responsible for managing the trust property as a good custodian and shall protect the interests of the beneficiaries.

(2) A management company may pay out of the trust property expenses and remuneration

arising out of any legal action concluded on behalf of the account of beneficiaries.

(3) A management company shall not have any of its own debt incurred in the name of the beneficiary or pay for it out of any trust property.

(4) Any claim to the management company shall not be offset by any claim belonging to the trust property of the management company.

(5) A management company shall entrust a trustee company with the custody of its trust property. In this case, the trustee company shall manage the trust property, expressly indicating that the property is a trust property and the name of such management company that has entrusted its custody thereon.

(6) A trustee company shall deposit the securities belonging to the trust property the custody of which has been entrusted to it under paragraph (5) with the Securities Depository prescribed in Article 173 of the Securities and Exchange Act under the conditions as prescribed by Presidential Decree.

Article 18 (Operation of Trust Property)
(1) A management company shall invest and operate trust property in the following methods:

1. Selling and buying securities; and,
2. Futures trading or overseas futures trading under subparagraphs 1 and 2 of Article 3 of the Futures Trading Act.

(2) In operating the trust property, a management company may operate part of such trust property in such a way as prescribed by Presidential Decree so as to facilitate the repurchase of beneficiary certificates, and to efficiently operate the standby investment funds.

(3) Matters necessary for the methods or limit of futures trading or overseas futures trading under paragraph (1) 2 shall be prescribed by Presidential Decree.

Article 19 (Distribution, etc., of Profits)
(1) A management company shall distribute to the beneficiaries the profits in cash.

(2) A management company may, with the approval of the Financial Supervisory Commission, issue beneficiary certificates with provisions that provide if a shortfall occurs in the principal or a failure to achieve a pre-determined minimum level of profits, it shall compensate for such shortfalls (hereinafter referred to as "compensation of the principal").

Article 20 (Accumulation of Reserves)
(1) A management company may accumulate the reserves (hereinafter referred to as "reserves") for the purpose of making up for the shortfalls of the principal and the equalization of the distribution under the conditions prescribed by Presidential Decree.

(2) If it is deemed necessary for the purpose of paragraph (1), the Financial Supervisory Commission may order a management company to accumulate the reserves.

(3) The reserves referred to in paragraphs (1) and (2) shall not be used unless in accordance with the criteria determined by the Financial Supervisory Commission.

Article 21 (Conclusion of Trust Contract)
(1) Where a management company desires to enter into a trust contract with a trustee company, it shall do so according to the terms and conditions of the securities investment trust (hereinafter referred to as "terms and conditions of the trust").

(2) The terms and conditions of the trust shall set forth the following matters:

1. Trade names of the management company and the trustee company;
2. Matters concerning the businesses of the management company and the trustee company;
3. Matters concerning the total amount of the trust principal and the total shares of the beneficial right to be issued;
4. Matters concerning the beneficiary certificates;
5. Matters concerning operation and management of the trust property;
6. Matters concerning distribution of profits and redemption;
7. Matters concerning additional trust;
8. Matters concerning the calculation method, time and method of payment of the trust remuneration and other fees paid to the management company and the trustee company;

9. Matters concerning the termination of the trust contract;
10. Matters concerning the modification of the terms and conditions of the trust;
11. Calculation method of the base price of the beneficiary certificates;
12. The trust contract period where it is fixed; and,
13. Other matters as determined by Presidential Decree to protect the public interest or beneficiaries.

Article 22 (Approval on Terms and Conditions of Trust)
(1) If a management company desires to establish terms and conditions of the trust, it shall obtain in advance approval from the Financial Supervisory Commission: Provided, That when a management company establishes the terms and conditions of the trust pursuant to such standardized terms and conditions of the trust as prescribed by the Financial Supervisory Commission, it shall report it to the Financial Supervisory Commission.

(2) If a management company desires to obtain the approval, or make the report, on the terms and conditions of the trust under paragraph (1), it shall append to the application for approval or the report the terms and conditions of the trust and the documents specifying the operational scheme of the trust property and the programs for issuance of the beneficiary certificates.

(3) If a management company desires to modify the terms and conditions of the trust, it shall obtain the approval of the Financial Supervisory Commission: Provided, That where the contents of the terms and conditions of the trust fall under the standardized terms and conditions of the trust, a management company shall report it to the Financial Supervisory Commission.

(4) Any management company may, where new terms and conditions of the trust that it intends to establish are identical in content with the terms and conditions of the trust for which it has obtained authorization under the provisions of paragraph (1) and other terms and conditions of the trust for which it has filed a report, make such new terms and conditions of the trust without seeking authorization or filing a report notwithstanding the provisions of paragraph (1).

(5) Any management company or any selling company shall make its terms and conditions of the trust accessible to investors in a manner as prescribed by the Financial Supervisory Commission.

Article 23 (Approval of Termination of Trust Contract)
(1) A management company may terminate a trust contract with the approval of the Financial Supervisory Commission.

(2) A management company may terminate part of the trust under the conditions as prescribed by Presidential Decree.

(3) Where a management company terminates a trust contract under paragraph (1), it may give securities, etc., that are trust properties to the concerned beneficiaries as prescribed by the terms and conditions of the trust.

Article 24 (Instruction of Acquisition, Sale, etc., of Securities)
A management company shall give the trustee company necessary instructions for the acquisition, sale, etc., of the securities, and the latter shall comply with such instructions.

Article 25 (Exercise of Rights to Trust Property)
(1) A management company may exercise all rights, such as voting rights to the securities, etc., that belong to the trust property: Provided, That the rights other than voting rights shall be exercised by the management company through the trustee company.

(2) Where a management company exercises all the rights such as voting rights under paragraph (1), it shall exercise them in good faith.

Article 25-2 (Restriction on Exercise of Voting Rights concerning Trust Property)
(1) Where a management company falls under any of the following subparagraphs, it shall, notwithstanding the provisions of Article 25 (1), exercise its voting rights so that they do not influence resolutions concluded by those consisting of the number of stocks remaining after subtracting the number of stock equivalent to the trust

property from the number of stocks participating at such shareholders' meeting the corporation which issued stocks belonging to the trust property: Provided, That the same shall not apply to the case in which it clearly expects to incur a loss to trust properties due to a merger of corporations issuing stocks that are trust property of the management company, transfer or takeover of business, appointment of officers, or other equivalent matters:

1. Where a person falling under each of the following items intends to incorporate a corporation that has issued the corresponding stocks that are trust property into their affiliate (hereinafter referred to as "affiliate") under the provisions of subparagraph 3 of Article 2 of the Monopoly Regulation and Fair Trade Act:
   (a) A management company or a person who has an interest prescribed by Presidential Decree in such management company; and,
   (b) A person who virtually exercises its control over a management company and is prescribed by Presidential Decree.
2. A corporation that has issued stocks that are the corresponding trust property is in a relationship falling under any of the following items with the corresponding management company:

(a) Where a relationship with an affiliate exists; or,

(b) Where a relationship prescribed by Presidential Decree makes it possible to virtually exercise control over a management company.

3. Where it is likely to harm the protection of beneficiaries or the proper operation of trust property as prescribed by Presidential Decree.

(2) A management company shall not exercise voting rights of stocks if the stocks belonging to the trust property fall under any of the following subparagraphs:

1. Stocks that are acquired in excess of the limit, etc., as prescribed by Article 33 (1) 1, 2, 2-2, 4, 8, 9 or 9; and,
2. Corporation's stocks that the corporation that issued stocks belonging to the trust property has a management company acquire under the terms and conditions of the trust.

(3) A management company shall not commit any act, etc., to evade the application of paragraphs (1) and (2) such as cross-exercise of voting rights under a contract, etc., with a thirty party.

(4) Where a management company exercises voting rights of stocks belonging to trust property in violation of paragraphs (1) through (3), the Financial Supervisory Commission may order the management company to dispose of the stocks concerned.

(5) The provisions under the proviso of paragraph (1) shall not apply to a management company belonging to a large conglomerate group under the provisions of Article 9 (1) of the Monopoly Regulation and Fair Trade Act.

Article 25-3 (Public Notification on Exercise of Voting Rights)

Where a management company exercises voting rights of matters relating to changes in its management rights such as a merger, transfer or takeover of business, or appointment of officers pursuant to Article 25 (1), it shall give public notice under the conditions as prescribed by Presidential Decree.

Article 26 (Report or Public Notification on Trust Property)

(1) A management company shall submit quarterly business reports and an annual operational report to the Financial Supervisory Commission and the Investment Trust Association under Article 49 (1) as prescribed by Presidential Decree.

(2) The Financial Supervisory Commission and the Investment Trust Association established pursuant to the provisions of Article 49 (1) shall make the documents under paragraph (1) accessible to the public.

(3) The Investment Trust Association shall compare the results of operation including the details of changes in net value for each trust property and make public notification of the results under the conditions as prescribed by Presidential Decree.

Article 26-2 (Financial Audit of Trust Property)

(1) Any management company shall undergo

a financial audit by an auditor (hereinafter referred to as the "auditor") with respect to each of its trust property under the provisions of Article 3 (1) of the Act on External Audit of Stock Companies: Provided, That the same shall not apply to the case prescribed by Presidential Decree.

(2) The Financial Supervisory Commission, where it deems necessary to protect the public interest or investors, may order the auditor to furnish data, file a report and take other necessary measures with respect to the financial audit of the trust property.

(3) The provisions of Article 9 of the Act on External Audit of Stock Companies shall apply *mutatis mutandis* to the financial audit of the trust property under the provisions of paragraph (1).

(4) Necessary matters concerning the appointment of the auditor, audit standards, the power of the auditor, standards for accounting operation, the submission of an audit report and publication shall be prescribed by Presidential Decree.

Article 26-3 (Liability for Damages of Auditor)
(1) Any auditor that fails to record important matters as a result of a financial audit conducted pursuant to the provisions of Article 26-2 (1) in its audit report or falsely enters such important matters, causing damages to any beneficiary using such audit report, shall be liable to compensate such beneficiary for such damages. In this case, if an auditor is a member of an audit team, persons who have participated in the audit shall have joint and several liability to compensate for damages.

(2) Where an auditor is liable to compensate a beneficiary of a trust property for damages, if any director or auditor (referring to members of the audit committee if such committee is established; hereinafter the same shall apply in this paragraph)of the corresponding management company is liable to do so, the auditor, the director or the auditor shall have joint and several liability to compensate for damages.

(3) The provisions of Article 17 (5) through (7) of the Act on External Audit of Stock Companies shall apply mutatis mutandis to the case of paragraphs (1) and (2).

Article 27 (Compilation and Supply of Explanatory Statement on Investment Trust)
(1) Any management company shall, where it intends to solicit the acquisition of beneficiary certificates, compile an explanatory statement on the investment trust to furnish in advance to the Financial Supervisory Commission.

(2) Any management company or any selling company, in soliciting the acquisition of beneficiary certificates, shall furnish prospective buyers with the explanatory statement on investment trust and explain its major contents to them.

(3) Any management company or any selling company may, if necessary, use a simple explanatory statement on the investment trust summarizing major points of the explanatory statement on the investment trust notwithstanding the provisions of paragraph (2). In this case, when any prospective buyer furnished with a simple explanatory statement on investment trust acquires beneficiary certificates, that person shall be furnished with the explanatory statement on investment trust.

(4) Any management company shall compile a report on the operation of the trust property to supply it to the corresponding beneficiaries of the trust property.

(5) Necessary matters to be included in the method of furnishing, etc., the explanatory statement on investment trust, the simple explanatory statement on investment trust and the report on the operation of the trust property according to paragraphs (1),(2) and (3) shall be prescribed by Presidential Decree.

Article 27-2 (Content of Advertisement for Solicitation for Acquisition)
Matters to be included in any advertisement by any management company and any selling company to solicit the acquisition of beneficiary certificates shall be prescribed by Presidential Decree: Provided, That matters relating to important indications and advertisements the provisions of Article 4 (1) of the Act on Fair Indication and Advertisement shall be provided according this Act hereto.

Article 28 (Accounting Operation concerning the Trust Property, Books and Documents, etc.)
(1) Deleted. <by Act No. 5740, Feb. 1, 1999>

(2) Any beneficiary may, during business hours, request any management company or any selling company an examination of the books and documents with respect to the trust property that concerns the beneficiary or the delivery of certified or abridged copies of such books and documents, and such management company or selling company shall not refuse to comply with such request without just cause.

(3) Necessary matters concerning the scope of books and documents that are subject to the request for the delivery of certified or abridged copies shall be determined by the Financial Supervisory Commission.

Article 29 (Public Notice of Price of Beneficiary Certificates)
(1) A management company shall publicly notify the base price of the beneficiary certificates every day.

(2) The base price listed in paragraph (1) shall be valued according to the market value under the conditions as prescribed by Presidential Decree.

Article 30 Deleted. <by Act No. 5558, Sep. 16, 1998>

Article 31 (Termination of Trust Contract)
(1) If a management company or a trustee company falls under any of the following subparagraphs, the management company shall terminate without delay the trust contract related to the trustee company:

1. Where the license granted to the management company concerning the business prescribed in Article 10 (1) 1 is revoked under Article 45;
2. Where the management company is dissolved;
3. Where the management company discontinues the business prescribed in Article 10 (1) 1;
4. Where the management company is converted into a different financial institution under the Act on the Structural Improvement of Financial Industry and fails to obtain the license concerning the business prescribed in Article 10 (1) 1; or,
5. Where the trustee company, due to revocation of its business license or any other reason, is not considered a trust company as prescribed by the Trust Business Act or a financial institution concurrently operating its trust business.

(2) The provisions of paragraph (1) shall not be applicable in any of the following cases:

1. Where the management or the trustee company falls under paragraph (1) 1 or 5 and is instructed to transfer or continue the business related to the trust contract under Article 46 (1) or (2);
2. Where the management company has obtained authorization to transfer the business under Article 15 (1) 2. In this case, it shall be limited to the business that the transfer is authorized;
3. Where a management company is merged, the company that comes into existence thereafter is a management company;
4. Where a company established by a merger of the management company has obtained without delay the permission prescribed in Article 9; or,
5. Where a management company is converted into a different financial institution under the Act on the Structural Improvement of Financial Industry and transfers its business to another management company within such a period as determined by the Financial Supervisory Commission.

(3) Deleted. <by Act No. 5740, Feb. 1, 1999>

SECTION 3 Restriction on Acts

Article 32 (Restriction on Action of Management Company)
(1) For the purpose of ensuring the public interest and protecting the beneficiaries, the Financial Supervisory Commission may order the dispositions under Article 45 (2) to any management company that commits the following acts detrimental to the fair trade of securities, etc.:

1. An act using the trust property to the benefit of a person other than the beneficiary;
2. An act engaging in a trade under an unfair condition significantly different from the ordinary trade terms and

conditions;

3. An act making any person engaging in a short sale with the intention of increasing the commission on sales of a related securities company as prescribed by Presidential Decree (hereinafter referred to as a "related securities company ");
4. An act making any person acquire securities, etc., remaining after a related securities company takeover;
5. An act making any person sell and purchase the stocks, etc., of an enterprise for which the related securities company acted as the manager company as prescribed by Presidential Decree, with the intention of market making for such stocks, etc.,(including stocks with options or stocks with rights to be converted into bonds; hereinafter the same shall apply); and,
6. Other acts that are similar to those referred to in subparagraphs 1 through 5 and prescribed by Presidential Decree.

(2) A management company shall operate its proprietary property for the purpose of the maintenance of sound management and the protection of the beneficiaries as prescribed by Presidential Decree.

Article 33 (Restriction on Instruction related to Operation of Trust Property)

(1) A management company shall not give a trustee company the following instructions : Provided, That this shall not apply where it is not likely to harm the protection of beneficiaries or the operation of the trust property as prescribed by Presidential Decree:

1. An act of investing in the same securities in excess of the rates prescribed by Presidential Decree within 10/100 of the total asset value of each trust property (excluding any beneficiary certificates issued under this Act or the Trust Business Act). In this case, securities except stocks from among securities issued by the same company shall be deemed to be the same items;
2. An act of investing in excess of 20/100 of total the number of stocks issued by the same company using the total asset value of the trust property operated by a management company;

2-2. An act of investing in excess of 10/100 of the total number of stocks issued by the same company using the total asset value of each trust property operated by a management company.

3. Deleted. <by Act No. 5558, Sep. 16, 1998>
4. An act of acquiring any beneficiary certificates (excluding beneficiary certificates issued under Article 3) issued under this Act or the Trust Business Act or stocks issued by a securities investment company under the Securities Investment Trust Business Act in excess of the rates prescribed by Presidential Decree;
5. An act acquiring as trust property any proprietary property of the management company or any securities of a person having such special relation with the management company as prescribed by Presidential Decree (hereinafter referred to as "person specially related");
6. An act acquiring or lending as proprietary property any securities that are the trust property of the management company, or selling or lending them to any specially related persons;
7. An act trading any securities with the intention of benefiting a particular trust property at the sacrifice of another trust property;
8. An act prescribed by Presidential Decree as likely to be detrimental to the protection of beneficiaries or the appropriate operation of the trust property such as any transaction with an affiliated company of the management company, or an act excessively acquiring any securities issued by an affiliated company, etc.;
9. An act of excessively acquiring securities, etc., by a person who virtually controls a management company and is prescribed by Presidential Decree, that may impair the proper management of trust property as prescribed by Presidential Decree;
10. An act of making cross investments in securities, etc., through a contract or collusion with a third person by a management company belonging to a large conglomerate group under the provisions of Article 9 (1) of the Monopoly Regulation and Fair Trade Act; or,
11. Any act that may disrupt the protection of beneficiaries and the security of investment in the trust property as

prescribed by Presidential Decree.

(2) The provisions of paragraph (1) 1, 2 , 2-2 and 4 shall not apply to a trust property that has less than the number of beneficiaries as prescribed by Presidential Decree, in the form of beneficiary certificates issued by methods other than by public offering of new securities or outstanding of new securities under Article 2 (3) and (4) of the Securities and Exchange Act.

(3) Where any investment is unavoidably made in excess of the investment limit under the provisions of each subparagraph of paragraph (1) due to the causes prescribed by Presidential Decree, which include the price fluctuation of securities, etc., that are the trust property and the partial termination of the trust property, such investment shall be deemed to be made consistently with the investment limit. In this case, the management company concerned shall make such investment consistent with the investment limit within 6 months.

Article 34 (Prohibition on Use of Undisclosed Trust Property Operation Information)
(1) Any officers and employees of a management company shall be prohibited from performing the act of trading securities, etc., by using undisclosed information concerning the operation of the trust property operated by their management company or allowing any other person to use such undisclosed information.

(2) Necessary matters concerning the scope of the undisclosed information concerning the operation of the trust property referred to in paragraph (1) shall be prescribed by Presidential Decree.

Article 34-2 (Restrictions on Selling and Buying of Securities, etc., by Officers and Employees)
No officer and employee of a management company shall conduct securities trading or its entrustment thereof in their own account, except as prescribed by Presidential Decree.

Article 35 (Restriction on Interchange of Personnel or Information)
(1) A management company shall not be engaged in an exchange, etc., with an affiliated or selling company as provided below:

1. Concurrent holding of offices or dispatchment of officers and employees;
2. Joint action;
3. Furnishing of information; or,
4. Other acts deemed similar to those referred to in subparagraphs 1 through 3 under Presidential Decree.

(2) The specific scope of the restriction on the exchange, etc., referred to in paragraph (1) shall be prescribed by Presidential Decree.

Article 36 Deleted. <by Act No. 5558, Sep. 16, 1998>

Article 37 (Prohibition of Concurrent Business Operation)
(1) Any management company shall be prohibited from engaging in any other business than the business falling under each of the following subparagraphs:

1. The financial business permitted by other statutes or subordinate statutes (referring to the business prescribed by finance-related statutes or subordinate statutes under the provisions of Article 12 (2) 3); and,
2. The financial business as prescribed by Presidential Decree that the Financial Supervisory Commission acknowledges will not cause any problem with the protection of beneficiaries and the financial soundness of such management company, even if such financial business is managed by a management company.

(2) Any financial business under the provisions of paragraph (1) 2 that a management company has obtained a license or authorization, etc., from the Financial Supervisory Commission or filed a registration with the Financial Supervisory Commission in accordance with other statutes or subordinate statutes shall be deemed to be authorized by the Financial Supervisory Commission in accordance with the provisions of paragraph (1) 2.

CHAPTER III TRUSTEE COMPANIES AND SELLING COMPANIES

Article 38 (Business of Trustee Company)
A trustee company shall carry on the following business according to the instruction of the management company

prescribed in Article 24:

1. Payment of the purchase price of securities, etc.;
2. Delivery of securities incidental to the sale of securities, etc.;
3. Receipt of interests and dividends relating to the invested securities, etc.;
4. Payment of the repurchase price and profits of the beneficiary certificates; and,
5. Other businesses prescribed by Presidential Decree.

Article 39 (Prohibition of Use, etc., for the Proprietary Property of the Trustee Company)

(1) A trustee company shall not use the entrusted trust property for the interests of its proprietary property.

(2) If a management company has instructed a trustee company to sell or acquire the trust property, the trustee company may not comply with it by means of selling or acquiring its own proprietary property or other trust property.

Article 40 (Separation and Management of Trust Property)

(1) Deleted. <by Act No. 5740, Feb. 1, 1999>

(2) A trustee company shall not be a selling company of the entrusted trust property concerned, unless it is authorized by the Financial Supervisory Commission.

Article 41 (Demand for Change of Operational Instruction of Trust Property, etc.)

(1) Where any operational instructions with respect to the trust property of a management company are in contravention of the terms and conditions of the trust, the trustee company may ask management company to withdraw or alter such operational instructions or take corrective measures.

(2) If the management company fails to comply with the request referred to in paragraph (1), the trustee company may raise an objection to the Financial Supervisory Commission and shall publish the contents thereof as prescribed by the Financial Supervisory Commission. In this case, both the management company and the trustee company shall abide by any decisions made by the Financial Supervisory Commission in accordance with the standards prescribed by Presidential Decree.

Article 41-2 (Registration of Selling Companies)

Where a person falling under any of the subparagraphs of Article 2 (5) intends to be engaged in selling beneficiaries certificates, that person shall register with the Financial Supervisory Commission in accordance with the provisions of Presidential Decree.

CHAPTER IV BUSINESS OF FOREIGN MANAGEMENT COMPANY

Article 42 (License of Foreign Management Company)

(1) Where a foreign management company (a company that is engaged in the business of a management company in a foreign country pursuant to foreign statutes or subordinate statutes; hereinafter the same shall apply) desires to establish a branch office or a business office to engage in the business of a management company in Korea, it shall obtain a license from the Financial Supervisory Commission under the conditions as prescribed by Presidential Decree.

(2) Any foreign management company that has failed to obtain a license under the provisions of paragraph (1) shall be prohibited from operating a management company for domestic residents.

(3) Any branch office or any business office that has been granted a license in accordance with the provisions of paragraph (1) shall be deemed a domestic management company incorporated under this Act.

(4) Where a branch or business office of a foreign management company in Korea is liquidated, or becomes bankrupt, its assets held in Korea shall be used by giving priority to the repayment of obligations to persons having their domiciles or residences in Korea. In this case, the scope of such assets held in Korea shall be prescribed by Presidential Decree.

(5) Where it is deemed difficult for a domestic branch or other business office of a foreign management company to conduct business due to a violation of this Acts, any

order or disposition issued or made under this Act, or any foreign statutes or subordinate statutes, the Financial Supervisory Commission may cancel its license, suspend the business, or take other necessary measures in order to protect the public interest or the investors. This shall also apply where it is deemed difficult for a domestic branch or other business office of a foreign management company to conduct business due to a violation of foreign statutes or subordinate statutes by the foreign management company.

(6) Any business fund of the domestic branch office or other business office that has been granted a license in accordance with the provisions of paragraph (1) shall be deemed its paid-in capital in applying this Act.

(7) The Financial Supervisory Commission may attach any conditions to the license when it is granted in accordance with the provisions of paragraph (1).

(8) Other matters necessary for the domestic business of a foreign management company shall be prescribed by Presidential Decree.

Article 42-2 (Procedures for License)
The provisions of Article 9-2 shall apply *mutatis mutandis* to any license granted for the domestic branch office or other business office of a foreign management company.

Article 42-3 (Requirements for License)
(1) Any person who intends to obtain a license in accordance with the provisions of Article 42 (1) shall satisfy the requirements falling under each of the following subparagraphs:

1. The business fund of the domestic branch office or other business office is not less than 3 billion won;
2. Sufficient personnel and physical facilities, including computer equipment, to carry out the business of the management company;
3. An appropriate and sound business plan;
4. The current property and the financial capability and business of the foreign management company are sound enough to carry out the business of such management company and such foreign management company enjoys a high international credit rating; and,
5. It is required that the foreign management company intending to establish its domestic branch office or other business office is presently running a management company in accordance with foreign statutes or subordinate statutes.

(2) Necessary matters concerning specific requirements for the license referred to in paragraph (1) shall be prescribed by Presidential Decree.

Article 42-4 (Sale of Foreign Beneficiary Certificates in Korea)
(1) Where a foreign management company desires to sell beneficiary certificates that are issued in a foreign country under foreign statutes or subordinate statutes (hereinafter referred to as "foreign beneficiary certificates") in Korea, it shall report to the Financial Supervisory Commission as prescribed by Presidential Decree.

(2) The provisions of Articles 27, 28 (2) and (3), 29 (1) and 31 shall apply *mutatis mutandis* to the sale of foreign beneficiary certificates in Korea. In this case, the term "management company," "trustee company," or "beneficiary certificates" shall be deemed to mean "foreign management company," "foreign trustee company," or "foreign beneficiary certificates," respectively.

(3) Where a management company sells foreign beneficiary certificates as an agent, it shall be, in applying the provisions of Articles 7 and 43, a selling company.

(4) The methods of sale of foreign beneficiary certificates in Korea or other necessary matters shall be prescribed by Presidential Decree.

CHAPTER V SUPERVISION

Article 43 (Supervision, Examination, etc.)
(1) The Financial Supervisory Commission may, when it deems necessary for the public interests or the protection of stockholders, order the management company, trustee company or selling company to submit materials or to make a report on the business and property of the management company or the selling company.

(2) The Governor of the Financial

Supervisory Service may examine the business and property of the management or selling company.

(3) The Governor of the Financial Supervisory Service may, when deemed necessary for the examination, request the management company, trustee company or selling company to submit materials concerning the business and property of the management company or the selling company, and the attendance and testimony of involved persons.

(4) Any person who conducts an examination pursuant to paragraph (2) shall present credentials indicating their authority any interested persons.

(5) The Governor of the Financial Supervisory Service shall, when conducting an examination in accordance with the provisions of paragraph (2), report the results to the Financial Supervisory Commission. In this case, where the Governor of the Financial Supervisory Service finds a violation of this Act or other statutes or subordinate statutes prescribed by Presidential Decree or a violation of a disposition taken in accordance with this Act, the governor shall recommend, attached with a statement of the governor's opinion on how to deal with such violation, necessary measures to the Financial Supervisory Commission.

(6) The Financial Supervisory Commission may determine necessary matters concerning the method of and procedures for the examination referred to in paragraph (2), standards for taking measures based on the results of such examination and other examination business.

(7) Deleted. <by Act No. 5558, Sept. 16, 1988>

Article 44 (Contribution)

(1) Management companies and selling companies that are examined by the Governor of the Financial Supervisory Service shall pay a contribution to cover the examination expenses to the Financial Supervisory Service.

(2) The ratio, ceiling, and other necessary matters regarding the payment of contribution mentioned in paragraph 1 shall be prescribed by Presidential Decree.

Article 45 (Revocation, etc. of License)

(1) Where a management company falls under any of the following subparagraphs, the Financial Supervisory Commission may cancel its license:

1. Where a management company that has obtained a license through fraudulent or other improper means;
2. Where a management company has violated this Act, an order or disposition issued or made under this Act, or statutes or subordinate statutes relating to the trust, securities, or other investment trust;
3. Where a management company has failed to comply with the contents or conditions of a license;
4. Where it is deemed that a management company is unable to continue its business due to extremely insufficient assets; or,
5. Where it is deemed that a management company harms the public interest or goes against the protection of beneficiaries by incurring serious losses to the trust property through the improper operation of its business.

(2) Where a management company falls under any of the subparagraphs of paragraph (1) above, the Financial Supervisory Commission may impose a disposition, etc., falling under any of the following subparagraphs:

1. Deleted. <by Act No. 5982, May 24, 1999>
2. Suspension of all or part of the business;
3. Order the restriction of any additional trusts upon the original trust contract concerned or the conclusion of any new trust contracts;
4. Order the termination of any trust contracts made under the terms and conditions of the trust concerned or the modification of the terms and conditions of the trust;
5. Order by the Financial Supervisory Commission for the management company to transfer the business concerning a trust contract to another management company, after receiving the consent of the trustee company that is the counterpart to the trust contract and the management company that is to

take over the contract; and,

6. Request for removal of officers or other matters as prescribed by Presidential Decree.

(3) Where a selling company has violated this Act, or an order or disposition under this Act, the Financial Supervisory Commission may revoke the registration or order the suspension of the selling business of beneficiary certificates.

(4) When the license of a management company is cancelled in accordance with the provisions of paragraph (1), such management company shall be dissolved.

(5) The provisions of Article 9-2 (2) shall apply *mutatis mutandis* to the cancellation of a license under the provisions of paragraph (1).

Article 46 (Order of Taking Over Trust Contract)

(1) Where it is deemed necessary to maintain a trust contract concluded by the management or trustee company for the purpose of protecting the public interest or beneficiaries, in taking a disposition of revocation of a license or authorization upon a management company or trustee company, the Financial Supervisory Commission may order the management company or trustee company to transfer the affairs concerning the trust contract to another management company or trustee company that has given its consent thereto, after the Financial Supervisory Commission obtains the consent of the management company or trustee company, the counterpart to the trust contract, and the other management company or trustee company.

(2) If it is impossible to obtain, under paragraph (1), the consent of the trustee company that is the counterpart to the trust contract, or the other management company, the Financial Supervisory Commission may have the management company that is the subject of the license revocation disposition, its business, under such conditions as fixing the duration, etc., of such trust contract . In this case, the management company shall be considered not to be subject to the license revocation disposition to that extent.

Article 47 (Order of Public Notice)

Where a management or trustee company falls under any of the following subparagraphs, and it is deemed unavoidable for the protection of the public interest or beneficiaries, the Financial Supervisory Commission may order the management or trustee company to notify such fact publicly through two or more daily newspapers: Provided, That such public notice may be made in summary with the approval of the Financial Supervisory Commission:

1. If any modification of the terms and conditions of trust is approved under Article 22 (3), such modified matters; or,
2. If a report on the trust property prescribed in Article 26 is submitted, the matters mentioned in the report.

Article 48 (Supervisory Order by Financial Supervisory Commission)

The Financial Supervisory Commission may order the management, trustee or selling company to deposit property as prescribed in Article 16 of the Trust Business Act, change their business execution methods or other necessary matters where it deems that their business operations are not proper or they may harm the rights and interests of beneficiaries due to their poor financial standing.

CHAPTER VI INVESTMENT TRUST ASSOCIATION

Article 49 (Establishment, etc., of Investment Trust Association)

(1) For the purpose of maintaining harmonious cooperation and order in the business among members, protecting the beneficiaries, and providing the sound development of investment trusts, the Investment Trust Association (hereinafter referred to as the "Association") shall be established.

(2) Except as provided otherwise by this Act, the provisions of the Civil Act concerning a corporate juristic person shall be applicable *mutatis mutandis* to the Association.

Article 50 (Members)

The regular members of the Association shall be the management companies, and, the trustee companies and selling companies shall be associate members.

Article 51 (Activities)
(1) The Association shall carry out the following activities in accordance with the provisions of its articles of association:

1. The business of maintaining a sound and orderly business order among its members and protecting beneficiaries;
2. Maintaining stability in the operation of the trust property;
3. Affairs concerning registration of fund managers;
4. Research and study concerning the investment trust system;
5. Management and operation of the investment trust stabilization fund;
6. The business entrusted under this Act or other statutes or subordinate statutes in relation to the protection of beneficiaries; and,
7. Other business related to the business referred to in subparagraphs 1 through 6.

(2) Deleted. <by Act No. 5558, Sep. 16, 1998>

Article 52 (Articles of Association and Rules)
(1) Where the Association intends to change matters prescribed by Presidential Decree within its articles of association, it shall obtain authorization from the Financial Supervisory Commission.

(2) The articles of association shall include the following matters:

1. Purpose;
2. Title;
3. Address of the office;
4. Eligibility for membership;
5. Self-regulation measures over members; and,
6. Other matters concerning the operation of the Association.

(3) Where the Association establishes or modifies regulations relating to its operations, it shall make a report to the Financial Supervisory Commission.

Article 52-2 (Establishment of Investment Trust Stabilization Fund)
(1) The Association may establish a fund that is contributed by members for the purpose of mutual aid between themselves (hereinafter referred to as the "investment trust stabilization fund").

(2) The Association may provide funds to any members who lack funds due to a request for repurchase by the beneficiary, etc., from the invest trust stabilization fund's account.

(3) The Association may recommend members to contribute to the investment trust stabilization fund as deemed necessary to protect the public interest and beneficiaries.

(4) Matters necessary for the management and operation of the investment trust stabilization fund shall be determined by the Association.

Article 53 Deleted. <by Act No. 5740, Feb. 1, 1999>

Article 54 (Applicable Provisions)
The provisions of Articles 12, 43, 45 and 48 shall apply *mutatis mutandis* to the Association.

CHAPTER VII SUPPLEMENTARY PROVISIONS

Article 55 (Dissolution and Liquidation of Management Company)
Except as provided by this Act, the provisions of the Trust Business Act concerning the dissolution and liquidation of the trust company, shall be applicable *mutatis mutandis* to the dissolution and liquidation of the management company.

Article 56 Deleted. <by Act No. 5558, Sep. 16, 1998>

Article 57 (Securities Saving Service, etc.)
(1) Notwithstanding the provisions of Article 37, a management company (excluding those that do not engage in the business prescribed in Article 10 (1) 2; hereinafter the same shall apply in this Article), may engage in the business of accepting any trust of money or securities (including the beneficiary certificates; hereinafter in this paragraph the same shall apply), and investing it in securities, etc., (hereinafter referred to as "securities saving service"). In this case, the provisions of the Trust Business Act shall not be applicable.

(2) A management company shall carry on the service referred to in paragraph (1)

according to the securities savings contract.

(3) Where a management company makes or modifies the securities savings contract referred to in paragraph (2), it shall make a report in advance to the Financial Supervisory Commission.

(4) The securities savings contract referred to in paragraph (2) may, in case where the principal is reduced, or it fails to gain the minimum profit as determined in advance, provide the method, thereof.

Article 58 (Hearing)
Where the Financial Supervisory Commission intends to impose a disposition falling under any of the following subparagraphs, it shall hold a hearing:

1. Revocation of license of a management company under Article 45 (1); or,
2. Revocation of registration of a selling company under Article 45 (3).

Article 58-2 (Entrustment of Business Operations)
The Financial Supervisory Commission may entrust part of the business prescribed by this Act to the Governor of the Financial Supervisory Board or the Association (on) under the conditions as prescribed by Presidential Decree.

CHAPTER VIII PENAL PROVISIONS

Article 59 (Penal Provisions)
Any person who falls under any of the following subparagraphs shall be punished by imprisonment for not more than five years, or a fine not exceeding thirty million won:

1. A person who has violated the provisions of Article 4;
2. Deleted. <by Act No. 5740, Feb. 1, 1999>
3. A person who has carried out the business of a management company without obtaining the license prescribed in Article 9 (1);
4. A person who has obtained the license prescribed in Article 9 (1) by deceitful or other improper means;

4-2. A person who has exercised voting rights in violation of the provisions of Article 25-2 (1) through (3);

5. A person who has violated the provisions of Article 32 or 33;

5-2. A person who has engaged in business transactions by using undisclosed information pertaining to the operation of a trust property or allowing other persons to use such information in contravention of the provisions of Article 34 (1);

6. A person who has established any branch or business office without obtaining the permission prescribed in Article 42 (1); and,
7. A person who has obtained a license prescribed in Article 42 (1) by deceitful or other improper means.

Article 60 (Penal Provisions)
Any person who falls under any of the following subparagraphs shall be punished by imprisonment for not more than three years or a fine not exceeding twenty million won:

1. A person who has violated an order as prescribed by Article 20 (2);

1-2. A person who has violated an order for disposal of stocks as prescribed by Article 25-2 (4);

1-3. A person who has failed to undergo a financial audit as prescribed by Article 26-2 (1) without any justifiable reasons;

1-4. A person who has leaked secrets with respect to a financial audit of trust property in contravention of Article 26-2 (3);

2. A person who has violated the provisions of Article 35;
3. Deleted. <by Act No. 5558, Sep. 16, 1998>
4. A person who has violated the provisions of Article 39;

4-2. A person who has failed to ask for withdrawal, alteration or correction thereof in contravention of the provisions of Article 41 (1);

4-3. A person who has sold foreign beneficiary securities in Korea without filing a report in contravention of the provisions of Article 42-4 (1); and

5. A person who has violated an order prescribed by Article 48 (including a case where it is applicable under Article 54).

Article 61 (Penal Provisions)
Any person who falls under any of the following subparagraphs shall be punished by imprisonment for not more than one year or a fine not exceeding five million won:

1. A person who has complied with a

request for repurchase in violation of Article 7 (5);

1-2. A person who has violated the provisions of Article 14 (2);

2. A person who has violated the provisions of Article 17 (5);

2-2. A person who has failed to deposit securities in the Securities Depository in violation of Article 17 (6);

3. A person who has violated the provisions of Article 20 (3);

4. A person who has made or amended the terms and conditions of the trust without obtaining the approval under Article 22 (1) (text) or (3);

4-2. A person who has failed to report the details of a trust property at the time of establishment in contravention of Article 22 (4);

5. A person who has terminated a trust agreement without obtaining the approval prescribed in Article 23;

6. A person who has obtained the approval under Article 22 (1), 22 (3) or 23 by deceitful or other improper means;

6-2. A person who has failed to disclose how they exercised their voting rights in violation of Article 25-3;

6-3. A person who has rejected, interfered with or evaded an order given by the Financial Supervisory Commissions to furnish data and file a report or who has furnished false data in contravention of Article 26-2 (2);

7. A person who has failed to file an explanatory statement on an investment trust under the provisions of Article 27 (2), (3) and (5), and Article 42-4 (2) or compiled a false simple explanatory statement on an investment trust for submission;

7-2. A person who has failed to file a report on the operation of a trust property under the provisions of Article 27 (4) and Article 42-4 (2) or compiled a false report thereof for submission;

7-3. A person who has failed to enter matters that have to be entered in an advertisement for sale solicitation in contravention of the provisions of Article 27-2;

8. A person who has violated the provisions of Article 31 (1);

8-2. A person who has sold and bought or consigned the securities in violation of Article 34-2;

9. A person who has violated the provisions of Article 40; and

10. A person who has violated the conditions under Article 46 (2).

Article 62 (Penal Provisions)

Any person who falls under any of the following subparagraphs shall be punished by a fine not exceeding three million won:

1. Deleted. <by Act No. 5558, Sep. 16, 1998>
2. A person who has violated the provisions of Article 17 (3) or (4);
3. A person who has established or changed the terms and conditions of the trust without making the report prescribed in the proviso of Article 22 (1) or the proviso of paragraph (3) of the same Article, or who makes a false report; or,
4. and 5. Deleted. <by Act No. 5740, Feb. 1, 1999>

Article 63 (Joint Penal Provisions)

If a representative of a juristic person, or an agent, employee or other personnel of a juristic person or an individual, commits an offense prescribed in Articles 59 through 62 in connection with the affairs of the juristic person or the individual, the fine prescribed in the respective Article shall also be imposed on such a juristic person or individual in addition to the punishment upon the offender.

Article 64 (Fine for Negligence)

(1) Any person who falls under any of the following subparagraphs shall be punished by a fine for negligence not exceeding ten million won:

1. Deleted. <by Act No. 5740, Feb. 1, 1999>
2. A person who has violated the provisions of Article 26;
3. A person who has violated the provisions of Article 28;
4. Deleted. <by Act No. 5740, Feb. 1, 1999>
5. A person who failed to submit the materials or report prescribed in Article 43 (1) and (3) (including the case where it is applicable under Article 54) or who submits false materials or report; or,
6. A person who has refused, interfered with, or evaded the examination prescribed in Article 43 (2) (including

cases where it is applicable under Article 54).

(2) The fine for negligence referred to in paragraph (1) shall be imposed and collected by the Financial Supervisory Commission in accordance with the provisions of Presidential Decree.

(3) Any person who is dissatisfied with the disposition of the fine for negligence referred to in paragraph (2) may file an objection with the Financial Supervisory Commission within thirty days after being informed of the disposition.

(4) If a person who is subject to the disposition of fine for negligence under paragraph (2), has made an objection under paragraph (3), the Financial Supervisory Commission shall notify without delay the competent court, which shall, upon receiving the notification, bring the case of fine for negligence into a trial under the Non-Contentious Case Litigation Procedure Act.

(5) If there is no objection made, and the fine for negligence is not paid, during the period referred to in paragraph (3), it shall be collected according to the procedures for recovery of national taxes in arrears.

ADDENDA

<Act No. 6179, Jan. 21, 2000>

Article 1 (Enforcement Date)
This Act shall enter into force on April 1, 2000: Provided, That the amended provisions of Article 14-3 through Article 14-5 shall enter into force on the date of its promulgation.

Article 2 (Application Example concerning Financial Audit of Trust Property)
The amended provisions of Article 26-2 and Article 26-3 shall apply starting with the investment trust (including the investment trust established according to the terms and conditions of the trust that were enacted or amended prior to the enforcement date of this Act and additionally trusted after the enforcement date of this Act) established according to the terms and conditions the of trust that are first enacted and altered after the enforcement date of this Act.

Article 3 (Transitional Measures concerning Qualifications of Officers)
Officers of a management company at the time that this Act is enforced who meet the cause for disqualification as described in the amended provisions of Article 12-2 due to reasons that occurred prior to the enforcement date of this Act shall be dealt with according to the previous provisions notwithstanding the amended provisions.

Article 4 (Transitional Measures concerning Internal Control Standards of Management Company)
A management company in existence at the time that this Act is enforced shall establish internal control standards in accordance with the amended provisions of Article 14-2 (1) within 6 months after the enforcement of this Act.

Article 5 (Transitional Measures concerning the Appointment of Outside Directors of Management Company)
Any management company that has to appoint outside directors in accordance with the amended provisions Article 14-4 shall appoint them by the time that a regular general meeting of shareholders is convened for the first time after the enforcement of this Act. In this case, any persons appointed as directors at such a regular general meeting of shareholders shall be deemed to be recommended as such directors by the outside director candidate recommendation committee in accordance with the provisions of Article 54-5 (2) and (3) of the Securities and Exchange Act.

Article 6 (Transitional Measures concerning Establishment of Inspection Committee)
Any management company that has to establish an audit committee in accordance with the amended provisions of Article 14-5 shall establish such audit committee by the time that a regular general meeting of shareholders is convened for the first time

after the enforcement of this Act.

Article 7 (Transitional Measures concerning Restrictions on Operational Instructions to Management Company)
Any management company that is in excess of the investment limit under the amended provisions of Article 33 (1) 2-2 at the time that this Act is enforced shall make its investment conform to the investment limit within 6 months after the enforcement of this Act.

SECURITIES INVESTMENT COMPANY ACT

Amended by Law No. 6174 on January 21, 2000

CHAPTER I GENERAL PROVISIONS

Article 1 (Purpose)
The purpose of this Act shall be to contribute to the development of the national economy by providing diversified securities investment means for investors and stimulating investment in the capital market through stipulating the matters necessary for the establishment of mutual funds, the methods of asset management, and the issuance and redemption of stocks.

Article 2 (Definition)
The terms used in this Act shall be defined as follows:

1. The term "mutual fund" means a company established under this Act for the purpose of distributing the profits gained from investing its assets in securities, etc., to its stockholders;
2. The term "asset management company" means a company registered with the Financial Supervisory Commission pursuant to Article 33 (1), and that conducts the business of asset management that is entrusted by a mutual fund;
3. The term "custodian" means a company that falls under Article 39(3) ; and that conducts the business of safekeeping of assets and other business related thereto that is entrusted by a mutual fund.
4. The term "distributor" means a company registered with the Financial Supervisory Commission pursuant to Article 41 (2) that conducts the business of public offering and secondary distribution of the stocks issued by a mutual fund that is entrusted therefrom;
5. The term "general administration trustee company" means a company that carries on the business of each subparagraph of Article 42 (1) that is entrused by a mutual fund and is registered with the Financial Supervisory Commission in accordance with the provisions of Article 42-2 (1);
6. The term "securities" means the securities and stock index provided in Article 2 (1) and (2) and Article 2-2 (1) of the Securities and Exchange Act;
7. The term "securities, etc.," means those that fall under one of the following items:

(a) Securities;
(b) Bills or debt certificates issued, sold, or intermediated by financial institutions prescribed by Presidential Decree; or,
(c) Foreign currency securities determined by Ordinance of the Ministry of Finance and Economy from among those prescribed in the Foreign Exchange Transactions Act.

8. The term "net asset value" means the amount obtained from deducting liabilities from assets.

Article 3 (Legal Status)
(1) A mutual fund shall be a stock corporation.

(2) A mutual fund shall be subject to the application of the Commercial Act except for cases otherwise specifically prescribed in this Act.

Article 4 (Restrictions, etc., on Concurrently Engaging in Other Business)
(1) No mutual fund shall engage in any business other than investing its assets in securities, etc., pursuant to Article 28.

(2) A mutual fund shall not establish any other business offices other than a head office and shall not employ employees or standing officers therein.

Article 5 (Prohibition of Use of Similar Name)
No entity other than the mutual funds established under this Act shall use the name "mutual fund" or any other similar titles.

CHAPTER II ESTABLISHMENT AND REGISTRATION

SECTION 1 Establishment

Article 6 (Promoter)

(1) There shall be at least one or more promoters of a mutual fund.

(2) Any person who falls under one of the following subparagraphs shall not be a promoter:

1. A minor, an incapacitated person, or a quasi-incapacitated person;
2. A bankrupt person who has not been reinstated;
3. A person for whom five years have not elapsed since the completion (including the case where the execution is deemed to be completed) or exemption of the execution of punishment after being sentenced to an imprisonment or heavier penalty, or a fine or heavier punishment under this Act and other financial statutes or subordinate statutes prescribed by Presidential Decree (including the foreign statutes similar thereto; hereinafter the same shall apply);
4. A person sentenced to a suspension of execution of an imprisonment or heavier penalty and whose probation period has not expired;
5. A person who was an officer or an employee of a corporation or a company whose business license, authorization or registration, etc., was cancelled in accordance with this Act and other financial statutes or subordinate statutes prescribed by Presidential Decree (limited to any person who was directly or correspondingly responsible for the cause of the cancellation of such license, etc., prescribed by Presidential Decree) and for whom five years have yet to elapse from the date of the cancellation of such business license, authorization or registration against such corporation or such company; or,
6. A person for whom five years have not elapsed since the date of dismissal or removal from that person's office due to a violation of this Act or other financial statutes or subordinate statutes prescribed by Presidential Decree.

Article 7 (Articles of Incorporation)

(1) Promoters shall prepare the articles of incorporation including the matters in the following subparagraphs and record their names and seal or sign thereon:

1. Purpose;
2. Company name;
3. Matters relating to the redemption of stocks such as whether stocks are redeemed or not at the request of stockholders;
4. Total number of stocks to be issued;
5. Total number of stocks and the issuance price thereof at the time of establishment (in the case of par value stock, price of one stock);
6. The minimum net asset value to be maintained by the mutual fund concerned;
7. Basic policy of asset management;
8. Matters relating to the evaluation of assets;
9. Matters relating to the distribution of profits, etc.;
10. Location of company;
11. Method of public notice;
12. Remuneration base of directors and auditors;
13. Outline of asset management entrustment agreement that is to be made with an asset management company (including the fees to be paid to an asset management company); and,
14. Outline of the business entrustment agreement to be made with a custodian and distributor.

(2) The total number of stocks to be issued at the time of establishment pursuant to the provisions of paragraph (1) 5 may be determined by fixing an upper limit and a lower limit;

(3) The minimum net asset amount pursuant to the provision of paragraph (1) 6 shall be above the amount prescribed by Presidential Decree, within the limit not exceeding one billion won.

Article 8 (Paid-in Capital at the Time of Establishment)

In case a mutual fund issues non-par value stocks at the time of establishment, the paid-in capital at the time of establishment shall be the total amount of the issuance price of stocks.

Article 9 (Subscription, etc., for Underwriting of Stocks)
(1) A promoter shall prepare the application form for stocks that contain the matters in each of the following subparagraphs and provide it to the persons intending to subscribe for underwriting of the stocks to be issued at the time of establishment:

1. Matters in Article 7 (1) 1 through 12;
2. Where a fixed period of duration or reasons for dissolution are provided in the articles of incorporation, such contents thereof;
3. The Method of distribution of the stocks to be issued at the time of establishment and the payment date for the subscription money of stock;
4. Financial institutions that are receive the payment of subscription money of stocks and the place of the payment thereof;
5. Names and addresses of the candidates for directors and auditors;
6. Name and address of the asset management company and summary of the asset management entrustment agreement;
7. Names and addresses of the custodian, distributor, and general administration trustee company, and summary of the business entrustment agreement;
8. State that the mutual fund may cancel its establishment in case the number of stocks underwritten is less than that to be issued at the time of establishment; and,
9. State that any person who has subscribed to underwrite the stocks may cancel the subscription when the mutual fund is not established within a specified period of time or the Financial Supervisory Commission rejects the registration thereof pursuant to Article 13 (3).

(2) Any promoter who intends to solicit subscriptions to underwrite stocks to be issued at the time of establishment shall draft an investment prospectus and file it in advance with the Financial Supervisory Commission.

(3) Any promoter that solicits subscriptions to underwrite stocks to be issued at the time of establishment shall supply prospective underwriters with an investment prospectus filed with the Financial Supervisory Commission in accordance with paragraph (2), providing an explanation of major points.

(4) Any promoter, if necessary, may use a simple investment prospectus consisting of a summary of the major points of the investment prospectus filed with the Financial Supervisory Commission in accordance with the provisions of paragraph (2) to solicit subscriptions to underwrite stocks, notwithstanding the provisions of paragraph (3).

(5) Necessary matters such as matters to be entered in the investment prospectus and the simple investment prospectus referred to in paragraphs (2) and (4), and the method of offering such prospectuses shall be prescribed by Presidential Decree.

Article 10 (Fictitious Appointment of Directors and Auditors)
The candidates for directors and auditors who are stated in the application form for stocks shall be deemed elected as directors and auditors respectively when the stock allocation is completed.

Article 11 (Investigation Report, etc., by Directors)
(1) The directors referred to in Article 10 shall promptly investigate whether any violation of this Act, related statutes or subordinate statutes or the articles of incorporation have been committed with respect to the incorporation of a mutual fund and report the results to the board of directors.

(2) When directors find any violation of statutes or subordinate statutes or the articles of incorporation as provided under paragraph (1), they shall convene an inaugural general meeting of shareholders to report such findings in case of the incorporation of a corporation by subscription, and they shall report such findings to such promoters in case of the incorporation of a corporation by promoters.

SECTION 2 Registration

Article 12 (Investment Registration)
(1) When a mutual fund intends to engage in the business provided in Article 28 (1) under this Act, it shall register the matters falling under each of the following subparagraphs with the Financial Supervisory Commission:

1. Matters mentioned in Article 7 (1) 1

through 9;
2. Names and resident registration numbers of directors and auditors;
3. Name of the asset management company and summary of the asset management entrustment agreement;
4. Names of the custodian, distributor, and general administration trustee company; and,
5. Where a fixed period of duration or reasons for dissolution are provided in the articles of incorporation, the contents thereof.

(2) When a mutual fund intends to make a registration pursuant to paragraph (1), it shall submit a registration statement to the Financial Supervisory Commission by attaching the documents mentioned in each of the following subparagraphs:
1. A copy of the articles of incorporation;
2. A certificate of the corporate register;
3. Documents proving the payment of the subscription money of stocks; and,
4. Copies of the business entrustment agreements made with the asset management company, custodian, distributor, and general administration trustee company.

(3) Any mutual fund shall be prohibited from publicly offering new securities and outstanding securities (limited to stocks) in accordance with the provisions of Article 2 (3) and (4) of the Securities and Exchange Act without registering its business in accordance with the provisions of paragraph (1): provided that the same shall not apply to the case in which stocks are offered at the time establishment.

Article 13 (Requirements, etc., for Investment Registration)
(1) Any mutual fund that intends to make a registration pursuant to Article 12 shall satisfy the requirements falling under each of the following subparagraphs:
1. It shall be lawfully established under this Act;
2. The capital at the time of the registration application shall be above the amount prescribed by Presidential Decree;
3. Directors and auditors shall not fall under the disqualification conditions as provided in Article 19 and Article 26 (2), respectively;
4. An asset management company, custodian, distributor or general administration trustee company that has concluded a business entrustment agreement shall be in conformity with the provisions of Articles 33, 39 (3), 41 (2) or 42-2 and shall not be in a period where its business has been suspended;
5. The contents of the registration statement shall not be contrary to this Act or the orders thereunder; and,
6. There shall not be any false statements or omissions of material fact in the registration statement.

(2) When a mutual fund that has made an application for registration meets the requirements for registration pursuant to paragraph (1), the Financial Supervisory Commission shall enter it in its registration book and notify the fact, without delay, to the stated mutual fund.

(3) The Financial Supervisory Commission may, in case a mutual fund that has made an application for registration fails to meet the requirements for registration pursuant to paragraph (1), reject the registration, and may, in case there are incomplete matters in the registration statement, request that such application be completed within a specified period of time. In this case, the Financial Supervisory Commission shall, without delay, notify such mutual fund by a letter specifying the reason.

(4) The Financial Supervisory Commission shall maintain a registration book of mutual funds for public inspection.

Article 14 (Registration of Change)
(1) In case there is any change in the registered matters pursuant to Article 12 (1), a mutual fund must make a registration of the changed matters within two weeks thereafter with the Financial Supervisory Commission: Provided that this shall not apply to changes in minor matters as determined by the Financial Supervisory Commission.

(2) Article 13 (2) and (3) shall apply *mutatis mutandis* to the cases of making a registration of change in accordance with paragraph (1).

CHAPTER III ORGANS

SECTION 1 Stockholders' Meeting

Article 15 (Convening of Stockholders' Meeting)
(1) A stockholders' meeting of a mutual fund shall be convened by the board of directors.

(2) A mutual fund may, in the case of convening a stockholders' meeting, substitute the notice of convening a meeting provided in Article 363 (1) of the Commercial Act to the stockholders who own 1/100 or less of the stocks issued by the said mutual fund with at least two public announcements in at least two daily newspapers (including at least one nationwide daily newspaper) respectively of the fact that such meeting is convened pursuant to the provisions of the articles of incorporation, and the time, place, and matters on the agenda of such meeting at least two weeks prior to the scheduled date thereof.

Article 16 (Exercise of Voting Rights in Writing)
(1) Any stockholder who does not attend a stockholders' meeting may exercise their voting rights in writing.

(2) Any mutual fund shall, when it notifies the convening of a stockholders' meeting or when there is a request from stockholders, deliver thereto the form needed to exercise their voting rights in writing.

(3) Any stockholder who intends to exercise their voting rights in writing shall submit to the mutual fund the form mentioned in paragraph (2) in which the voting rights are exercised one day prior to the scheduled date of a stockholders' meeting.

(4) The number of the voting rights exercised in writing shall be added to the number of voting rights exercised by the attendants at a stockholders' meeting.

(5) Necessary matters in relation to the exercise of voting rights in writing other than those mentioned in paragraphs (1) through (4) shall be prescribed by Presidential Decree.

SECTION 2 Directors and Board of Directors

Article 17 (Classification of Directors)
(1) Directors shall be classified into executive directors and supervisory directors.

(2) The number of supervisory directors shall be more than the number of executive directors

Article 18 (Appointment of Directors)
(1) Directors (excluding the directors who are deemed to have been appointed at the time of establishment pursuant to Article 10) shall be appointed at a stockholders' meeting.

(2) Article 409 (2) of the Commercial Act shall apply *mutatis mutandis* to the case where supervisory directors are appointed at a stockholders' meeting.

Article 19 (Disqualification of Directors)
(1) Any person falling under any one of the subparagraphs of Article 6 (2) shall not be an executive director.

(2) Any person falling under any one of the following subparagraphs shall not be a supervisory director:

1. Any person falling under one of the following subparagraphs of Article 6 (2);
2. Promoters of the mutual fund concerned (limited to the supervisory directors presumably appointed pursuant to Article 10);
3. In case a person and a person having a special relationship as prescribed by Presidential Decree with such person (hereinafter referred to as "specially related persons ") possess stocks in excess of 10/100 of the total stocks issued by the mutual fund concerned, the said person and the said specially related persons (hereinafter referred to as "principal stockholders");
4. Any specially related persons of an asset management company or distributor;
5. Any person whose remuneration is regularly paid by an asset management company;

5-2. Any director of a mutual fund who holds office as a director of another corporation and also is a full-time officer or employee of such corporation ; and,

6. Any person prescribed by Presidential Decree who might impair the neutrality of a supervisory director.

Article 20 (Duty of Executive Directors)
(1) Executive directors shall administer the business affairs of a mutual fund and represent such mutual fund. In this case, it may be determined in the articles of incorporation that a chief executive director can be appointed among the executive directors, or a plurality of executive directors can jointly represent such mutual fund.

(2) Executive directors shall, when they intend to perform the business affair falling under one of the following subparagraphs, obtain the approval by resolution of the board of directors:

1. Conclusion of a business entrustment agreement or an amended agreement with an asset management company, custodian, distributor or general administration trustee company;
2. Payment of remuneration for asset management, fee for asset custody, and other expenses incidental to the management or custody of assets; or,
3. Other matters prescribed in the articles of incorporation that are recognized as important for the business affairs of a mutual fund.

(3) Executive directors shall report the progress of business accomplished to the board of directors at least once every three months.

Article 21 (Duty of Supervisory Director)
(1) Supervisory directors shall supervise the management of business affairs by executive directors.

(2) Supervisory directors shall, when they deem necessary for executing their duties, request the auditor to submit an audit report.

(3) Supervisory directors may, when necessary for understanding the business and property status of their mutual fund, request the executive directors and the asset management company, custodian, distributor, or general administration trustee company that is entrusted with the business of such mutual fund to submit a report concerning the business and property status related to such mutual fund.

(4) Any person who is requested pursuant to the provisions of paragraph (3) shall comply with such request unless there is a special reason.

Article 22 (Convening of Board of Directors' Meeting)
(1) A board of directors' meeting of a mutual fund shall be convened by the executive directors or supervisory directors.

(2) Any executive director or supervisory director shall, when they intend to convene a board of directors' meeting, notify the convening of a meeting to each executive director and supervisory director three days prior to the scheduled date thereof: provided that the notification period may be shortened in accordance with the articles of incorporation.

Article 23 (Duty of Board of Directors)
(1) The board of directors may make resolutions only on the matters provided in this Act and the articles of incorporation.

(2) The board of directors shall, when all of the executive directors become vacant, immediately convene a stockholders' meeting to appoint executive directors.

(3) An asset management company that has been entrusted with the asset management from a mutual fund pursuant to Article 32 shall report the details of the asset management, etc., to the board of directors of such mutual fund every three months.

(4) The board of directors shall evaluate the details of the asset management, etc., reported according to the provisions of paragraph (3), and shall report the evaluation results to its stockholders' meeting at least once each year.

Article 24 (Method of Resolution of Board of Directors)
(1) The resolutions of the board of directors shall be adopted by a majority quorum of its members and the concurrence of a majority of those present. In this case, the participating supervisory directors shall be not less than 1/2 of the directors in attendance.

(2) Article 368 (4) and Article 371 (2) of the Commercial Act shall apply *mutatis mutandis*

to the case of paragraph (1).

SECTION 3 Auditor

Article 25 (Appointment)
An auditor (excluding the auditor who is deemed to have been appointed at the time of establishment pursuant to Article 10) shall be appointed at a stockholders' meeting.

Article 26 (Qualification)
(1) The auditor shall be a certified public accountant who belongs to an accounting corporation under the Certified Public Accountant Act.

(2) Any person who falls under one of the following subparagraphs shall not be an auditor:

1. Any person who falls under one of the subparagraphs of Article 6 (2);
2. Any person who belongs to an accounting corporation whose audit functions are restricted pursuant to Article 21 of the Certified Public Accountant Act in relation to the mutual fund concerned or whose duties are restricted pursuant to Article 33 of the same Act;
3. Any person whose duties have been suspended;
4. Any person who belongs to an accounting corporation whose business operations have been suspended; or,
5. Any person and their spouses who regularly receives remuneration for business other than that related to certified public accounting matters from any of those falling under one of the following items:
   (a) Principal stockholders of the mutual fund concerned;
   (b) Directors of the mutual fund concerned; or,
   (c) An asset management company, custodian, distributor, or general administration trustee company that has been entrusted with the business of such mutual fund.

Article 27 (Duty of Auditor)
(1) An auditor may, when necessary for performing its duty, request an asset management company, custodian, distributor or general administration trustee company that the mutual fund concerned has entrusted with its business to report the accounting related to the business affairs of such mutual fund.

(2) Any person who receives a request pursuant to paragraph (1) shall comply with such request, unless there is a special reason.

(3) An auditor shall, when the auditor determines that the executive director has violated any statutes or subordinate statutes or the articles of incorporation with respect to the performance of their duties or that they might cause significant losses to the mutual fund concerned, promptly report it to the supervisory directors.

CHAPTER IV BUSINESS OPERATIONS

SECTION 1 Method of Business Operation

Article 28 (Scope of Asset Management)
(1) Any mutual fund shall invest and manage its assets by a method falling under one of the following subparagraphs:

1. Purchase and sale of securities, etc.;
2. Deposits with financial institutions prescribed by Presidential Decree or extending short-term loans with a maturity of not more than thirty days; and,
3. Futures trading or overseas futures trading under the Futures Trading Act.

(2) No mutual fund shall manage its assets by any means falling under one of the following subparagraphs: provided that this shall not apply to cases prescribed by Presidential Decree where it is necessary for the protection of investors or where there is no concern that the sound asset management of mutual funds may be harmed:

1. Investment in the same issue of securities exceeding the ratio prescribed by Presidential Decree that is within 10/100 of the total asset amount; in this case, the securities, excluding stocks among the securities issued by the same company, shall be deemed the same issue;
2. Investment exceeding 10/100 of the total number of stocks issued by the same company;
3. Acquisition of the securities issued by the principal stockholders of the mutual fund concerned in excess of the ratio

prescribed by Presidential Decree;
4. Acquisition of the beneficiary certificates provided in the Securities Investment Trust Business Act and Trust Business Act and of the stocks issued by other mutual funds in excess of the ratio prescribed by Presidential Decree; and,
5. Other practices prescribed by Presidential Decree that may be detrimental to the interests of stockholders.

(3) Where any mutual fund under unavoidable circumstances invests in excess of the investment limit under the provisions of each subparagraph of paragraph (2) due to causes, including price fluctuation of securities in its possession, as prescribed by Presidential Decree, such investment shall be deemed to be made in conformity with the investment limit. In this case, such mutual fund shall make such investment conform with the investment limit within six months.

(4) Necessary matters concerning the method and limit, etc., of futures trading or overseas futures trading under the provisions of paragraph (1) 3 shall be prescribed by Presidential Decree.

Article 29 (Restriction on Borrowings, etc.,)
Any mutual fund shall not borrow funds guarantee debt or furnish collateral: provided, that it may borrow funds in the cases prescribed by Presidential Decree from those that do not raise any concerns as to the possibility of posing a threat to the interests of stockholders, and that the matters concerning the limit and method of borrowings shall be prescribed by Presidential Decree.

Article 30 (Restriction on Transactions)
Any mutual fund shall not make transactions falling under the subparagraph of Article 28 (1) with a person falling under one of the following subparagraphs: provided that this shall not apply to the transactions determined by the Financial Supervisory Commission that do not raise any concerns as to the possibility of posing a threat to the interests of stockholder:
1. Directors of the mutual fund concerned; or,
2. The asset management company that has been entrusted with the business of the mutual fund concerned.

Article 31 (Restriction on Exercise of Voting Rights to Holding Stocks)
(1) Where matters to be resolved at a stockholders' meeting of the corporation in which a mutual fund holds stock fall under one of the following subparagraphs, the mutual fund shall exercise its voting rights so as not to influence resolutions concluded by those consisting of the number of stocks remaining after subtracting the number of stocks held by such mutual fund from the number of stocks participating at such stockholders' meeting: provided that this shall not apply to cases where it is clearly expected that losses will occur to such mutual fund such as a merger, assignment or assumption of business, or appointment of officers, etc., of the corporation whose stocks are held by such mutual fund:
1. Where the mutual fund concerned (in the case it entrusts an asset management company with the exercise of its voting rights, including such asset management company; hereinafter the same shall be apply in this Article) or where the mutual fund concerned and those interested persons prescribed by Presidential Decree seek to transform the corporation that issued the stocks they own into an its affiliated company as provided in the subparagraph 3 of Article 2 of Monopoly Regulation and Fair Trade Act (hereinafter referred to as an "affiliated company");
2. Where the corporation that issued the stocks held by the mutual fund has an affiliated company relationship with such mutual fund; or
3. Other cases prescribed by Presidential Decree that might damage the sound asset management of the mutual fund concerned.

(2) No mutual fund shall exercise the voting rights of stocks, etc., it holds as prescribed by Presidential Decree such as those acquired in violation of Article 28 (2) 1 through 4.

(3) No mutual fund shall commit any act to evade the application of paragraphs (1) and (2) such as through cross-xercising of voting rights under a contract, etc., with a third party.

(4) Any mutual fund shall, where it exercises the voting rights to stocks it holds with

respect to the change of management, such as through a merger, a transfer or acquisition of the business operations, or appointment of officers, etc., pursuant to the provisions of paragraph (1), publicly disclose such fact in accordance with Presidential Decree.

(5) The proviso of paragraph (1) shall not apply to any mutual fund belonging to any large conglomerate group described in the provisions of Article 9 (1) of the Monopoly Regulation and Fair Trade Act.

SECTION 2 Entrustment of Asset Management Business, Etc.

Article 32 (Entrustment of Asset Management Business)
(1) Any mutual fund shall entrust an asset management company with the business related to its asset management.

(2) Any agreement concluded on the entrustment pursuant to paragraph (1) (excluding the case where an agreement is made with a person who becomes an asset management company at the time of establishment pursuant to Article 9 (1) 6), must obtain the approval from stockholders at a stockholders' meeting.

Article 33 (Registration, etc., of Asset Management Company)
(1) A person who intends to conduct the business on asset management upon entrustment from a mutual fund shall register thereof with the Financial Supervisory Commission.

(2) A person who intends to register pursuant to paragraph (1) shall meet the following requirements:

1. It shall be a stock corporation under the Commercial Act;
2. Its paid-in capital shall be not less than the amount prescribed by Presidential Decree, which shall be 500 million won or greater;
3. Among the officers and employees who work full-time, the number of specialized fund managers under the standards prescribed by Presidential Decree shall be not less than that prescribed by Presidential Decree;
4. Among its officers, none of them shall fall under any subparagraph of Article 6 (2); and,
5. It shall meet the requirements prescribed by Presidential Decree such as financial soundness, etc., to ensure the sound asset management of the mutual fund.

(3) Any asset management company shall, in accordance with the provisions of Presidential Decree, register the matters on the specialized fund managers mentioned in paragraph (2) 3 with the Korea Investment Trust Companies Association pursuant to Article 49 (1) of the Securities Investment Trust Business Act (hereinafter referred to as the "Korea Investment Trust Companies Association").

(4) Any asset management company shall, when it intends to engage in the asset management business in foreign countries, make a declaration thereof to the Financial Supervisory Commission in such manner as prescribed by Presidential Decree.

(5) Any foreign asset management company (referring to a company that engages in the business of asset management of a company corresponding to a mutual fund in foreign countries under foreign statutes; hereinafter the same shall apply) shall, when it intends to establish branches and other offices so as to engage in the business of asset management in Korea, register thereof with the Financial Supervisory Commission in such manner as prescribed by Presidential Decree.

(6) The branch and other offices registered in accordance with paragraph (5) shall be deemed asset management companies under this Act.

(7) Any company that is not an asset management company shall not use in its company name any term that represents an asset management company.

Article 34 (Restrictions, etc., on Asset Management Company's Concurrently Engaging in Other Businesses)
(1) An asset management company shall not concurrently engage in any other businesses, except for cases approved under this Act or other statutes or subordinate statutes or by the Financial Supervisory Commission.

(2) An asset management company shall not invest in securities with its proprietary property except as prescribed by Presidential

Decree.

(3) A standing officer of an asset management company shall, except for when that person obtains approval from the Financial Supervisory Commission, neither be a full-time officer or employee of another company nor engage in any other business.

(4) No officer and employee of an asset management company shall conduct security trading or its entrustment thereof in their own account, regardless of the title thereof, except as prescribed by Presidential Decree.

Article 35 (Code of Conduct of Asset Management Company)

(1) An asset management company shall faithfully carry out its business affairs as a good custodian in accordance with statutes or subordinate statutes and the asset management entrustment agreement.

(2) An asset management company shall not make persons who are not registered fund managers pursuant to Article 33 (3) conduct the business prescribed by Presidential Decree.

(3) An asset management company shall not conduct practices falling under one of the following subparagraphs with respect to the asset management business that is entrusted by a mutual fund:

1. Practices to guarantee or promise the realization of a certain amount of profits to the mutual fund that entrusts the asset management business;
2. Practices by the asset management company to compensate all or part of the losses incurred as a result of the management of assets entrusted or to promise the compensation of such losses to the mutual fund hat entrusted the asset management business;
3. Practices in the following items that are conducted with assets whose management is entrusted by a mutual fund: or,
   (a) Practice of seeking profits for the person themselves or a third party by utilizing the assets whose management is entrusted by a mutual fund;
   (b) Practices of trading securities on a short-term basis by utilizing the assets whose management is entrusted by a mutual fund to seek profits for a securities company that has a relationship as prescribed by Presidential Decree with the asset management company (hereinafter referred to as a "related securities company);
   (c) Practice of acquiring the securities, etc., that remain un-subscribed after the related securities company underwrites them by utilizing the assets whose management is entrusted by a mutual fund;
   (d) Practice of trading the securities concerned by utilizing the assets whose management is entrusted by a mutual fund for the purpose of artificially forming a market price for the securities that the related securities company underwrites and subscribes;
   (e) Practice of trading the securities, etc., issued by specially related persons a mutual fund by utilizing the assets whose management is entrusted by such mutual fund for the purpose of seeking profits for such specially related persons of such mutual fund;
   (f) Practice of trading the securities, etc., issued by specially related persons an asset management company by utilizing the assets whose management is entrusted by a mutual fund for the purpose of seeking profits for such specially related persons of such asset management company; and,
   (g) Practice of buying the securities, etc., issued by persons an asset management company in excess of the ratio prescribed by Presidential Decree for the purpose of seeking profits for such specially related persons of such asset management company.
4. In addition to those mentioned in the subparagraphs 1 through 3, the practices prescribed by Presidential Decree that might harm the transitional order of securities, etc., and the interests of stockholders of the mutual fund.

Article 35-2 (Prohibition on Use of Undisclosed Asset Operation Information)

(1) Any officers of a mutual fund and the officers and employees of an asset management company that engage in the business of managing assets of a mutual fund shall be prohibited from performing any act

of trading securities, etc., by using undisclosed information pertaining to the asset management of such mutual fund or allows other persons to use such information.

(2) The scope of the undisclosed information with respect to the asset operation of the mutual fund under the provisions of paragraph (1) and other necessary matters shall be prescribed by Presidential Decree.

Article 35-3 (Internal Control Standards)
(1) An asset management company shall observe statutes or subordinate statutes, operate its assets in a sound manner and establish basic procedures and standards to be followed by its officers and employees when they perform their duties (hereinafter referred to as "internal control standards").

(2) An asset management company shall monitor whether its internal control standards are observed and appoint not less than one person (hereinafter referred to as the "law-abiding monitor) compliance officer" assigned to investigate any violation of the internal control standards and report the results to the auditor or the audit committee.

(3) Necessary matters concerning the internal control standards under the provisions of paragraph (1) and the compliance officer under the provisions of paragraph (2) shall be prescribed by Presidential Decree.

Article 36 (Liabilities of Asset Management Company)
(1) Any asset management company shall, when it causes losses to the mutual fund that entrusted the asset management due to neglecting its duties, be liable to pay for the damages to such mutual fund.

(2) Where an asset management company assumes the liabilities in damages to a mutual fund or a third party and where there is a cause attributable to the involved directors, custodian, distributor, or general administration trustee ompany, they shall be jointly liable to pay for such damages.

Article 37 (Rescission, etc., of the Asset Management Entrustment Agreement)
(1) A mutual fund shall, when it intends to rescind the asset management entrustment agreement made with a asset management company, obtain the approval from a stockholders' meeting: provided that a mutual fund may, when it deems that it would suffer from a substantial loss absent immediate termination of such agreement, terminate such agreement, by a resolution of the board of directors, and enter into an asset management entrustment agreement with another asset management company. In this case, the mutual fund shall report this fact to a stockholders' meeting without delay.

(2) An executive director of a mutual fund may, when they deem that the asset management company entrusted with an asset management thereby may not continue to perform all or part of its business due to the business suspension, dissolution, and others reasons corresponding thereto, terminate the asset management entrustment agreement and enter into an asset management entrustment agreement with another asset management company. In this case, they shall obtain the approval to terminate and conclude an agreement from a stockholders' meeting without delay and, if such approval is not obtained, such termination and conclusion of an agreement shall cease to be valid in the future.

Article 38 (Detailed Criteria on the Registration and Business of the Asset Management Company)
Necessary matters in relation to the registration and business of an asset management company other than those provided in Article 33 through Article 37 shall be prescribed by Presidential Decree.

Article 39 (Entrustment, etc. of Asset Custody Affairs)
(1) A mutual fund shall entrust a custodian with the custody of its assets and the business related thereto.

(2) An agreement on entrustment pursuant to paragraph (1) (excluding the agreement to be made with the company that is deemed a custodian at the time of establishment pursuant to Article 9 (1) 7) shall be approved at a stockholders' meeting.

(3) Custodians shall be trust companies or financial institutions that engage in the trust business under the Trust Business Act.

Article 40 (Services of Custodian)
(1) A custodian shall faithfully perform its

services as a good custodian for a mutual fund in accordance with statutes or subordinate statutes and the asset custody entrustment agreement.

(2) No custodian shall conduct trading falling under one of the subparagraphs of Article 28 (1) by using the assets entrusted by a mutual fund for its proprietary property.

(3) Any custodian shall administer the assets entrusted by a mutual fund separately from its proprietary assets or the assets whose custody is entrusted by a third party.

(4) Any custodian shall deposit securities, among the assets whose custody is entrusted pursuant to paragraph (1), with the Korea Securities Depository under Article 173 of the Securities and Exchange Act in such manner as prescribed by Presidential Decree.

(5) Any custodian shall not be a distributor of the stocks that a mutual fund entrusts, except where it obtains approval from the Financial Supervisory Commission.

(6) Article 36 shall apply *mutatis mutandis* to the liabilities of a custodian. In this case, an "asset management company" shall be deemed a "custodian," and a "custodian" shall be deemed an "asset management company."

Article 41 (Entrustment of Stock Selling Business)
(1) A mutual fund shall entrust a distributor with the business relating to a public offering or secondary distribution of the stocks issued thereby.

(2) A person who intends to conduct business relating to a public offering or secondary distribution of stocks upon entrustment from a mutual fund shall fall under one of the following subparagraphs and shall register with the Financial Supervisory Commission:

1. Securities companies provided in Article 2 (9) of the Securities and Exchange Act;
2. Management companies that engage in the business provided in Article 10 (1) 2 of the Securities Investment Trust Business Act;
3. Asset management companies (limited to the cases of making a public offering or secondary distribution of the stocks issued by a mutual fund that has entrusted its asset management with such asset management company); or,
4. Financial institutions established under the Banking Act and other financial institutions prescribed by Presidential Decree.

(3) A distributor that is entrusted with a public offering and secondary distribution of stocks by a mutual fund pursuant to paragraph (1) shall be deemed to have obtained a securities business license according to Article 28 (1) of the Securities and Exchange Act only for the business of making a public offering and secondary distribution of such stocks.

(4) Article 36 shall apply *mutatis mutandis* to the liabilities of a distributor. In this case, an "asset management company" shall be deemed a "distributor," and a "distributor" shall be deemed an "asset management company."

(5) Necessary matters in relation to the business of a distributor, in addition to those mentioned in paragraphs (1) through (4), shall be prescribed by Presidential Decree.

Article 41-2 (Content of Advertisement for Solicitation for Acquisition)
Matters to be included in any advertisement used by any mutual fund and any distributor to solicit the acquisition of stocks shall be prescribed by Presidential Decree: provided that matters relating to important indications and advertisements under the provisions of Article 4 (1) of the Act on Fair Indication and Advertisement shall be provided according to this Act hereto.

Article 42 (General Administration Trustee Company)
(1) Any mutual fund shall entrust the business affairs in each of the following subparagraphs to a general administration trustee company:

1. Business affairs on transferring the ownership of issued stocks;
2. Business affairs on the issuance of stocks;
3. Business affairs on the operation of the mutual fund concerned;
4. Business affairs on calculation; or,
5. Other business affairs prescribed by Presidential Decree.

(2) Article 36 shall apply *mutatis mutandis* to the liabilities of a general administration trustee company. In this case, an "asset management company" shall be deemed a "general administration trustee company," and a "general administration trustee company" shall be deemed an "asset management company."

Article 42-2 (Registration, etc., of General Administration Trustee Company)
(1) Any person who intends to carry on the business of a general administration trustee company upon entrustment from a mutual fund shall register thereof with the Financial Supervisory Commission.

(2) Any person who intends to register pursuant to the provisions of paragraph (1) shall meet the requirements falling under each of the following subparagraphs:

1. It shall be a stock corporation under the Commercial Act or a corporation engaged in the business of changing the registry entry under the Securities and Exchange Act;
2. Its paid-in capital shall be not less than 500 million won and not less than an amount prescribed by Presidential Decree;
3. It shall have professional personnel in conformity with the standards prescribed by Presidential Decree among its full-time officers and employees;
4. It shall have physical facilities including computer facilities prescribed by Presidential Decree;
5. Among its officers, there shall not be a person falling under any subparagraph of Article 6 (2); and
6. It shall not be an asset management company.

(3) A general administration trustee company shall, when the act of operating assets by an asset management company is in contravention of statutes or subordinate statutes or the content of an investment prospectus, demand the withdrawal, alteration or correction of such act.

SECTION 3 Issuance and Redemption of Stocks

Article 43 (Issuance of Stocks)
(1) All mutual funds shall issue their stocks in a non-bearer form.

(2) All mutual funds may issue non-par-value stocks.

Article 44 (Restriction on Acquisition of Treasury Stock and Creation of Pledge)
(1) All mutual funds shall neither acquire nor use as the object matter of a pledge the stocks that it issues itself: provided that this shall not apply to cases falling under each of the following subparagraphs:

1. In case of the exercise of right such as the execution of a security right;
2. In case of the redemption of stocks pursuant to Article 50; and,
3. In case of the purchase of stocks pursuant to the provisions of Article 58 (1).

(2) Any mutual fund shall dispose, without delay, any stock acquired pursuant to paragraph (1) 1 in such manner as prescribed by Presidential Decree.

Article 45 (Non-issuance of Stock Certificates)
(1) Any mutual fund having a system that the mutual fund concerned purchases the stock of stockholders at the request of stockholders (hereinafter referred to as an "open-end mutual fund") may not decide to issue stock certificates until stockholders so request in such manner as determined in the articles of incorporation, notwithstanding Article 355 (1) of the Commercial Act. In this case, it shall state such intention on the stock subscription form pursuant to Article 9 or Article 48.

(2) In case an open-end mutual fund does not issue stock certificates in accordance with the provision of paragraph (1), the stockholders that already hold stock certificates may deliver such stock certificates to such mutual fund and may declare that they do not want to hold them.

(3) In case an open-end mutual fund that has not issued stock certificates pursuant to paragraph (1) issues stocks at the request of stockholders and in case it receives a declaration mentioned in paragraph (2) and that such stocks were returned, the stockholders' list shall respectively state these facts without delay.

(4) Any open-end mutual fund shall, when it

fails to comply with the purchase of stocks due to an amendment to its articles of incorporation, promptly issue the stock certificates that were not issued.

Article 46 (Procedures for Issuance of New Stocks)
(1) Where a mutual fund issues stocks after its establishment, the board of directors thereof shall resolve the matters in each of the following subparagraphs: provided that this shall not apply to the case where the articles of incorporation provides otherwise:
1. Number of stocks to be issued;
2. Issue price; and,
3. Payment date of subscription money.

(2) Where an open-end mutual fund issues stocks after its establishment, the board of directors may decide the matters in each of the following subparagraphs:
1. Period of issuance;
2. Upper limit of the number of stocks to be issued during the period of issuance concerned; and,
3. Method of determining the daily issuance price during the period of issuance concerned and the payment period for subscription money.

(3) Any mutual fund that issues stock according to the resolution of the board of directors pursuant to paragraph (2) shall make a public disclosure of the daily issuance price fixed in accordance with the method mentioned in paragraph (2) 3 in such manner as prescribed by Presidential Decree.

(4) In case a mutual fund issues stocks according to a resolution of the board of directors pursuant to paragraphs (1) and (2), the provisions in Chapter **III** of the Securities and Exchange Act shall not apply thereto.

Article 47 (Terms of Issuance)
(1) Any mutual fund shall, when it issues stocks after its establishment, uniformly establish the issuance price and the terms of issuance occurring on the same issuing date.

(2) In the case of paragraph (1) the issuance price of a stock shall be calculated on the basis of the net asset value of the mutual fund concerned in such manner as prescribed by Presidential Decree.

Article 48 (Stock Subscription Form)
(1) Any mutual fund shall, when it issues stocks after its establishment, prepare a stock subscription form in which the matters in the following subparagraphs are included, and furnish them to the persons who intend to purchase such stocks:
1. Matters provided under Article 7 (1) 1 through 12;
2. Matters provided under Article 9 (1) 2, 4, 6 and 7; and,
3. Matters provided in each subparagraph of Article 46 (1) or Article 46 (2).

(2) The provisions of Article 9 (2) through (5) shall apply *mutatis mutandis* to the solicitation of subscriptions of stocks issued after the incorporation of a mutual fund. In this case, "promoters" described in Article 9 (2) shall be deemed "mutual funds," and "promoters" described in Article 9 (3) and (4) shall be deemed "mutual funds and distributors," respectively.

Article 49 (Listing, etc., of Outstanding Stocks)
Any mutual fund other than an open-end mutual fund shall either list its stocks on the Korea Stock Exchange as stipulated in Article 71 of the Securities and Exchange Act or have them traded in an Association brokerage market, etc., as stipulated in Article 2 (14) of the same Act within thirty days from the date on which stock certificates that are first subscribed or sold are issued.

Article 50 (Request for Redemption)
(1) Stockholders of an open-end mutual fund may request the distributor of the stocks concerned to redeem such stocks.

(2) Where a distributor fails to comply with a redemption as provided in paragraph (1) due to some unavoidable reason, the stockholder concerned may request the asset management company, general administration trustee company, and other persons provided in the articles of incorporation to redeem the stocks concerned.

(3) Any person who has been requested to redeem stock pursuant to paragraphs (1) or (2) shall promptly request the mutual fund concerned to repurchase such stock.

(4) Any mutual fund shall, where it is requested to purchase stock pursuant to

paragraph (3), pay the purchase price of the stock with cash held thereby or the cash obtained from the sale of its assets.

(5) The purchase price of stock, where a mutual fund purchases stock pursuant to paragraph (4), shall be calculated on the basis of the net asset value in such manner as prescribed by Presidential Decree.

(6) Any mutual fund shall, where it purchases stock pursuant to paragraph (4), enter the details of purchase in the stockholders' list and retire such stocks.

(7) Any mutual fund shall, where it is unable to pay the purchase price mentioned in paragraph (4) due to a delay in the sale of stocks it holds, etc., until the date provided in its articles of incorporation that is within fifteen days from the date that the redemption is requested in accordance with the provisions of paragraphs (1) or (2), promptly notify such fact to the stockholder who requests such redemption.

(8) Any mutual fund may not, in the case where it falls under one of the following subparagraphs, comply with the request of redemption pursuant to paragraph (3):

1. In case a mutual fund decides, in order to ascertain who is entitled to exercise the right of a stockholder or a pledgee, to regard the stockholders or pledgees recorded on the stockholders' list as the stockholders or the pledgees who are entitled to exercise the right thereof on a specified date as prescribed in Article 354 (1) of the Commercial Act, and the request for redemption is made during the period from such specified date to the date on which the right of a stockholder or a pledgee is exercised. In this case, in applying Article 354 (3) of the Commercial Act, "three months" shall be deemed "two months";
2. Case of dissolution;
3. Where net asset value is less than the minimum net asset value as determined in the articles of incorporation;
4. Where the purchase of stocks is restricted by statutes or subordinate statutes or an order thereunder; or,
5. A case falling under a condition as provided in the articles of incorporation.

(9) Any stockholder shall, where it requests a redemption pursuant to paragraphs (1) and (2) and when stocks are issued, submit an application form for redemption to the distributor, together with its stock certificates. In this case, the stockholder shall state the number of the stocks requested in the redemption and the date of request, and the stockholder's name and seal or sign thereon.

CHAPTER V ACCOUNTING AND MERGERS, ETC.

SECTION 1 Accounting

Article 51 (Preparation, etc., of Financial Statements)

(1) The executive directors shall prepare the documents and supplementary schedules (hereinafter referred to as "financial statements") in each of the following subparagraphs every accounting period and obtain the approval of the board of directors:

1. Balance sheet;
2. Income statement;
3. Asset management report; and,
4. Statement on money distribution.

(2) The executive directors shall file the financial statements with the auditor four weeks prior to the date of a stockholders' meeting.

(3) Information required in the financial statements shall be determined by the Financial Supervisory Commission.

Article 52 (Audit Report)

(1) The auditor shall prepare an audit report within 2 weeks from the date on which the auditor receives the financial statements pursuant to Article 51 (2) and file such report with the executive directors.

(2) Information required in the audit report mentioned in paragraph (1) shall be prescribed by Presidential Decree.

Article 53 (Approval, etc., of Financial Statements)

(1) The executive directors shall submit the financial statements to a stockholders meeting for approval. In this case, the audit report mentioned in Article 52 (1) shall be filed together therewith.

(2) The executive directors shall, when the

approval of the financial statements pursuant to paragraph (1) is obtained from a stockholders' meeting, promptly file the statements in each of the following subparagraphs with the Financial Supervisory Commission and publicly announce the balance sheet and audit report:

1. Financial statements; and,
2. Audit report mentioned in Article 52 (1).

Article 54 (Valuation of Assets)

(1) Any mutual fund shall value the securities listed on the Korea Stock Exchange and other assets at the market price in such manner as provided by Presidential Decree on a daily basis (where it is not an open-end mutual fund at each period prescribed by Presidential Decree).

(2) Any mutual fund shall publicly announce or post the net asset value that is valued pursuant to paragraph (1) in such manner as prescribed by Presidential Decree.

Article 55 (Distribution of Cash)

Any mutual fund may distribute cash to its stockholders within the amount remaining after deducting the minimum net asset amount mentioned in Article 7 (1) 6 from the net asset value in such manner as prescribed by Presidential Decree.

Article 56 (Maintenance and Public Disclosure of Financial Statements, etc.)

(1) Any executive director shall maintain the documents in the following subparagraphs at its head office, and deliver copies of such documents to the asset management company and distributor for the maintenance thereof at their business offices:

1. Financial statements;
2. Audit report mentioned in Article 52 (1);
3. Articles of incorporation;
4. Minutes of stockholders' meetings;
5. Stockholders' list; and,
6. Minutes of board of directors' meetings.

(2) The documents mentioned in paragraph (1) 1 and 2 shall be maintained for five years.

(3) Any stockholder or creditor of a mutual fund may inspect the documents maintained pursuant to paragraph (1) at any time during the business hours and request delivery of a copy or an abstract copy.

SECTION 2 Merger, Etc.

Article 57 (Merger)

No mutual fund shall merge with funds that are not mutual funds.

Article 58 (Shareholders' Appraisal Rights)

(1) Where a mutual fund restricts the purchase of its stocks by amending the articles of incorporation or the board of directors of such mutual fund decides to extend the duration of such restrictions and its shareholders file a written notice of their intention to oppose such resolution with such mutual fund prior to a shareholders' general meeting, such shareholders may ask for the purchase of stocks they own, giving the type and number of such stocks in writing within 20 days from the date on which the shareholders' general meeting resolves to that extent.

(2) Necessary matters concerning the purchase price of stocks, etc., in case the mutual fund purchases such stocks pursuant to the provisions of paragraph (1) shall be prescribed by Presidential Decree.

CHAPTER VI SUPERVISION

Article 59 (Preparation and Maintenance of Books and Documents)

Any mutual fund, asset management company, custodian, distributor, and general administration trustee company shall prepare and maintain the books and documents related to their business affairs in such manner as determined by the Financial Supervisory Commission.

Article 60 (Filing, etc., of Monthly and Annual Reports)

(1) Any mutual fund shall file a monthly business report and annual business report prescribed by Presidential Decree with the Financial Supervisory Commission and the Korea Investment Trust Companies Association.

(2) Any mutual fund shall maintain the business report and annual report mentioned in paragraph (1), and deliver copies of such report to the asset management company and distributor for the maintenance thereof at their business offices.

(3) The Korea Investment Trust Companies Association shall publicly disclose the comparative performance results, including the change in the net asset value of a mutual fund, in such manner as prescribed by Presidential Decree.

Article 61 (Supervision, Examination, Etc.)
(1) The Financial Supervisory Commission may, when it deems necessary for the public interest or the protection of stockholders, order mutual funds, asset management companies, custodians, distributors, or general administration trustee companies to submit the data related to their business affairs, etc., or report thereon under the provisions of this Act.

(2)The FSS Governor of the Financial Supervisory Service (hereinafter referred to as the "FSS Governor") under the Act on the Establishment, etc., of Financial Supervisory Organization, may have its employees examine the businesses and property of mutual funds, asset management companies, custodians, distributors, or general administration trustee companies.

(3) The FSS Governor may, when deemed necessary for the examination pursuant to paragraph (2), request submission of data, and the attendance and testimony of involved persons.

(4) Any person who conducts an examination pursuant to paragraph (2) shall present redentials indicating their authority to any interested persons.

(5) The FSS Governor shall, when conducting an examination pursuant to paragraph (2), report the results thereof to the Financial Supervisory Commission, and the Financial Supervisory Commission may, when there is any violation of this Act or orders and dispositions thereunder as a result of such examination, take action in the following manner against the mutual fund, asset management company, custodian, or general administration trustee company:

1. Revocation of registration;
2. Suspension of all or part of the business;
3. Demand the dismissal of officers; and,
4. Actions prescribed by Presidential Decree that are necessary for the correction of the violation.

Article 62 (Report, etc., of Insufficient Net Asset Value)
(1) Any mutual fund shall, when its net asset is less than the minimum net asset provided in Article 7 (3), report this fact to the Financial Supervisory Commission within three days from the date on which such insufficiency occurs.

(2) The Financial Supervisory Commission shall, in case the net asset value of a mutual fund continues to remain less than the minimum net asset provided in Article 7 (3) for three months, notify such mutual fund that it will revoke its registration pursuant to Article 12.

Article 63 (Revocation of Investment Registration)
The Financial Supervisory Commission may, in case a mutual fund falls under one of the following subparagraphs, revoke its registration as provided in Article 12: provided that in the cases falling under the subparagraph 1 or 2, the registration mentioned in Article 12 shall be revoked:

1. Case of dissolution;
2. Where the net asset value of a mutual fund continues to remain less than the minimum net asset provided in Article 7 (3) for more than three consecutive months;
3. Where the registration mentioned in Article 12 has been made by improper means;
4. Where the registration requirements as provided in Article 13 (1) 1 and 3, or 4 are not fulfilled; or,
5. Where it violates this Act, or any orders or dispositions under this Act.

Article 63-2 (Cancellation of Registration, etc., of Asset Management Company)
The Financial Supervisory Commission may, where any asset management company falls under any of the following subparagraphs, cancel the registration of such asset management company pursuant to the provisions of Article 33 or suspend the business of such asset management company for a fixed period not exceeding one year:

1. Case of dissolution;
2. Where the registration under the provisions of Article 33 (1) has been made by fraudulent or other improper means;

3. Where the registration requirements as provided in Article 33 (2) 1 through 4 are not fulfilled;
4. Where the requirements for financial soundness under the provisions of Article 33 (2) 5 are not satisfied for three consecutive years;
5. Where the business has not been commenced after 6 months have been elapsed from the date of registration; or,
6. Where the internal control standards under the provisions of Article 35-3 (1) have not been established.

Article 63-3 (Registration Cancellation of General Administration Trustee Company)
The Financial Supervisory Commission may, where any general administration trustee company falls under any of the following subparagraphs, cancel the registration pursuant to the provisions of Article 42-2:
1. Case of dissolution;
2. Where the registration under the provisions of Article 42-2 (1) has been made by fraudulent or other improper means; or,
3. Where the registration requirements as provided in Article 42-2(2) 1 through 6 are not fulfilled.

CHAPTER VII DISSOLUTION AND LIQUIDATION

SECTION 1 Dissolution

Article 64 (Causes for Dissolution)
Any mutual fund shall be dissolved when any of the causes falling under one of the following subparagraph occurs:
1. Expiration of the period of duration provided in the articles of incorporation and occurrence of other causes for dissolution;
2. Resolution of a stockholders' meeting;
3. Merger;
4. Bankruptcy;
5. Order or judgment of a court;
6. Rejection of registration pursuant to Article 13 (3); or,
7. Revocation of the registration pursuant to Article 61 (5) or Article 63.

Article 65 (Report on Dissolution)
In case a mutual fund is dissolved, the bankruptcy administrator or the liquidator thereof shall report fact to the Financial Supervisory Commission within thirty days from the date of dissolution.

SECTION 2 Liquidation

Article 66 (Liquidator or Liquidation Supervisor)
(1) In case a mutual fund is dissolved (excluding the case of dissolution as provided under the subparagraphs 3 and 4 of Article 64), a liquidators' committee composed of liquidators and liquidation supervisors shall be established.

(2) In case a mutual fund is dissolved due to the causes mentioned in the subparagraph 1 or 2 of Article 64, the executive directors and supervisory directors thereof shall be the liquidators and liquidation supervisors, respectively: provided that where it is otherwise provided in the articles of incorporation or a stockholders' meeting, it shall so be applied.

(3) In case a mutual fund is dissolved due to the causes mentioned in the subparagraph 5 of Article 64, the Financial Supervisory Commission may appoint liquidators and liquidation supervisors at the request of interested persons. This provision shall also apply to cases falling under one of the following subparagraphs:
1. Cases of no liquidator or liquidation supervisor as provided under paragraph (1); and
2. Cases of liquidation as provided in Article 193 (1) of the Commercial Act.

(4) In case a mutual fund is dissolved due to the reasons as provided under the subparagraph 6 or 7 of Article 64, the Financial Supervisory Commission shall appoint liquidators and liquidation supervisors under its own authority.

(5) The remuneration for liquidators or liquidation supervisors may be paid from the mutual fund concerned in such manner as determined in the articles of incorporation or a stockholders' meeting where they are appointed in accordance with paragraph (2)or in such manner as determined by the Financial Supervisory Commission in the case where they are appointed in accordance with paragraph (3) and (4).

Article 67 (Declaration of Liquidators, Etc.)
The liquidators shall report matters falling under one of the following subparagraphs to the Financial Supervisory Commission within two weeks after assuming office:

1. Causes of dissolution and the date thereof; and,
2. Names, resident registration numbers, and addresses of liquidators and liquidation supervisors.

Article 68 (Dismissal of Liquidators, Etc.,)
The Financial Supervisory Commission may, when a liquidator or a liquidation supervisor is materially unfit to perform business or seriously violates statutes or subordinate statutes, dismiss that person under its own authority or at the request of interested persons concerned. In this case, the Financial Supervisory Commission may appoint a new liquidator of liquidation supervisor on its own authority.

Article 69 (Investigation of Property Status)
(1) The liquidators shall investigate the property status of the company concerned immediately after taking office, and prepare a property list and balance sheet thereof as prescribed in the Ordinance of the Ministry of Finance and Economy in order to submit such documents to the auditor.

(2) The auditor shall submit an audit report to the liquidators within 2 weeks after receiving a property list and balance sheet in accordance with the provisions paragraph (1).

(3) Information required in the audit report as provided under paragraph (2) shall be prescribed by Presidential Decree.

Article 70 (Approval, etc., of Property List, Etc.)
(1) The liquidator shall submit the property list and balance sheet prepared pursuant to Article 69 (1) to the liquidators' committee for its approval. In this case, the audit report mentioned in Article 69 (2) shall also be submitted.

(2) The liquidators shall promptly submit a certified copy of the property list and balance sheet that has been approved pursuant to paragraph (1) to the Financial Supervisory Commission.

(3) The liquidators shall maintain the property list and balance sheet that have been approved by the liquidators committee pursuant to paragraph (1) at the mutual fund until the completion of liquidation, and deliver them to the asset management company and the distributor concerned so that they can be maintained at their business offices.

Article 71 (Report on Violated Matters, etc., by Liquidator)
The auditor shall, when that auditor learns a liquidator has violated statutes or subordinate statutes or the articles of incorporation in relation to the performance of business, or when that auditor fears that the liquidator might cause a substantial loss to a mutual fund, report such fact to the liquidation supervisors.

Article 72 (Preemptory Notice to Creditors)
(1) Any liquidator shall, within one month from the date of assumption of their duties, serve a preemptory notice at least twice in the designated method of publication to the creditors of a mutual fund that they have to file a report regarding their credits within a certain period or else they will be excluded from the liquidation. In this case, the reporting period shall be not less than one month.

(2) With respect to any mutual fund for which fund borrowings, debt-repayment guarantees or offering of pledges are restricted under Article 29, the process of serving the preemptory notice to creditors may be omitted under the conditions as prescribed by Presidential Decree notwithstanding the provisions of paragraph (1): provided that the same shall not apply to the case of any liability for implementing any contract with respect to futures trading under the Futures Trading Act and any situations as prescribed by Presidential Decree.

Article 73 (Conclusion of Liquidation)
(1) The liquidators shall, when the liquidation affairs are concluded, prepare a settlement report without delay, and obtain approval from a stockholders' meeting. In this case, an auditor's report concerning the settlement report shall also be submitted.

(2) The liquidators shall, when the approval pursuant to paragraph (1) is obtained, publicly disclose the settlement report and auditor's report, and submit a certified copy thereof to the Financial Supervisory Commission.

Article 74 (Supervisory Order of Liquidation)
The Financial Supervisory Commission may, when it deems necessary for the liquidation of a mutual fund, order the mutual fund, asset management company, custodian, or general administration trustee company concerned to take necessary measures in relation to the deposit of property and other liquidation affairs.

CHAPTER VIII REGISTRATION

Article 75 (Registration of Establishment)
(1) The registration of establishment of a mutual fund shall be made within two weeks from the date of conclusion of a board of directors' meeting or a stockholders' meeting pursuant to Article 11.

(2) Information required in the registration of establishment pursuant to paragraph (1) are as follows:

1. Matters provided in Article 7 (1) 1 through 4, 6, 10, and 11;
2. Where the period of duration or causes of dissolution of a mutual fund is determined in the articles of incorporation, the contents thereof;
3. Name and address of the transfer agent;
4. Names and resident registration numbers of the directors concerned;
5. Name, resident registration number, and address of the director representing the mutual fund; and,
6. In case the articles of incorporation provides that the a mutual fund is represented by a chief executive director among the executive directors or jointly represented by several executive directors, the contents thereof.

(3) In the case of making a registration of establishment pursuant to paragraph (1), the documents prescribed by Presidential Decree shall be attached thereto.

Article 76 (Exception to Registration of Liquidators, etc.)

(1) Any mutual fund shall, when it is dissolved, register the matters in each of the following subparagraphs within two weeks from the date of dissolution where its executive directors become liquidators or within two weeks from the date of appointment where liquidators are appointed:

1. Names and resident registration numbers of liquidators (in the case of a chief liquidator, including the chief liquidator's address); and,
2. In case it is determined that the mutual fund is either represented by a chief liquidator among the liquidators or jointly represented by several liquidators, the determination thereof.

(2) Any mutual fund shall, when it is dissolved, register the names and resident registration numbers of the liquidation supervisors within two weeks from the date of dissolution where the supervisory directors become liquidation supervisors, or within two weeks from the date of appointment where liquidation supervisors are appointed.

(3) When registering the liquidators, etc., pursuant to paragraphs (1) and (2), the documents prescribed by Presidential Decree shall be attached thereto.

Article 77 (Entrustment of Registration by Financial Supervisory Commission)
(1) The Financial Supervisory Commission shall, in cases falling under one of the following subparagraphs, entrust the registration office that has jurisdiction on the location of a mutual fund with the relevant registration:

1. Where a mutual fund is dissolved due to the reasons mentioned in the subparagraph 6 or 7 of Article 64; and,
2. Where the Financial Supervisory Commission dismisses a liquidator or liquidation supervisor under its own authority.

(2) The Financial Supervisory Commission shall, when it makes an entrustment of the registration pursuant to paragraph (1), attach the documents showing the ground of registration thereto.

CHAPTER IX SUPPLEMENTARY PROVISIONS

Article 78 (Exception to Mutual Funds Undergoing Corporate Restructuring)
(1) Article 28 (2) shall not apply to a mutual fund satisfying the requirements in the following subparagraphs (hereinafter referred to as a "mutual fund undergoing corporate restructuring"):

1. In case it invests in securities prescribed by Presidential Decree, from among those issued by corporations that do not belong to large conglomerate groups provided in the Monopoly Regulation and Fair Trade Act, and the ratio of investment in such securities exceeds that prescribed by Presidential Decree;
2. The duration period of business after its establishment shall be at least one year and longer than that period prescribed by Presidential Decree; and,
3. It shall not be an open-end mutual fund.

(2) Notwithstanding Article 33 (5), a foreign asset management company satisfying the requirements in each subparagraphs of Article 33 (2) may, without establishing its branches and other offices, receive an entrustment of asset management from the mutual fund undergoing corporate restructuring.

(3) The necessary matters in relation to managing the assets of the mutual fund undergoing corporate restructuring by a foreign management company pursuant to paragraph (2) shall be prescribed by Presidential Decree.

Article 79 (Exception to Mutual Funds with a Small Number of Investors)
(1) Article 13 (1) 4 (limited to asset management companies), Articles 28 (2) 1 and 2, 32 (1) and 49 shall not apply to mutual funds that only issue stocks by means other than through a public offering or secondary distribution in accordance with Article 2 (3) and (4) of the Securities and Exchange Act.

(2) The necessary matters in relation to the asset management of the mutual funds mentioned in paragraph (1) shall be prescribed by Presidential Decree.

Article 80 (Domestic Sale of Stocks Issued by Foreign Mutual Funds)

(1) Any foreign mutual fund (referring to the person satisfying the criteria prescribed by Presidential Decree, from among those established under foreign statutes for the purpose of mainly investing their assets in securities; hereinafter the same shall apply) shall, when it intends to sell the stocks issued in foreign countries in accordance with foreign statutes in Korea, make a declaration to the Financial Supervisory Commission in such manner as prescribed by Presidential Decree.

(2) The provisions of Articles 9 (2) through (5), 54 (2) and 56 shall apply *mutatis mutandis* to domestic sales of stocks issued by any foreign mutual funds pursuant to paragraph (1). In this case, "promoters" in Article 9 (2) shall be deemed "foreign mutual funds," "promoters" in Article 9 (3) and (4) shall be deemed "foreign mutual funds and distributors" respectively, and "mutual funds" in Articles 54 (2) and 56 (3) shall be deemed "foreign mutual funds."

(3) The necessary matters concerning the domestic sales method of the stocks issue by the foreign mutual funds mentioned in paragraph (1) shall be prescribed by Presidential Decree.

Article 81 (Participation in Korea Investment Trust Companies Association)
Any mutual fund, asset management company, custodian, and general administration trustee company may become a member of the Korea Investment Trust Companies Association.

Article 82 (Contribution)
(1) The mutual funds, asset management companies, custodians, and general administration trustee companies that are examined by the FSS Governor shall pay a contribution to cover the examination expenses to the Financial Supervisory Service.

(2) The ratio, ceiling, and other necessary matters regarding the payment of contribution mentioned in paragraph (1) shall be prescribed by Presidential Decree.

Article 83 (Hearings)
The Financial Supervisory Commission shall, when it intends to execute a disposition falling under one of the following subparagraphs, hold a hearing:

1. Revocation of registration pursuant to Article 61 (5);
2. Revocation of registration pursuant to Article 63;
3. Revocation of registration of any asset management company under the provisions of Article 63-2; or,
4. Revocation of registration of any general administration trustee company under the provisions of Article 63-3.

Article 84 (Relation with Other Statutes or Subordinate Statutes)
(1) In applying of the Commercial Act to mutual funds, the "court" in Articles 259 (4), 467 (1), 536, 539, 541 of the Commercial Act shall be deemed the " Financial Supervisory Commission", and the "public prosecutor" in Article 176 of the Commercial Act shall be deemed the "Financial Supervisory Commission."

(2) The provisions of Articles 19, 288, 289 (2), 298 through 300, 308 (1), 310 through 313, 329(1) and (4), 330, proviso of 335 (1), 335-2 through 335-7, 341 through 351, 370, 389 (1), 415-2, 417 through Article 419, 420-2 through 420-4, 438, 439, and 458 of the Commercial Act shall not apply to mutual funds.

(3) The provisions of Articles 191-13 and 191-14 of the Securities and Exchange Act shall apply *mutatis mutandis* to the stockholders of mutual funds. In this case in Article 191-13 (1) of the Securities and Exchange Act, "the stock equivalent to 1/10,000 or more of the total number of issued and outstanding stocks of a stock-listed corporation" shall be deemed "the stock of the mutual funds"

(4) The provisions of Chapter II and Chapter IX (excluding Section 2, Article 191-13, and Article 191-14) of the Securities and Exchange Act shall not apply to mutual funds.

Article 85 (Delegation of Authority)
The Financial Supervisory Commission and the Korea Investment Trust Companies Association may delegate part of its authority under this Act to the FSS Governor in such manner as prescribed by Presidential Decree.

CHAPTER X PENAL PROVISIONS

Article 86 (Penal Provisions)
Any person who falls under one of the following subparagraphs shall be punished by imprisonment of up to five years or by a fine up of to thirty million won:

1. A person who engages in the business provided in Article 28 (1) without making a registration pursuant to Article 12 (1);
1-2. A person who makes a public offering or secondary distribution of the stocks issued without filing a registration pursuant to the provisions of Article 12 (1) in contravention of paragraph (3) of the same Article;
2. A person registers pursuant to Article 12 by fraudulent or other improper means;
3. A person who manages assets in violation of Article 28 (2);
4. A person who borrows funds, guarantees liabilities, or provides collateral in violation of Article 29;
5. A person who exercises voting rights in violation of Article 31 (1) through (3);
6. A person who engages in the business of an asset management company without registering pursuant to Article 33 (1) or (5);
7. A person registers pursuant to Article 33 (1) or (5) by fraudulent or other improper means;
8. A person who acts in violation of Article 35 (3); or,
9. A person who engages in trading through the use of undisclosed information pertaining to asset management or allows other persons to use such information in violation of Article 35-2.

Article 87 (Penal Provisions)
Any person who falls under one of the following subparagraphs shall be punished by an imprisonment of up to five years or by a fine of up to twenty million won:

1. A person who makes transactions in violation of Article 30;
2. A person who makes transactions in violation of Article 40 (2);
2-2. A person who engages in the business of a general administration trustee company without registering their business in accordance with the provisions of Article 42-2 (1);
2-3. A person who registers their business

under the provisions of Article 42-2 (1) by improper means;

2-4. A person who fails to make a demand with respect to withdrawal, alteration or correction in contravention of the provisions of Article 42-2 (3);

3. A person who fails to implement the necessary measures on the deposit of property and other liquidation affairs in violation of Article 74; and

4. A person who sells stocks of any foreign mutual fund without filing a registration in violation of Article 80 (1).

Article 88 (Penal Provisions)
Any person who falls under one of the following subparagraphs shall be punished by imprisonment of up to one year or by a fine of up to five million won:

1. A person who uses the title of a mutual fund or asset management company in violation of Article 5 or Article 33 (7);
2. A person who fails to provide the investment prospectus described in Article 9 (3) through (5) (including the case in which the application is made *mutatis mutandis* in the provisions of Article 48 (2) and Article 80 (2)) or falsely prepares and provides investment prospectuses or simple investment prospectuses:
3. A person who fails to make a public disclosure of the exercise of voting rights in violation of Article 31 (4);
4. A person who conducts securities trading or securities entrustment in violation of Article 34 (4);
5. A person who fails to separately administer the assets of a mutual fund in violation of Article 40 (3);
6. A person who fails to deposit securities with the Korea Securities Depository in violation of Article 40 (4);

6-2. A person who fails to include matters that have to be included in sale solicitation advertisements in violation of Article 41-2;

7. A person who complies with the redemption in violation of Article 50 (4);

7-2. A person who fails to publish or put on public notice the net asset value of any mutual fund under the provisions of Article 54 or falsely publishes or puts on public notice such net asset value;

8. A person who fails to prepare and maintain the books and documents on the business in violation of Article 59;
9. A person who fails to maintain the business report and annual report, or falsely prepares such reports and maintains them in violation of Article 60 (2); or,
10. A person who fails to make a declaration pursuant to Article 80 (1) or makes a false declaration.

Article 89 (Provisions of Dual Punishment)
When a representative of a corporation, or an agent or employee of a corporation or an individual violates Article 86 through Article 88 with respect to the business affairs of such corporation or individual, a fine falling under each pertinent Article shall also be imposed to such corporation or individual, in addition to a punishment against the offenders.

Article 90 (Negligence Fine)
(1) Any person who falls under one of the following items shall be punished by a negligence fine not exceeding 10 million won:

1. A person who fails to register a change in violation of Article 14;
2. A person who fails to submit the financial statements, etc., in violation of Article 53 (2);
3. A person who fails to maintain the financial statements, etc., in violation of Article 56 (1);
4. A person who fails to submit a business report and annual report, or falsely prepares and submits such reports in violation of Article 60 (1);
5. A person who fails to implement an order to submit data or to report in violation of Article 61 (1);
6. A person who refuses, impedes, or evades the examination pursuant to Article 61 (2);
7. A person who fails to comply with a request for submission of data, attendance or statement in violation of Article 61 (3); or,
8. A person who fails to report in violation of Article 62 (1).

(2) The negligence fine mentioned in paragraph (1) shall be imposed and collected by the Financial Supervisory Commission in such manner as prescribed by Presidential Decree.

(3) Any person who objects to the disposition

of a negligence fine pursuant to paragraph (2) may file an objection with the Financial Supervisory Commission within thirty days from the date on which that person is informed thereof.

(4) In case a negligence fine is imposed upon a person pursuant to paragraph (2) and that person files an objection pursuant to paragraph (3), the Financial Supervisory Commission shall promptly notify the competent court of the fact. In this case, the competent court shall review the matter at trial in accordance with a negligence fine under the Non-Contentious Case Litigation Procedure Act.

(5) When no objection is made and no negligence fine is paid within the period mentioned in paragraph (3), such negligence fine shall be collected in accordance with the examples of the disposition of national taxes in arrears.

ADDENDA
<Act No. 6174, Jan. 21, 2000>

Article 1 (Enforcement Date)
This Act shall enter into force on April 1, 2000: provided that the amended provisions of Articles 79 and 84 shall enter into force on the date of promulgation.

Article 2 (Transitional Measures concerning Disqualifications)
Where any officer of a mutual fund or an asset management company falls under the disqualifications under the amended provisions of Article 6 (2) 5 or Article 19 (2) 5-2 due to a cause that occurred prior to the enforcement of this Act at the time that this Act is enforced, the case shall be dealt with according to the previous provisions notwithstanding the amended provisions.

Article 3 (Transitional Measures concerning the Internal Control Standards of Asset Management Company)
Any asset management company at the time that this Act is enforced shall establish its internal control standards within six months after the enforcement of this Act in accordance with the amended provisions of Article 35-3 (1).

Article 4 (Transitional Measures concerning General Administration Trustee Company)
Any general administration trustee company shall, where it intends to continuously engage in the business of each subparagraph of Article 42 (1) upon entrustment from any mutual fund at the time that this Act is enforced, register its business with the Financial Supervisory Commission after satisfying the requirements (in case of an asset management company that concurrently engages in the business described in each subparagraph of Article 42 (1), the requirements of Article 42-2 (2) 6 shall be excluded) described in the amended provisions of Article 42-2 within two months from the date of enforcement of this Act.

Article 5 (Transitional Measures concerning Concurrent Operation of a Business of General Administration Trustee Company by an Asset Management Company)
(1) Any asset management company that concurrently engages in a business under a subparagraph of Article 42 (1) at the time that this Act is enforced, where it obtains authorization from the Financial Supervisory Commission after satisfying requirements prescribed by the Financial Supervisory Commission with respect to the concurrent operation of other business within 2 months after the enforcement of this Act, may concurrently engage in such business during a period set by the Financial Supervisory Commission notwithstanding the amended provisions of Article 42-2 (2) 6. In this case, such asset management company shall prohibit any person in charge of the business of a general administration trustee company from concurrently taking charge of the business of managing assets of a mutual fund.

(2) In applying the amended provisions of Article 42-2 (3) to any asset management company that has been authorized to concurrently operate another business under a subparagraph of Article 42 (1) in accordance with the provisions of the former part of paragraph (1), "general administration trustee companies" shall be deemed "persons in charge of the business of such general administration trustee companies" and "asset management companies" shall be deemed "persons in charge of the business of such asset management companies."

Article 6 (Transitional Measures concerning Listing, etc., of Issued Stocks)
In applying the amended provisions of Article 49 to any mutual fund that is not an open-end mutual fund at the time that this Act is enforced, the date of enforcement of this Act shall be deemed the date of issue of the stock certificates.

INSURANCE BUSINESS ACT

Amended by Law No. 6175 on January 21,2000

CHAPTER I GENERAL PROVISIONS

Article 1 (Purpose)
The purpose of this Act is to guide and supervise the insurance business efficiently, protect the rights and interests of the policyholders, the insured and other interested persons concerned and thus to contribute to the sound development of the insurance business and the balanced growth of the national economy.

Article 2 (Definitions)
(1) The term "insurer" as used in this Act means a person conducting an insurance business by obtaining the permission in accordance with the provisions of Article 5 of this Act.

(2) The term "foreign insurer" as used in this Act means a person who is established under Acts and subordinate statutes of any country other than the Republic of Korea, and operates the insurance business in a country other than the Republic of Korea. <Amended by Act No. 4069, Dec. 31, 1988; Act No. 4865, Jan. 5, 1995>

(3) The term "insurance solicitor" as used in this Act means a person (including an unincorporated association or foundation) registered in accordance with the provisions of Article 145 as a person intermediating the conclusion of insurance contracts on behalf of an insurer.

(4) The term "insurance agency" as used in this Act means a person who is registered in accordance with the provisions of Article 149 as a person (including an unincorporated association or foundation) acting to conclude insurance contracts on behalf of an insurer. <Amended by Act No. 4865, Jan. 5, 1995>

(5) The term "insurance broker" as used in this Act means a person who has registered to intermediate the conclusion of insurance contracts independently in accordance with the provisions of Article 150-2 (including an unincorporated association or foundation). <Amended by Act No. 4865, Jan. 5, 1995; Act No. 5751, Feb. 5, 1999>

(6) The term "solicitation" as used in this Act means intermediating or acting for to conclude insurance contracts.

Article 3 Deleted. <by Act No. 5500, Jan. 13, 1998>

Article 4 (Conclusion of Insurance Contracts)
No one shall effect, represent or intermediate the conclusion of insurance contracts with a person who is not an insurer: Provided, that the same shall not apply in the cases as provided for in the Presidential Decree. <Amended by Act No. 5375, Aug. 28, 1997>

CHAPTER II INSURER

SECTION 1 Common Provisions

Article 5 (Permission for Insurance Business)
(1) Any person who desires to engage in the insurance business (including a business which promises the debtor or other obligers to indemnify the damage of the creditor or other obligees which may arise in regard to the performance of liability under contracts of sale, employment, work or others, or obligation under the Acts and subordinate statutes and receives rewards therefor from the debtor or other obligers; hereinafter the same shall apply) shall obtain the permission of the Financial Supervisory Commission. <Amended by Act No. 3340, Dec. 31, 1980; Act No. 4865, Jan. 5, 1995; Act No. 5375, Aug. 28, 1997; Act No. 5751, Feb. 5, 1999; Act No. 5982, May 24, 1999>

(2) Those who are entitled to obtain the permission as referred to in paragraph (1), shall be limited to stock companies, mutual companies and foreign insurers. Any domestic branch of a foreign insurer who has obtained the permission as referred to in paragraph (1) (hereinafter referred to as the "domestic branch of foreign insurer") shall be considered as an insurer as prescribed by this Act. <Amended by Act No. 4865, Jan. 5,

1995>

(3) A person who desires to obtain the permission under paragraph (1) shall annex to the application the following documents, and submit it to the Financial Supervisory Commission: <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5751, Feb. 5, 1999; Act No. 5982, May 24, 1999; Act No. 6175, Jan. 21, 2000>

1. Articles of incorporation;
2. A document showing the method of business;
3. General policy conditions of insurance;
4. A document showing the basis for calculating premiums and mandatory technical reserve; and
5. In addition to the documents as referred to in subparagraphs 1 through 4, other documents as prescribed by the Presidential Decree.

(4) The Financial Supervisory Commission may attach conditions to permission described in the provisions of paragraph (1). <Amended by Act No. 6175, Jan. 21, 2000>

Article 5-2 (Establishment of Domestic Business Office by Foreign Insurer, etc.)
(1) If a foreign insurer, or a person who engages in an insurance agency or an insurance brokerage business or any insurance-related business in a foreign country, desires to establish an office in the Republic of Korea to conduct research and collect information regarding the insurance market, and other similar affairs, he may establish a business office in the Republic of Korea.

(2) The provisions of Articles 14, 15, and 20 (1) 1 shall apply *mutatis mutandis* to the office established pursuant to paragraph (1). <Amended by Act No. 6175, Jan. 21, 2000>
[This Article Wholly Amended by Act No. 5751, Feb. 5, 1999]

Article 5-3 (Requirements for Permission)
(1) Any person who intends to obtain permission of the insurance business (excluding foreign insurers) shall meet requirements falling under each of the following subparagraphs:

1. He is required to have capital or fund under Article 6 (1);
2. He is required to be able to protect the policyholders and have professional manpower and physical facilities, including computer equipment, to carry on the intended insurance business;
3. His business plan is required to be feasible and sound; and
4. Major investors prescribed by the Presidential Decree are required to be financially able to make full investments and have a sound financial standing and a social credit.

(2) Any foreign insurer who intends to obtain permission of the insurance business shall meet requirements falling under each of the following subparagraphs:

1. He is required to have the business fund described in the provisions of Article 6 (2);
2. He is required to carry on the same insurance business overseas as the insurance business he intends to perform in Korea;
3. His current property, and financial and business soundness are required to be internationally recognized as adequate for him to carry on the intended insurance business in Korea; and
4. He is needed to meet requirements described in the provisions of paragraph (1) 2 and 3.

(3) Necessary matters concerning detailed requirements for granting the permission under the provisions of paragraphs (1) and (2) shall be prescribed by the Presidential Decree.
[This Article Newly Inserted by Act No. 6175, Jan. 21, 2000]

Article 5-4 (Publication of Permission, etc.)
The Financial Supervisory Commission shall, when it grants any permission in accordance with the provisions of Article 5 (1) or revokes any permission in accordance with the provisions of Article 20 (2) or 82 (1), promptly publish the contents thereof in the Official Gazette and make them known to the public making use of computers, etc.
[This Article Newly Inserted by Act No. 6175, Jan. 21, 2000]

Article 6 (Capital or Fund)
(1) Any insurer may commence his insurance business only when his paid-in capital or fund amounts to not less than 30 billion won: Provided, That where any insurer intends to perform part of the insurance business from among the types of insurance business

prescribed by the Presidential Decree, the amount of the paid-in capital or the fund may be otherwise prescribed by the Presidential Decree within the limit of not less than 10 billion won. <Amended by Act No. 6175, Jan. 21, 2000>

(2) In case where a foreign insurer desires to carry on the insurance business in the Republic of Korea, the business fund as prescribed by the Presidential Decree shall be regarded as capital or foundation fund under paragraph (1). <Amended by Act No. 4865, Jan. 5, 1995>

(3) Deleted. <by Act No. 5751, Feb. 5, 1999>

Article 6-2 (Deposit of Deposit Money for Protection of Policyholder)

(1) The insurer shall deposit the deposit money for protecting policyholders (hereinafter referred to as "protection deposit") with the Financial Supervisory Service established under the Act on the Establishment, etc. of Financial Supervisory Organization (hereinafter referred to as the "Financial Supervisory Service") to the extent as prescribed by the Presidential Decree before he starts his business. <Amended by Act No. 5500, Jan. 13, 1998>

(2) If an insurer falls under any of the following subparagraphs, the Financial Supervisory Service shall, upon the request of the insurer, return the protection deposit (including profits derived from operation thereof): <Amended by Act No. 4865, Jan. 5, 1995; Act No. 5500, Jan. 13, 1998>

1. When the insurer accumulates faithfully the mandatory technical reserve, etc. as prescribed in Article 98, and makes a profit;
2. When the insurer is liquidated;
3. When a foreign insurer discontinues his insurance business permitted in the Republic of Korea; and
4. When the return is deemed necessary for protecting policyholders.

(3) The Financial Supervisory Service shall, upon receiving a request for return of the protection deposit under paragraph (2), examine whether or not the case falls under any of the subparagraphs of paragraph (2), and decide on whether or not the protection deposit shall be returned. <Amended by Act No. 5500, Jan. 13, 1998>

(4) The protection deposit shall be managed separately from the general operating expenses of the Financial Supervisory Service. <Amended by Act No. 5500, Jan. 13, 1998>

(5) Matters necessary for the operation and management of the protection deposit shall be determined by the Presidential Decree.

(6) If it is judged that the circumstances under which the deposit was returned is no longer present after the return of the protection deposit under paragraph (2) 4, the Governor of the Financial Supervisory Service (hereinafter referred to as "FSS Governor") may order a redeposit of the protection deposit. <Newly Inserted by Act No. 4865, Jan. 5, 1995; Act No. 5500, Jan. 13, 1998>

[This Article Newly Inserted by Act No. 4069, Dec. 31, 1988]

Article 6-3 (Maintenance of Financial Soundness)

(1) Any insurer shall comply with the standards for financial soundness prescribed by the Presidential Decree with respect to matters falling under each of the following subparagraphs to keep his management sound:

1. Matters relating to the optimum of capital;
2. Matters relating to the soundness of assets; and
3. Other matters necessary to secure the soundness of management.

(2) The Financial Supervisory Commission may, when an insurer is deemed to be feared to damage the soundness of his management by failing to observe the standards referred to in paragraph (1), take necessary measures, including an order given to multiply the amount of his paid-in capital or fund, under the conditions as prescribed by the Presidential Decree.

[This Article Wholly Amended by Act No. 6175, Jan. 21, 2000]

Article 6-4 (Publication of Management)

Any insurer shall immediately publish matters which are prescribed by the Presidential Decree and necessary to protect the policyholders, under the conditions as prescribed by the Financial Supervisory

Commission.
[This Article Wholly Amended by Act No. 6175, Jan. 21, 2000]

Article 6-5 (Standards for Internal Control, etc.)
(1) Any insurer shall set fundamental procedures and standards (hereinafter referred to as the "standards for internal control") to be followed by his officers and employees when they perform their duties in order to observe the Acts and subordinate statutes, make the management of property sound and protect the policyholders.

(2) Any insurer shall check whether the standards for internal control are observed and appoint not less than one person with the assignment that where a breach of the standards for internal control occurs, he inspects and reports the results to the auditor or the Inspection Committee (hereinafter referred to as a "law-observance monitor").

(3) Necessary matters concerning the standards for internal control referred to in paragraph (1) and the law-observance monitor referred to in paragraph (2) shall be prescribed by the Presidential Decree.
[This Article Newly Inserted by Act No. 6175, Jan. 21, 2000]

Article 7 (Matters of Authorization)
(1) Any insurer who desires to engage in any of the following subparagraphs shall obtain authorization from the Financial Supervisory Commission: <Amended by Act No. 3340, Dec. 31, 1980; Act No. 4865, Jan. 5, 1995; Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998; Act No. 5751, Feb. 5, 1999>

1. Amendment of the articles of incorporation, documents revealing the method of business, policy conditions of insurance and documents revealing the basis for calculating premiums and the mandatory technical reserve (hereinafter referred to as "basic documents");
2. Deleted; and <by Act No. 4865, Jan. 5, 1995>
3. and 4.Deleted. <by Act No. 5751, Feb. 5, 1999>

(2) When the Financial Supervisory Commission deems it to be necessary for authorizing any modification in the basic documents (excluding the articles of incorporation) as referred to in paragraph (1) 1, it may subject the modification to a review of the Financial Supervisory Commission. <Amended by Act No. 4069, Dec. 31, 1988; Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

(3) Deleted. <by Act No. 5751, Feb. 5, 1999>

Article 7-2 (Matters to be Reported)
Any insurer shall, where he falls under any case of the following subparagraphs, promptly file a report thereof with the Financial Supervisory Committee:

1. Where he alters the trade name or the name of his company;
2. Where he appoints or dismisses officers;
3. Where the alteration of largest shareholders prescribed by the Presidential Decree takes place in his company;
4. Where he suspends or resumes the business of the principal office; and
5. Any other case, prescribed by the Presidential Decree, which has a crucial impact on the conduct of his insurance business.

[This Article Newly Inserted by Act No. 6175, Jan. 21, 2000]

Article 8 (Trade Name or Denomination)
(1) An insurer shall describe, in its name or denomination, the type of principal insurance business to be carried on.

(2) No one other than an insurer may use or have in its trade name or denomination any word indicating that it is an insurer.

Article 9 (Prohibition of Concurrent Operation of Other Business)
(1) An insurer shall be prohibited from operating any business other than insurance except for operations authorized or permitted by the Financial Supervisory Commission under other Acts and subordinate statutes: Provided, That any of the following may be operated with the permission of the Financial Supervisory Commission: <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998; Act No. 5751, Feb. 5, 1999; Act No. 5982, May 24, 1999>

1. Business of acting for or intermediating the transactions of the insurance business on behalf of another insurer; and
2. Business incidental to the respective

insurance business.

(2) Deleted. <by Act No. 5500, Jan. 13, 1998>

(3) When an insurer desires to alter the kinds and methods of business permitted in accordance with the proviso of paragraph (1), permission thereof shall be obtained from the Financial Supervisory Commission. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

(4) Any insurer shall, when he carries on any business other than the insurance business in accordance with the provisions of paragraph (1), manage such business separately from the insurance business. <Newly Inserted by Act No. 6175, Jan. 21, 2000>

Article 10 (Prohibition of Concurrent Operation of Insurance Business)
No insurer shall operate life and non-life insurance businesses concurrently: Provided, That an insurance business falling under any of the following subparagraphs shall be exempted from the above: <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998; Act No. 5751, Feb. 5, 1999; Act No. 5982, May 24, 1999>

1. Personal accident insurance;
2. Reinsurance business for life insurance; and
3. In addition to subparagraphs 1 and 2, any insurance business which is difficult to classify into life or non-life insurance, and is determined by the Presidential Decree.

Article 11 (Restriction on Additional Jobs of Officers)
A director, auditor or representative attending to the regular business of an insurance company shall not be a regular officer or employee of another company or juristic person if it may be against the interest of the insurance subscriber, which fall under the standard determined by the Presidential Decree.
[This Article Wholly Amended by Act No. 5751, Feb. 5, 1999]

Article 12 (Qualification of Officers)
(1) Deleted. <by Act No. 5751, Feb. 5, 1999>

(2) A person falling under any of the following subparagraphs shall not be an officer of an insurer: <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5422, Dec. 13, 1997; Act No. 6175, Jan. 21, 2000>

1. A minor;
2. An incompetent or a quasi-incompetent;
3. A person who is declared bankrupt, but not yet reinstated;
4. A person who was sentenced to imprisonment without prison labor or heavier penalty, and for whom five years have not passed after the execution of the sentence was terminated (including the case where the execution of such sentence is considered to have been terminated) or exempted;
5. A person who was sentenced to a fine or heavier penalty under this Act, foreign Acts and subordinate statutes equivalent to such Act, or other Acts and subordinate statutes related to finance as determined by the Presidential Decree, and for whom five years have not passed after the execution of such sentence was terminated (including the case where the execution of such sentence is considered to have been terminated) or exempted;

5-2. A person who was sentenced to the suspension of execution of a punishment of imprisonment without prison labor or heavier penalty, and is still during the suspension of such execution;

6. A person who served as an officer or an employee of a corporation or a company whose permission or authorization, etc. of business was canceled by this Act or finance-related Acts and subordinate statutes prescribed by the Presidential Decree (limited to any person who is directly responsible or correspondingly responsible for the occurrence of the cause of such cancellation and prescribed by the Presidential Decree) and for whom 5 years have yet to elapse from the date on which such permission or authorization was cancelled; and
7. A person who was dismissed or removed from office by disciplinary action under this Act, foreign Acts and subordinate statutes equivalent to such Act, or other Acts and subordinate statutes related to finance as determined by the

Presidential Decree, and for whom five years have not passed since the date of such dismissal or removal.

(3) An officer of an insurer shall be a person who is unlikely to prejudice concern for the public interests, sound management, and order of transaction of an insurance business. <Newly Inserted by Act No. 5375, Aug. 28, 1997>

(4) The Financial Supervisory Commission may determine the concrete requirements for qualification as an officer under paragraph (3). <Amended by Act No. 5751, Feb. 5, 1999>

(5) When a person, who has been elected as an officer of an insurer, falls under any of the subparagraphs of paragraph (2) or when it turns out that he was ineligible at the time of his election, he shall be dismissed.

(6) When an officer loses his position by reason of the latter part of paragraph (5), his acts performed before the time of his dismissal shall remain valid. <Amended by Act No. 5375, Aug. 28, 1997>

Article 12-2 (Appointments of Outside Directors)
(1) Any insurer (limited to any insurer prescribed by the Presidential Decree in the light of his assets, etc.; hereafter the same in this Article shall apply) shall have not less than three directors who do not work as standing members on the board of directors (hereinafter referred to as "outside directors") and such outside directors shall make up not less than 1/2 of the total number of directors.

(2) Any insurer shall establish a committee mandated to recommend candidates for outside directors in accordance with the provisions of Article 393-2 of the Commercial Act (hereinafter referred to as the "Outside Director Candidate Recommendation Committee"). In this case, such outside directors shall make up not less than 1/2 of the total members of the Outside Director Candidate Recommendation Committee.

(3) The outside directors shall be elected from among persons recommended by the Outside Director Candidate Recommendation Committee at general meetings of shareholders or general meetings of employees (hereinafter referred to as the "general meetings of shareholders, etc.").

(4) A person falling under any subparagraph of Article 54-5 (4) of the Securities and Exchange Act shall not be elected to be an outside director and shall lose his office when he is found to fall under such provisions after being elected to be the outside director.

(5) Any insurer shall, where the composition of the board of directors falls short of meeting the requirements described in paragraph (1) on the grounds of resignation or death of any outside director, make the composition of the board of directors meet the requirements referred to in paragraph (1) at a regular general meeting of shareholders, etc. called first after the date on which such grounds occurred.
[This Article Newly Inserted by Act No. 6175, Jan. 21, 2000]

Article 12-3 (Inspection Committee)
(1) Any insurer (limited to any insurer prescribed by the Presidential Decree in the light of assets, etc.; the same in this Article shall apply) shall establish an Inspection Committee (referring to the Inspection Committee established pursuant to the provisions of Article 415-2 (1) of the Commercial Act; hereafter the same shall apply).

(2) The outside directors shall make up not less than 2/3 of the total members of the Inspection Committee under paragraph (1).

(3) A member of the Inspection Committee, who is not an outside director, shall not fall under any subparagraph of Article 191-12 (3) of the Securities and Exchange Act: Provided, That any person who serves as a member of the Inspection Committee, but not as an auditor or an outside director of the Inspection Committee under the provisions of Article 191-12 (3) of the Securities and Exchange Act may become a member of the Inspection Committee, who is not an outside director of the Inspection Committee notwithstanding the provisions of Article 191-12 (3) 6 of the Securities and Exchange Act.

(4) Where the composition of the Inspection Committee falls short of the requirements of

paragraph (2) on the grounds of resignation or death, etc. of any member, the composition of the Inspection Committee shall be made consistent with the requirements of paragraph (2) at a regular general meeting of shareholders, etc. called first after the date on which such grounds occur.

(5) The provisions of the proviso of Article 415-2 (2) of the Commercial Act shall not apply to the composition of the Inspection Committee referred to in paragraph (1).
[This Article Newly Inserted by Act No. 6175, Jan. 21, 2000]

Article 13 (Terms of Office for Officers)
The term of office for the directors and auditors of an insurer shall be three years.
[This Article Wholly Amended by Act No. 4865, Jan. 5, 1995]

Article 14 (Furnishing of Data and Inspection)
(1) If it is deemed necessary for the protection of the public interest or policyholders, the Financial Supervisory Commission may at any time require an insurer to file a report or to submit materials related to the execution of supervision determined under this Act. <Amended by Act No. 4069, Dec. 31, 1988; Act No. 4865, Jan. 5, 1995; Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998; Act No. 5751, Feb. 5, 1999>

(2) All insurers shall have the status of their business or property inspected by the Financial Supervisory Service. <Amended by Act No. 4069, Dec. 31, 1988; Act No. 5500, Jan. 13, 1998>

(3) The FSS Governor may, when he deems it necessary to conduct the inspection described in the provisions of paragraph (2), ask any insurer to file a report or furnish data with respect to his business and property, and other persons concerned to be present and state their opinions. <Newly Inserted by Act No. 6175, Jan. 21, 2000>

(4) A person conducting an inspection in accordance with paragraph (2) shall present to the persons concerned a certificate indicating his authority.

(5) When the Financial Supervisory Service has inspected an insurer in accordance with paragraph (2), it shall take necessary measures in accordance with the results and report them to the Minister of Finance and Economy. <Amended by Act No. 3340, Dec. 31, 1980; Act No. 4069, Dec. 31, 1988; Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

Article 15 (Right to Order of Financial Supervisory Commission)
When the Financial Supervisory Commission considers that the business operation of the insurer is inappropriate or the assets are of substandard, so that it may be detrimental to the rights and interests of the policyholder or the insured, it may order the insurer to alter the method of conducting business, or to deposit property in an institution designated by the Financial Supervisory Commission or may issue other orders necessary for supervision. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998; Act No. 5751, Feb. 5, 1999>

Article 16 (Alteration of Fundamental Documents)
(1) The Financial Supervisory Commission may, where any insurer is deemed to be feared to greatly hurt the public interest, the protection of the policyholders and the sound management of the insurer on the grounds of a change in the business and the current property, etc. of such insurer, order the insurer concerned to alter fundamental documents or the type and method of his business for which permission has been granted in accordance with the provisions of the proviso of Article 9 (1). <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998; Act No. 6175, Jan. 21, 2000>

(2) When the Financial Supervisory Commission deems it particularly necessary in order to protect the interest of policyholders, the insured or beneficiaries, it may, when granting authorization of making amendments of fundamental documents, make it so that such amendments shall apply and be prospectively applicable to any existing insurance contract. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

(3) When an insurer is affected under paragraph (2), he shall give public notice of the gist of the amendments pursuant to the conditions as prescribed by the Presidential

Decree. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5751, Feb. 5, 1999; Act No. 6175, Jan. 21, 2000>

Article 17 (Mutual Agreement)
(1) When an insurer desires to conclude a mutual agreement to conduct joint activity concerning its business, he shall obtain the authorization of the Financial Supervisory Commission as prescribed by the Presidential Decree. The same shall apply in case of alteration or abrogation thereof. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998; Act No. 5751, Feb. 5, 1999; Act No. 6175, Jan. 21, 2000>

(2) The Financial Supervisory Commission may, when it is deemed particularly necessary for the public interests or for the sound development of the insurance business, order the insurer to amend or abrogate the agreement prescribed in paragraph (1), or to conclude a new agreement or to observe the whole or part of the agreement. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

(3) When the Financial Supervisory Commission desires to authorize or order the conclusion or alteration of a mutual agreement under paragraph (1) or (2), it shall in advance consult with the Fair Trade Commission. <Newly Inserted by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

Article 18 Deleted. <by Act No. 5751, Feb. 5, 1999>

Article 19 (Soundness of Property Operation)
(1) Any insurer, in operating his property, shall work to ensure safety, profitability, liquidity and public interest.

(2) Any insurer shall operate his property in a manner falling under any of the following subparagraphs:
1. Acquisition and usage of securities under the provisions of Article 2 (1) of the Securities and Exchange Act;
2. Acquisition and use of real estate;
3. Lending and bill discount;
4. Deposits made at financial institutions prescribed by the Presidential Decree;
5. Trust of money, securities or real estate in trust company; and
6. Other methods prescribed by the Presidential Decree.

(3) Other necessary matters concerning the operation of property by any insurer shall be prescribed by the Presidential Decree.
[This Article Wholly Amended by Act No. 6175, Jan. 21, 2000]

Article 19-2 (Establishment and Operation of Special Account)
(1) For the following insurance contracts, an insurer may establish and operate an account to use the whole or part of the property equivalent to the reserve fund separately from other property (hereinafter referred to as the "special account") under the conditions as prescribed by the Financial Supervisory Commission: <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>
1. An insurance contract as referred to in Article 80-2 of the Regulation of Tax Reduction and Exemption Act;
2. A pension insurance contract for retirees as referred to in Article 34 of the Labor Standards Act; and
3. Other insurance contracts which the Financial Supervisory Commission deems necessary.

(2) The insurer shall settle the account of the property subject to the special account, separately from other property.

(3) The insurer may distribute any profits to be included in the special account to the contractors listed in the said account.

(4) Matters not provided for by this Act concerning the operational method and ratio of the property subject to the special account, evaluation of such property, distribution of profits, etc. shall be governed under the conditions as prescribed by the Financial Supervisory Commission. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>
[This Article Newly Inserted by Act No. 4865, Jan. 5, 1995]

Article 19-3 (Acts to be Prohibited in Connection with Financial Assistance)
(1) Any insurer belonging to a large business group under the provisions of Article 9 (1) of the Monopoly Regulation and Fair Trade Act (hereafter in this Article referred to as the "large business group") shall be prohibited

from performing the act falling under any of the following subparagraphs for any financial institution (referring to the financial institution under the Act on the Structural Improvement of the Financial Industry; hereafter the same in this Article shall apply) or any company belonging to other large business group:

1. The act of cross-holding of shares with voting rights issued by other financial institutions or companies or cross-extension of credits in an attempt to dodge the limits prescribed by the Presidential Decree;
2. The act of cross-acquisition of shares in an attempt to dodge the limits on the acquisition of treasury shares under the provisions of Article 341 of the Commercial Act and Article 189-2 of the Securities and Exchange Act; and
3. Other act, prescribed by the Presidential Decree, which is feared to greatly hurt the interests of the policyholders.

(2) Any insurer shall be prohibited from exercising any voting rights on shares he has acquired in contravention of the provisions of paragraph (1).

(3) The Financial Supervisory Commission may, with respect to any insurer who has acquired shares or extended credits in violation of the provisions of paragraph (1), take necessary measures, including an order given to such insurer to dispose of such shares or recover such extended credits.
[This Article Newly Inserted by Act No. 6175, Jan. 21, 2000]

Article 20 (Sanctions against Insurer)
(1) The Financial Supervisory Commission may, where any insurer might be unable to carry on a healthy insurance business for his violation of this Act or orders given under this Act, upon recommendations from the FSS Governor, take measures falling under any of the following subparagraphs or have the FSS Governor take the measures of subparagraph 1: <Amended by Act No. 6175, Jan. 21, 2000>

1. A caution and a warning given to the insurer or a caution or a warning given to his officers and employees or a demand that they be censured;
2. An order given to correct the act of violation involved;
3. An advice given to dismiss any officer or a demand that the performance of his duties be suspended; and
4. The suspension of business in part for not more than 6 months.

(2) The Financial Supervisory Commission may, where any insurer falls under any case of the following subparagraphs, order him to suspend his entire business for a period not exceeding 6 months or revoke permission of his insurance business: <Amended by Act No. 6175, Jan. 21, 2000>

1. Where he has obtained permission of his insurance business in a fraudulent or other illegal manner;
2. Where he has violated the contents or terms of permission;
3. Where he has done his business during the business-suspension period; and
4. Where he has failed to execute an order given to make correction under the provisions of paragraph (1) 2.

(3) Deleted. <by Act No. 6175, Jan. 21, 2000>

Article 21 Deleted. <by Act No. 4865, Jan. 5, 1995>

Article 22 (Presumption of Authorization)
When the Minister of Finance and Economy deems that an act required to obtain the authorization under Articles 7 and 17 of his Act conforms to the standard as provided for by the Financial Supervisory Commission, it shall be regarded to have obtained such authorization. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>
[This Article Wholly Amended by Act No. 4865, Jan. 5, 1995]

SECTION 2 Stock Company

Article 23 Deleted. <by Act No. 5751, Feb. 5, 1999>

Article 23-2 Deleted. <by Act No. 5375, Aug. 28, 1997>

Article 24 (Decrease of Capital)
(1) When a stock company which is an insurer (hereinafter referred to as "stock company") has passed a resolution for a decrease in its capital, the gist of the resolution and the balance sheet shall be publicly announced within two weeks from the date of the resolution. <Amended by Act

No. 5751, Feb. 5, 1999>

(2) The provisions of Articles 116, 118 (2) and (3), 126, 134 (3) shall apply *mutatis mutandis* in the case of decrease in capital.

Article 25 (Exercise of Minority Shareholder's Right of Stock Company)
(1) Any person who has owned shares equivalent to not less than 5/100,000 of the total number of shares issued by a stock company (limited to any stock company prescribed by the Presidential Decree in the light of assets, etc.; hereafter in this Article the same shall apply) under the conditions as prescribed by the Presidential Decree for not less than 6 consecutive months may exercise his right as a shareholder under the provisions of Article 403 of the Commercial Act (including the case where the provisions apply *mutatis mutandis* in the provisions of Articles 324, 415, 424- 2, 467-2 and 542 of the Commercial Act).

(2) Any person who has owned shares equivalent to not less than 250/ 100,000 (in case of a stock company prescribed by the Presidential Decree, not les than 125/100,000) of the total number of shares issued by a stock company for not less than 6 consecutive months under the conditions as prescribed by the Presidential Decree may exercise his right as a share-holder under the provisions of Articles 385 (including the case where the provisions apply *mutatis mutandis* in Article 415 of the Commercial Act). 402 and 539 of the Commercial Act.

(3) Any person who has owned shares equivalent to not less than 50/10,000 (in case of a stock company prescribed by the Presidential Decree, not less than 25/10,000) of the total number of shares issued by a stock company for not less than 6 consecutive months under the conditions as prescribed by the Presidential Decree may exercise his right as a share-holder under the provisions of Articles 363-2 and 466 of the Commercial Act. In this case, where he exercises his right as a shareholder under the provisions of Article 363-2 of the Commercial Act, his exercise of shareholder's right shall be based on shares with voting rights.

(4) Any person who has owned shares equivalent to not less than 150/10,000 (in case of a stock company prescribed by the Presidential Decree, not less than 75/10,000) of the total number of shares issued by a stock company for not less than 6 consecutive months under the conditions as prescribed by the Presidential Decree may exercise his right as a share-holder under the provisions of Articles 366 and 467 of the Commercial Act. In this case, where he exercises his right as a shareholder under the provisions of Article 366 of the Commercial Act, his exercise of shareholder's right shall be based on shares with voting rights.

(5) The shareholder referred to in paragraph (1) may, where he institutes a litigation under the provisions of Article 403 of the Commercial Act (including the case where the provisions apply *mutatis mutandis* in the provisions of Articles 324, 415, 424-2, 467-2 and 542 of the Commercial Act) and wins in such litigation, ask such stock company to pay litigation costs and other expenses involved in such litigation.
[This Article Newly Inserted by Act No. 6175, Jan. 21, 2000]

Article 26 (Alteration of Organization)
(1) A stock company may alter its organization and transform it into a mutual company.

(2) Notwithstanding the provisions of Article 6, the foundation fund of a mutual company under paragraph (1) may be established with less than thirty billion won in its total, or may not be set up. <Amended by Act No. 4069, Dec. 31, 1988; Act No. 5375, Aug. 28, 1997>

(3) In case of paragraph (1), a reserve for the purpose of recovering the losses shall be set aside in an amount as deemed necessary by the Financial Supervisory Commission. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

Article 27 (Resolution on Alteration of Organization)
(1) Alteration of the organization of a stock company shall be subject to a resolution of the general meeting of shareholders.

(2) Unless it is in accordance with the provisions of Article 434 of the Commercial Act, the resolution prescribed in paragraph (1) shall not be passed.

Article 28 (Public Notice and Notice of

Resolution for Alteration of Organization)
(1) When a stock company has passed a resolution which alters of its organization, a public notice revealing the gist of the resolution and the balance sheet shall be made within two weeks from the date of the resolution and the same notice shall be sent to each pledgee entered in the register of shareholders individually.

(2) Article 118 (2) and (3) of this Act, and Article 232 of the Commercial Act shall apply *mutatis mutandis* to paragraph (1).

Article 29 (Insurance Contract after Public Notice of Resolution for Alteration of Organization)
(1) When a stock company, after making the public notice described in Article 28 (1), wishes to conclude an insurance contract, it shall send a notice to the person who intends to contract for insurance advising him that an alteration of its organization is in process, and shall obtain his consent therefor.

(2) A policyholder who provides consents as set forth in paragraph (1) shall not be regarded as a policyholder in relation to the matter of procedure for alteration of organization.

Article 30 (Convening of General Meeting of Policyholders)
(1) When the amounts insured by the policyholders who express their objections to a public notice under Article 28 (1) within the period prescribed in Article 118 (2), do not come up to the percentage prescribed in Article 118 (3), directors shall, after completing the procedure pursuant to Article 232 of the Commercial Act, convene without delay a general meeting of policyholders.

(2) Article 353 (1) and (2) of the Commercial Act shall, in case of paragraph (1), apply *mutatis mutandis* to notices to the policyholders.

Article 31 (Substitutional Organ for General Meeting of Policyholders)
(1) A stock company may, in relation to its alteration of organization, provide rules to govern an organ that may substitute for a general meeting of policyholders.

(2) Regulations governing general meetings of policyholders shall apply *mutatis mutandis* to an organ under paragraph (1).

(3) When the rules for an organ of paragraph (1) have been provided for, the organizing method of the organ shall be mentioned in a public notice prescribed in Article 28 (1).

Article 32 (Method of Resolution in General Meeting of Policyholders)
(1) In a general meeting of policyholders, all resolutions shall be made by the votes of not less than three-quarters of those present who shall be at least one-half of all the policyholders.

(2) Article 46 (3) of this Act, and Article 367 of the Commercial Act shall apply *mutatis mutandis* to a general meeting of policyholders.

Article 33 (Report to General Meeting of Policyholders)
Directors of a stock company shall report particulars concerning the alteration of the organization to a general meeting of policyholders.

Article 34 (Resolution of General Meeting of Policyholders)

(1) In a general meeting of policyholders, resolutions relating to alterations to the articles of incorporation and other necessary matters for the organization of a mutual company shall be made.

(2) Resolutions under article 27 (1) may be altered by a resolution under paragraph (1). In this case, the interest of the company's creditors shall not be injured.

(3) When the alteration made pursuant to paragraph (2) causes losses to shareholders, a consent of the general meeting of shareholders shall be obtained. In such a case, Article 27 (2) shall apply *mutatis mutandis*.

(4) Article 316 (2) of the Commercial Act shall apply *mutatis mutandis* to resolutions under paragraph (1).

Article 35 Deleted. <by Act No. 5751, Feb. 5, 1999>

Article 36 (Registration of Alteration in Organization)
(1) When a stock company has altered its

organization, the registration of dissolution in case of a stock company, and the registration prescribed in Article 47 (2), in case of a mutual company, shall be made within two weeks in the place where its head or principal office is located, and within three weeks in places where its branch offices or subsidiary offices are located.

(2) The articles of incorporation as well as the documents showing evidence of the resolution under Article 27 (1), public notice under Article 28 (1), resolution and consent under Article 34, authorization under Article 35, objection under Article 118 (3) and the termination of procedure under Article 232 of the Commercial Act shall be annexed to the application of registration under paragraph (1).

Article 37 (Membership through Alteration of Organization)
The policyholders of a stock company shall become members of the mutual company by the alteration of its organization.

Article 38 (Mutatis Mutandis Application of Commercial Act, etc.)
Article 122 of this Act and Articles 40, 339, 340 (1) and (2), 439 (1), 445 and 446 of the Commercial Act shall apply *mutatis mutandis* to the alteration of organization of a stock company; Provided, That "Article 192" provided for in Article 446 of the Commercial Act shall be read as "Articles 191 and 238".

Article 39 (Priority Rights of Policyholders)
(1) The policyholders or beneficiaries are entitled to priority rights over the whole property of a stock company for the amount set aside as a reserve for the benefit of the insured except for the cases where the special provisions are prescribed in other Acts.

(2) If the special account is established under Article 19-2, the provisions of paragraph (1) shall apply separately to the special account from other accounts. <Newly Inserted by Act No. 4865, Jan. 5, 1995>

Article 40 (Priority of Policyholders in Receiving Payments)
(1) The policyholders or beneficiaries are entitled to receive payments prior to other creditors with regards to the amount set aside as a reserve for the benefit of the insured from property deposited or protection deposit by a stock company in compliance with orders of the Financial Supervisory Commission issued under this Act. <Amended by Act No. 4069, Dec. 31, 1988; Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

(2) The provisions of Article 39 (2) shall be applicable *mutatis mutandis* to the case as referred to in paragraph (1). <Newly Inserted by Act No. 4865, Jan. 5, 1995>

SECTION 3 Mutual Company

Sub-Section 1 Incorporation

Article 41 (Particulars to be Included in Articles of Incorporation)
The promoters of a mutual company shall draft the articles of incorporation to include the following information, and shall affix their signatures thereto:

1. Kind of insurance and the scope of business;
2. Denomination;
3. Location of the office;
4. Total amount of the foundation fund;
5. Rights to be possessed by the contributors towards the foundation fund;
6. Method of paying the foundation fund and expenses for incorporation;
7. Method of distributing surplus;
8. Manner in which the public notice of the company is to be made;
9. Value of property as is agreed to be assigned to the company after its formation, if any, and the name of the assignor; and
10. Term of duration or cause for dissolution, if any.

Article 42 (Name)
A mutual company shall have in its name the words "mutual company".

Article 43 (Payment of Foundation Fund)
(1) The payment of the foundation fund of a mutual company shall not be made in property other than money.

(2) The provisions of Articles 295 (1), 305 and 318 of the Commercial Act shall apply *mutatis mutandis* to the payment of foundation fund.

Article 44 (Number of Members with Incorporation)
In the incorporation of a mutual company, the members shall be more than one hundred.

Article 45 (Instrument of Subscription for Membership)
(1) When a person other than a promoter desires to be a member of a mutual company, he shall execute two copies of the instrument of subscription for membership describing the object of the insurance and the amount insured and shall affix his signature thereto: Provided, That this shall not apply to a person who intends to be a member after the company has been formed.

(2) Instruments of subscription for membership prescribed in paragraph (1) shall be made out by the promoters and shall contain the following subparagraphs:

1. The date of notarization to the articles of incorporation and the name of the notary public who notarized the document;
2. Matters prescribed in any of the subparagraphs of Article 41;
3. The names and domiciles of the contributors of the foundation fund and the amount to be contributed by each of them;
4. The names and domiciles of the promoters;
5. If the promoters are to receive remuneration, the amount of such remuneration;
6. The number of members for which subscription is to be invited at the time of incorporation; and
7. Such statement that the subscription for membership may be cancelled if the inaugural general meeting is not completed within a certain specified time.

(3) The provisions of the proviso of Article 107 (1) of the Civil Act shall not apply to a subscription for membership prior to the formation of a mutual company.

Article 46 (Inaugural General Meeting)
(1) After the payment of the foundation fund has been completed and when as many members as previously determined have been obtained, the promoters shall, without delay, convene the inaugural general meeting.

(2) At the inaugural general meeting, all resolutions shall be passed by an affirmative note of not less than three-quarters of those present, as long as at least one-half of all the members are present thereat.

(3) The provisions of Article 62 of this Act, and Articles 363 (1) and (2), 364, 368 (3) and (4), 371 (2), 372, 373 and 376 through 381 of the Commercial Act shall apply *mutatis mutandis* to the inaugural general meeting of a mutual company.

Article 47 (Registration of Incorporation)
(1) Registration of incorporation of a mutual company shall be made within two weeks from the date of the conclusion of the inaugural general meeting.

(2) In the registration made pursuant to paragraph (1), the following subparagraphs shall be registered:

1. Matters prescribed in any of subparagraphs of Article 41;
2. The names and domiciles of the directors and auditors;
3. The name of the representative director; and
4. The provisions related to the representation of the company in cases where two or more representative directors are to represent the company jointly.

(3) The application of registration in accordance with paragraphs (1) and (2) shall be made jointly by the director and the auditor.

Article 48 (Registry)
The ledger of registration of a mutual company shall be kept in the competent registry office.

Article 49 (Liability of Indemnity)
A director's liability of indemnity for any loss inflicted on a mutual company by submitting illegally a bill concerning the dividend to a general meeting of members, or making a loan to other directors, or conducting other unlawful dealings, shall not be exempted without agreement thereupon at a general meeting of members.

Article 50 (Action against Promoters)
The provisions of Article 65 of this Act and

Article 400 of the Commercial Act shall apply *mutatis mutandis* to promoters of a mutual company.

Article 51 (*Mutatis Mutandis* Application of Commercial Act)
The provisions of Articles 10 through 15, 17, 22, 23, 26, 27, 29 through 33, 35 through 40, 87 through 89, 91, 92, 171 through 173, 176, 177, 181 through 183, 288, 289 (3), 292, 310 through 316, and 322 through 327 of the Commercial Act shall apply *mutatis mutandis* to a mutual company.

Article 52 (*Mutatis Mutandis* Application of Non-Contentious Case Litigation Procedure Act)
The provisions of Articles 72 (1) and (2), 73, 77, 78, 80, 81, 84, 85, 90 through 100, 117 through 121, 123 through 127, 129 through 131, 138 through 143, 147, 149 through 161, 164, 179 through 181, 189, 190, 215, 216, 218, 232, 233 through 246 of the Non-Contentious Case Litigation Procedure Act shall be applicable to a mutual company. <Amended by Act No. 4423, Dec. 14, 1991; Act No. 5454, Dec. 13, 1997>

Sub-Section 2 Rights and Liabilities of Members

Article 53 (Indirect Liability)
The members of a mutual company shall not be directly liable to creditors of the company.

Article 54 (Limited Liability)
The liability of members with regard to the obligations of a mutual company is limited to the extent of the premiums.

Article 55 (Prohibition of Set-Off)
A member of a mutual company shall not, in making payment of the premium, avail himself of a set-off against the company.

Article 56 (Reduction in Amount Insured)
A mutual company shall make provisions in its articles of incorporation regarding a reduction in the amount insured.

Article 57 (Assignment of Object of Non life Insurance)
When a member of a mutual company having insurance against loss for its object assigns the object of insurance, the assignee may, with the consent of the company, succeed to the rights and duties of the assignor.

Article 58 (Succession to Contract of Life Insurance)
A member of a mutual company having life insurance for its object may, with the consent of the company, allow another person to succeed to his rights and duties.

Article 59 (Register of Members)
In the register of members of a mutual company, the following subparagraphs shall be included therein:

1. The names and domiciles of the members; and
2. The type, the amount insured, and the premium therefor, of the insurance of each member.

Article 60 (Notice and Demand Notice)
Article 353 of the Commercial Act shall apply *mutatis mutandis* to the instrument of subscription for membership of a mutual company or notices or demand notices to a member of the company: Provided, That this shall not apply to notices or demand notices of matters in connection with insurance.

Sub-Section 3 Organs of Company

Article 61 (Substitutional Organ for General Meeting of Members)
(1) A mutual company may in its articles of incorporation provide itself with an organ which is to take the place of the general meeting of members.

(2) The provisions concerning the general meeting of members shall apply *mutatis mutandis* to the organ under paragraph (1).

Article 62 (Voting Right)
Each member of a mutual company has one vote in the general meeting of members: Provided, That this shall not apply in cases where there are any provision to the contrary in the articles of incorporation.

Article 63 (Right of Members to Require Calling of General Meeting)
(1) The members representing not less than five hundredths of the whole members of a mutual company may call a general meeting, unless otherwise specified in the articles of incorporation, by producing to the directors a document stating the subject matter of the meeting and the reasons for its calling;

(2) Article 366 (2) and (3) of the Commercial Act shall apply *mutatis mutandis* in the case of paragraph (1).

Article 64 (Keeping and Inspection of Documents)
(1) The directors of a mutual company shall keep the articles of incorporation and the minutes of the general meeting of members and the directors meeting at each office, and a list of members at the head office.

(2) Any member or creditor of a mutual company may, at any time during its business period, inspect or copy the documents prescribed in paragraph (1) or may demand the delivery of copies or extracts thereof by paying such fees as are provided for by the company.

Article 65 (Exercise of Minority Employee's Right of Mutual Company)
The provisions of Article 25 shall apply *mutatis mutandis* to any mutual company. In this case, the "total number of shares issued" shall be deemed the "total number of employees" and any "person who has owned shares under the conditions as prescribed by the Presidential Decree" shall be deemed any "employee".
[This Article Wholly Amended by Act No. 6175, Jan. 21, 2000]

Article 66 (*Mutatis Mutandis* Application of Commercial Act)
(1) Articles 362, 363 (1) and (2), 364, 365 (1) and (3), 367, 368 (1), (3) and (4), 371 (2), 372, 373 and 375 through 381 of the Commercial Act shall apply *mutatis mutandis* to the general meeting of members of a mutual company.

(2) Articles 382, 385, 386, 388, 389, 393, 395, 398, 399 (1), 401 (1), 407 and 408 of the Commercial Act shall apply *mutatis mutandis* to the directors of a mutual company.

(3) Article 65 of this Act and Articles 382, 383 (3), 385, 386, 388, 394, 399 (1), 401 (1), 407, 411 through 413, and 414 (3) of the Commercial Act shall apply *mutatis mutandis* to the auditor of a mutual company. <Amended by Act No. 4069, Dec. 31, 1988>

Sub-Section 4 Accounting of Company

Article 67 (Reserve to Make up Loss)

(1) For the purpose of making up losses, a mutual company shall set aside a reserve from the surplus funds for each business year.

(2) The total amount of the reserve described in paragraph (1), and the minimum amount thereof to be set aside each year shall be determined by the articles of incorporation.

Article 68 (Restriction on Payment of Interest on Foundation Fund)
(1) A mutual company shall not make payment of interest on its foundation fund unless losses have been made up.

(2) Paying-off of the foundation fund or distribution of surplus shall not be made until after the entire amount of expenses for incorporation, and all business expenses have been repaid, and the reserve under Article 67 has been deducted.

(3) If, in contravention of paragraphs (1) and (2), payment of interest, or paying-off of the foundation fund, or distribution of surplus has been made, creditors of the company may have the same refunded.

Article 69 (Amount to be Set Aside for Paying-Off of Foundation Fund)
When a paying-off is made of the foundation fund, the same amount as is paid off shall be set aside.

Article 70 (Distribution of Surplus)
Except as otherwise provided for in the articles of incorporation, any surplus is to be distributed among the members at the end of each business year.

Article 71 (*Mutatis Mutandis* Application of Commercial Act)
Articles 447 through 450, 452 and 468 of the Commercial Act shall apply *mutatis mutandis* to the accounting of a mutual company.

Sub-Section 5 Amendment to Articles of Incorporation

Article 72 (Amendment to Articles of Incorporation)
(1) An amendment to the articles of a mutual company shall be made by a resolution at a general meeting of members.

(2) Article 46 (3) of this Act and Article 433 (2) of the Commercial Act shall apply *mutatis*

mutandis to the case of paragraph (1).

Sub-Section 6 Termination of Membership

Article 73 (Causes of Termination of Membership)
(1) Membership of a mutual company shall be withdrawn if any of the following arise:
1. Occurrence of any cause specified in the articles of incorporation; and
2. The extinction of the insurance relationship.

(2) Article 283 of the Commercial Act shall apply *mutatis mutandis* in case of the death of a member of a mutual company.

Article 74 (Claim for Repayment)
(1) The withdrawing member of a mutual company may, in accordance with the provisions of the articles of incorporation or of the conditions of the insurance policy, demand repayment of the sum rightful belonging to him.

(2) In case there is any obligation that the withdrawing member owes to the company, the company may deduct the amount from the sum due under paragraph (1).

Article 75 (Period of Repayment and Prescription)
(1) The repayment of the sum rightfully belonging to the withdrawing member shall be made within three months from the end of the business year of the withdrawal.

(2) The claim for repayment of the withdrawing member shall be extinguished by prescription if not exercised within two years after the expiration of the period as referred to in paragraph (1).

Sub-Section 7 Dissolution

Article 76 (Public Notice of Resolution for Dissolution)
(1) When a mutual company has passed a resolution for dissolution, the company shall make a public notice, within two weeks from the date of the authorization of the resolution, revealing the gist of the resolution and the balance sheet.

(2) Articles 118 (2) through (4), 122 and 126 of this Act shall apply *mutatis mutandis* in the case of paragraph (1).

Article 77 (*Mutatis Mutandis* Application of Commercial Act)
(1) Articles 174 (3), 175 (1), 228, 232, 234 through 240, 522 (1) and (2), 526 (1), 527 (1) and (2), 528 (1) and 529 of the Commercial Act shall apply *mutatis mutandis* to a mutual company: Provided, That "Article 317" under Article 528 (1) of the Commercial Act shall be "Article 47 of the Insurance Act". <Amended by Act No. 4069, Dec. 31, 1988; Act No. 5591, Dec. 28, 1998>

(2) The provisions of Article 46 (2) shall apply *mutatis mutandis* to appointment under of Article 175 (1) of the Commercial Act.

Sub-Section 8 Liquidation

Article 78 (Liquidation)
Upon the dissolution of a mutual company, except in cases of amalgamation or of bankruptcy, liquidation thereof shall be made in accordance with the provisions of this sub-section.

Article 79 (Order of Disposal of Property)
The liquidator of a mutual company shall dispose of the property of the company in the following order:
1. Performance of obligations in general;
2. Payment of the insured amounts of the members and the amounts which, according to Article 140 (2), shall be repaid to the members; and
3. Paying-off of the foundation fund.

Article 80 (Distribution of Remaining Property)
Except as otherwise provided for in the articles of a mutual company, the remaining property shall be distributed among the members in the same ratio as the distribution of surplus.

Article 81 (*Mutatis Mutandis* Application of Commercial Act, etc.)
Articles 63 through 65 of this Act and Articles 245, 253 through 255, 259, 260 (proviso), 264, 328, 362, 367, 373 (2), 376, 377, 382 (2), 386, 388, 389, 394, 398, 399 (1), 401 (1), 407, 408, 411 through 413, 414 (3), 448 through 450, 531 through 537, 539 (1), 540, 541 of the Commercial Act shall apply *mutatis mutandis* to liquidation of a mutual company.

SECTION 4 Domestic Branch of Foreign Insurers

Article 82 (Revocation of Permission of Foreign Insurer's Domestic Branch, etc.)
(1) The Financial Supervisory Commission may, when the head office of a foreign insurer falls under any case of the following subparagraphs, revoke the insurance business permission of the branch in Korea of such foreign insurer:

1. Where the head office is extinguished due to a merger and the transfer of business, etc.;
2. Where the head office faces a measure taken by a supervisory agency, which is corresponding to an administrative disposition described in the provisions of Article 20 (2) due to the act of illegality and the act of unhealthy business, etc.; and
3. Where the head office suspends or halts its business.

(2) The domestic branch of any foreign insurer shall, when the head office of such foreign insurer falls under any subparagraph of paragraph (1), file a report thereof with the Financial Supervisory Committee within 7 days from the date on which the cause occurs. [This Article Newly Inserted by Act No. 6175, Jan. 21, 2000]

Article 83 (Obligation to Hold Assets in Korea)
With respect to the insurance contracts concluded in Korea, a domestic branch of a foreign insurer shall hold assets in Korea equivalent to the mandatory technical reserve and contingency reserve set aside in accordance with the provisions of Article 98. <Amended by Act No. 3340, Dec. 31, 1980; Act No. 4069, Dec. 31, 1988; Act No. 4865, Jan. 5, 1995>

Article 84 (Representative in Republic of Korea)
(1) Article 209 of the Commercial Act shall apply *mutatis mutandis* to a domestic branch of a foreign insurer. <Amended by Act No. 4865, Jan. 5, 1995>

(2) A representative of a domestic branch of a foreign insurer shall, even after retirement from his post, have the rights and duties of a representative, until after the registration under Article 614 (3) of the Commercial Act in respect of the name and address of a representative who is to take his post, has been made. <Amended by Act No. 4865, Jan. 5, 1995>

Article 85 Deleted. <by Act No. 4865, Jan. 5, 1995>

Article 86 (Person to Conduct Remaining Business)
(1) In cases where a foreign insurer who is permitted under Article 5, has discontinued its insurance business or has been dissolved or has discontinued its insurance business in the Republic of Korea or has had its license revoked, the Financial Supervisory Commission may, if it is deemed necessary, appoint or dismiss the person who will conduct the remaining business. <Amended by Act No. 4865, Jan. 5, 1995; Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

(2) The provisions of Articles 84 (1) and 139 shall apply *mutatis mutandis* to the person who conducts the remaining business under paragraph (1).

(3) The provisions of Article 142 shall be applied *mutatis mutandis* to paragraph (1).

Article 87 (Registration)
(1) The provisions of Article 48 shall be applied *mutatis mutandis* to a domestic branch of a foreign insurer which is a mutual company (hereinafter referred to as a "foreign mutual company"). <Amended by Act No. 4865, Jan. 5, 1995>

(2) When a foreign mutual company files an application for registration, a representative of the company shall write thereon the location of its principal office in the Republic of Korea, and the name and address of its representative and shall attach the following documents to the application:

1. Documents corroborating the existence of the principal office in the Republic of Korea;
2. Documents certifying the qualification of the representative; and
3. Articles of incorporation or other documents identifying the nature of the company.

(3) Documents referred to in each subparagraph of paragraph (2) shall be certified by competent authorities of the

home country of the respective company.

Article 88 Deleted. <by Act No. 4865, Jan. 5, 1995>

Article 89 (*Mutatis Mutandis* Application of Commercial Act)
(1) The provisions of Chapter 3 (excluding Article 16) of Part I, Articles 22 through 24, Article 26, Chapters 5 and 6, Chapter 5 of Part II (excluding Article 90) and Article 177 of the Commercial Act shall apply *mutatis mutandis* to a foreign mutual company.

(2) The provisions of Articles 619 and 620 (1) and (2) of the Commercial Act shall apply *mutatis mutandis* in cases where a domestic branch of a foreign insurer has established its subsidiary business office in the Republic of Korea or where a person who solicits on behalf of a domestic branch of foreign insurer, has established its business office. <Amended by Act No. 4865, Jan. 5, 1995>

Article 90 (*Mutatis Mutandis* Application of Non-Contentious Case Litigation Procedure Act)
The provisions of Articles 72 (3), 101 (2), 128 to 131, 133 through 135, 137 through 143, 147, 150, 153 through 156, 159, 161, 164, 179, 181, 189, 190, 230 through 237, 239 through 246 of the Non-Contentious Case Procedure Litigation Act shall be applicable to a domestic branch of a foreign mutual company. <Amended by Act No. 4423, Dec. 14, 1991; Act No. 4865, Jan. 5, 1995>

Article 91 (Presumptions on Resolutions of General Meeting, etc.)
In case of a domestic branch of a foreign insurer, the "date of the resolution under Article 115" prescribed in Article 118 (1) shall be read as the "date of execution of the contract letter for transfer"; and likewise the "time of the resolution of a general meeting of shareholders or members" prescribed in Articles 119 and 121 (1) (including the cases of application *mutatis mutandis* by Article 128 (3)) as the "time of execution of the contract letter for transfer"; and "after the resolution of a transfer of insurance contracts" prescribed in Article 123 (2) as "after the execution of the contract letter for transfer"; and "each insurer" prescribed in Article 127 (3) as "a stock company or a mutual company which is the other contracting party". <Amended by Act No. 4865, Jan. 5, 1995>

Article 92 (Exclusions)
(1) The provisions of Articles 8, 11 through 13, Article 111 (2) and (3) (the latter part), the provisions pertaining to amalgamation in Article 112, the provisions pertaining to dissolution and amalgamation in Articles 115 and 116, 118 (4), 125, and 126, 134 through 139, and 141 through 143 shall not be applied to a domestic branch of a foreign insurer. <Amended by Act No. 4865, Jan. 5, 1995>

(2) Provisions pertaining to resolution of a general meeting in Sections 5 through 8 of this Chapter shall not be applied to a domestic branch of a foreign insurer. <Amended by Act No. 4865, Jan. 5, 1995>

SECTION 5 Accounting

Article 93 (Submission of Accounting Documents)
Every insurer shall close its books each year on the day prescribed by the Presidential Decree, and submit a financial statement and a business operation report to the Financial Supervisory Commission as prescribed by the Financial Supervisory Commission. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998; Act No. 5751, Feb. 5, 1999; Act No. 6175, Jan. 21, 2000>

Article 94 (Inspection of Documents, etc.)
A person contracting for insurance, the insured or the beneficiary may, at any time during the office hours of an insurer, inspect or copy financial statements and business operation reports or may demand the delivery of copies or extracts thereof by paying such fees as provided for by the insurer.

Article 95 Deleted. <by Act No. 4865, Jan. 5, 1995>

Articles 96 and 96-2 Deleted. <by Act No. 6175, Jan. 21, 2000>

Article 97 (Special Example Regarding Reserve and Use of Profit by Reappraised Reserves)
(1) and (2) Deleted. <by Act No. 5591, Dec. 28, 1998>

(3) When an insurer reappraises its assets in accordance with the Assets Revaluation Act,

the reappraisal reserves thereof may be disposed of as dividends to the policyholders with the permission of the Financial Supervisory Commission, other than by disposal under Article 28 (2) of the Assets Revaluation Act. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

Article 98 (Setting Aside of Mandatory Technical Reserve)
(1) An insurer shall appropriate a mandatory technical reserve and a contingency reserve, in accordance with the types of his insurance contracts, at the close of each accounting period, and shall make separate entries thereof in a separate set of books. <Amended by Act No. 3340, Dec. 31, 1980>

(2) Matters necessary for appropriation of mandatory technical reserve and contingency reserve described in paragraph (1) shall be prescribed by the Ordinance of the Ministry of Finance and Economy. <Amended by Act No. 3340, Dec. 31, 1980; Act No. 5375, Aug. 28, 1997; Act No. 5751, Feb. 5, 1999>

(3) The Financial Supervisory Commission may, where it is deemed necessary in connection with the proper inclusion of the mandatory technical reserve and contingency reserve under paragraph (1), set standards for accounting operation with respect to assets of insurers, expenses and other matters prescribed by the Presidential Decree. <Newly Inserted by Act No. 6175, Jan. 21, 2000>

SECTION 6 Management of Insurer

Article 99 (Trust of Management)
(1) An insurer may, by contract, entrust the management of its business and property to another insurer.

(2) A contract under paragraph (1) shall be subject to the resolution of each insurer at a general meeting of shareholders or of members.

(3) A resolution as referred to in paragraph (2) shall be made in accordance with Article 434 of the Commercial Act, or Article 46 (2) of this Act.

Article 100 (Authorization of Management Contract)
With respect to the contract under Article 99 (1) (hereinafter referred to as the "management contract"), the authorization of the Financial Supervisory Commission shall be obtained. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

Article 101 (Registration and Public Notice)
(1) When the authorization under Article 100 has been obtained, each insurer shall without delay make a public notice revealing the gist of the contract; and the insurer entrusting its management to another insurer shall register, in accordance with the provisions of the Presidential Decree, to that effect giving the trade name or name of the entrusted insurer and the location of the head or principal office thereof (including the branch office of a foreign insurer who is permitted under Article 5, hereinafter, the same shall apply). <Amended by Act No. 4865, Jan. 5, 1995>

(2) Registration under paragraph (1) shall be made at places where the head office, branch offices or other offices of the entrusting insurer are located.

Article 102 (Application of Provisions of Mandate)
Except as otherwise provided for in this Act, relations between the entrusting insurer and the entrusted insurer shall be governed by provisions relating to mandates.

Article 103 (Liability of Entrusted Insurer)
(1) When an entrusted insurer concludes an insurance contract or transacts other business for the entrusting insurer, indication shall be made that such transactions are made for the entrusting insurer.

(2) Transactions relating to insurance contracts and other matters done without making the indication prescribed in paragraph (1) shall be regarded as done for an entrusted insurer itself.

(3) Article 11 (1) and (3) of the Commercial Act shall apply *mutatis mutandis* to an entrusted insurer.

(4) Article 35 (1) of the Civil Act shall apply *mutatis mutandis* in case of trust of the management described in Article 99.

Article 104 (Cancellation of Management Contract)

(1) Cancellation of a management contract shall be subject to a resolution of a general meeting of shareholders or of members.

(2) A resolution under paragraph (1) shall be made in accordance with the provisions of Article 434 of the Commercial Act or Article 46(2) of this Act.

(3) Article 100 shall be applied *mutatis mutandis* to the cancellation under paragraph (1).

Article 105 (Public Notice for Cancellation or Termination of Management Contract)
When a management contract has been cancelled or terminated, each insurer shall, without delay, make a public notice thereof.

Article 105-2 (Submission of Liquidation Schedule)
If an insurer desires to discontinue the whole or part of his business, he shall submit to the Financial Supervisory Commission a liquidation schedule for the discontinuation of business sixty days prior thereto. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>
[This Article Newly Inserted by Act No. 4069, Dec. 31, 1988]

Article 106 (Recommendation of Disposal)
(1) When the Financial Supervisory Commission deems it proper, from the perspective of the business and property of an insurer, to have the insurer amalgamated, or to have the management of business and property thereof entrusted or contracts transferred, it may so recommend to the insurer. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

(2) In the case of paragraph (1), the Financial Supervisory Commission may, when it is deemed necessary, designate a correspondent insurer, and recommend the matters under paragraph (1) to such insurer. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

Article 107 (Order of Management)
When the Financial Supervisory Commission deems, from the perspective of the business and property of an insurer, the continuation of its business is difficult, or deems the condition of its business is so obviously unsound that the continuation of its business is improper for the public welfare, it may order suspension of the business, or entrustment of the management of the business and property, or transference of the contracts. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

Article 108 (Insurance Administrator)
(1) Management under Article 107 or 143 (1) shall be carried out by an insurance administrator appointed by the Financial Supervisory Commission. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

(2) An insurer shall not, without justifiable reason, refuse to be an insurance administrator.

(3) An insurance administrator shall have authority on behalf of the insurer under management, to conclude an insurance contract and other business transactions as well as to manage and dispose of the property.

(4) The Financial Supervisory Commission may make necessary orders regarding management to an insurance administrator or to the insurer under management. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

(5) The Financial Supervisory Commission may, when it is deemed necessary, dismiss an insurance administrator. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

(6) Article 103 (1), (2) and (4) of this Act and Article 11 (1) of the Commercial Act and Articles 153 through 156 of the Bankruptcy Act shall be applied *mutatis mutandis* to an insurance administrator. In this case, the term "the court" as used in the Bankruptcy Act shall be deemed to read as "the Financial Supervisory Commission". <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

Article 109 (Registration of Management)
(1) When the Financial Supervisory Commission has made an order relating to management, it shall immediately notify the district court having jurisdiction over the area where the insurer's head office or principal office is located thereof, and also make a request to the registration offices at the place

of the insurer's head office, branch offices or other offices, for registration of such order. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

(2) When a registration office has received the request under paragraph (1), the registration shall be made without delay.

Article 110 (Suspension of Business, etc.)
When an order of management has been made, the business of the insurer under management and the execution of duties of its staffs shall be suspended: Provided, That when the Financial Supervisory Commission deems it necessary, it may allow the whole or some portion of the business not to be subject to the suspension. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

Article 111 (Disposition Necessary for Management)
(1) When the Financial Supervisory Commission deems it necessary, it may make alterations on the basis of calculations, reductions in the amounts insured, or in premiums for the future, or alterations in terms and conditions of the contracts, in regard to insurance contracts of an insurer under management. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

(2) When the insurer under management is a stock company, the Financial Supervisory Commission may, if it is deemed necessary, prohibit the entry of shareholder changes in the registry of shareholders. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

(3) When the dispositions of reductions in the amounts insured or in premiums for the future or changes in the terms and conditions of the contracts have been made in accordance with the provisions of paragraph (1), the insurer shall, under the conditions as prescribed by the Presidential Decree, make a public notice thereof revealing the gist of the changes. The same shall apply in case the disposition of prohibition of the entry of shareholder changes in the registry of shareholders have been made in accordance with the provisions of paragraph (2). <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5751, Feb. 5, 1999; Act No. 6175, Jan. 21, 2000>

Article 112 (Conference regarding Amalgamation or Transfer of Contracts)
When an insurer is an insurance administrator, it may, with the authorization of the Financial Supervisory Commission, hold a conference with the insurer under management regarding the amalgamation, or transfer of insurance contracts. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

Article 113 (Termination of Management)
(1) When there is no longer a need for management, the Financial Supervisory Commission may order the termination of the management. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

(2) Article 109 shall apply *mutatis mutandis* in the case of paragraph (1).

SECTION 7 Dissolution

Article 114 (Causes, etc. of Dissolution)
(1) An insurer shall be dissolved under any of the following circumstances:

1. Expiration of the period of duration or any other causes specified in the articles of incorporation;
2. Resolution of a general meeting of shareholders or a general meeting of members;
3. Amalgamation or merger of the company;
4. Transfer of all of the insurance contracts;
5. Bankruptcy of the company;
6. Cancellation of the license for insurance business; and
7. Judgment of a court ordering dissolution.

(2) When an insurer has been dissolved pursuant to paragraph (1) 6, the Financial Supervisory Commission shall immediately make requests for a registration thereof to the registration office at the place where the company's head office, branch offices or other offices are located. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5751, Feb. 5, 1999; Act No. 5982, May 24, 1999>

(3) When a registration office has received a request under paragraph (2), the registration thereof shall be made without delay.

Article 115 (Resolution regarding Dissolution, Amalgamation, etc.)

A resolution in regard to dissolution, amalgamation or merger, or transfer of insurance contracts shall be made in accordance with the provisions of Article 434 of the Commercial Act, or Article 46 (2) of this Act.

Article 116 (Authorization of Dissolution, Amalgamation, etc.)
A resolution of dissolution, amalgamation or merger, or the transfer of any insurance contract shall be subject to authorization from the Financial Supervisory Commission.
[This Article Wholly Amended by Act No. 5982, May 24, 1999]

Article 117 (Transfer of Insurance Contracts)
(1) An insurer may, by contract, collectively transfer to another insurer all insurance contracts having the same basis for calculating the mandatory technical reserve.

(2) The insurer may, by a contract under paragraph (1), provide that the property of the company be transferred: Provided, That it shall reserve such property as is deemed necessary by the Financial Supervisory Commission for the protection of the interests of the insurer's creditors. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

Article 118 (Public Notice of Transfer of Contracts and Presentation of Objection)
(1) An insurer who intends to transfer insurance contracts shall give a public notice revealing the gist of the contract of transfer and the balance sheet of each insurer within two weeks from the date of the resolution set forth in Article 115.

(2) In the public notice mentioned in paragraph (1), it shall be additionally stated that any policyholder to be transferred who has any objection thereto may present such objection within a fixed period: Provided, That the period shall not be less than one month.

(3) If policyholders who have presented their objection within the period mentioned in paragraph (2) exceed one tenth of the total number of policyholder to be transferred, or if the amounts insured of such person exceed one tenth of the total insured amounts to be transferred, no transfer of insurance contracts shall be effected: the same shall apply in the case of making changes to the terms and conditions of contracts in accordance with Article 120, if policyholders who shall be subject to the changes and have presented their objection exceed one tenth of the total number of policyholders who shall be subject to the changes, or if the amounts insured of such persons exceed one tenth of the total amounts insured of the policyholders who shall be subject to the changes.

(4) Paragraphs (2) and (3) shall not apply where a mutual company has passed the resolution to transfer insurance contracts without resort to an organ under Article 61 (1).

Article 119 (Prohibition of Making New Contract)
An insurer who proposes to transfer insurance contracts shall not make any insurance contracts of the same nature as the insurance contracts to be transferred, from the time when the resolution of a general meeting of shareholders or of members has been passed to the time when such insurance contracts will be transferred or a definite decision not to transfer them will be reached.

Article 120 (Change in Condition of Contracts)
When transferring all its insurance contracts, an insurer may make provisions by a contract of transfer regarding insurance contracts to be transferred for changes on the basis for calculation, reductions in the amounts insured or in the premiums for the future or changes in the terms and conditions or contracts.

Article 121 (Prohibition of Disposal of Property)
(1) When the reduction in the amounts insured is determined in accordance with Article 120, the insurer which proposes to transfer the insurance contracts shall neither dispose of its property nor do any act to undertake obligations, from the time of the resolution of a general meeting of shareholders or of members to the time when the insurance contracts have been transferred or a definite decision not to transfer them has been reached: Provided, That this shall not apply in cases where expenses necessary for the maintenance of the insurance business are to be paid, or where properties are to be disposed of due to such special necessity as

to conserve its properties, etc., with the permission of the Financial Supervisory Commission. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

(2) When the insurance contracts are transferred, those obligations which have been incurred by such insurance contracts and the payment of which has been suspended in accordance with the provisions of paragraph (1) shall be paid by reducing the amount according to the rate of reduction of the amount insured as determined in the contract of transfer.

(3) For case of determining changes in the terms and conditions of the contracts in accordance with Article 120 (1) shall also apply to an insurer intending to make such changes; however, this shall not apply in cases of performing obligations incurred by the terms of insurance contracts or in cases of performing any act which have no relation to the changes, with the permission of the Financial Supervisory Commission. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

Article 122 (Public Notice on Transfer of Insurance Contracts)
When an insurer has made a transfer of its insurance contracts, the insurer shall, without delay, give public notice thereof. The same shall apply when a definite decision not to transfer them has been made.

Article 123 (Succession to Rights and Duties regarding Contracts)
(1) When an insurer transfers insurance contracts, the transferee insurer succeeds to the rights and duties of the transferrer insurer in respect of such insurance contracts. The same shall apply to property which is provided for by the contract of transfer.

(2) The receipts and disbursements with regard to the insurance contracts to be transferred and any other changes taking place with regard to the insurance contracts or property to be transferred after the resolution of a transfer of insurance contracts shall accrue to the transferee insurer.

Article 124 (Membership through by Transfer of Insurance Contracts)
In case a transfer of insurance contracts has been made, if the transferee insurer is a mutual company, the policyholders shall become members of the transferee company.

Article 125 (Resolution regarding Transfer of Contracts after Dissolution)
(1) Even after dissolution, but only within three months therefrom, an insurer may pass a resolution in regard to a transfer of its insurance contracts.

(2) Article 140 shall not apply in the case of paragraph (1); however, this shall not apply when a definite decision not to transfer the insurance contracts has been reached.

Article 126 (Application for Registration of Dissolution)
To the application for the registration of dissolution caused by a transfer of insurance contracts the following documents shall be annexed thereto; i) the contract of transfer; ii) the minutes of the resolution of the general meeting of shareholders or the general meeting of members of insurer; iii) a document certifying that the public notice and objections of Article 118, has been made; Iv) a document showing that approval has been obtained for the transfer of the insurance contracts.

Article 127 (Conference of Forced Transfer of Insurance Contracts)
(1) When an insurer has received an order to transfer its insurance contracts, in accordance with Article 107 or 143 (1), the insurer shall confer, regarding the transfer of its insurance contracts with the designated insurer, if a counterpart insurer has been designated or, if no designation has been made, with any other insurer, with the authorization of the Financial Supervisory Commission. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

(2) When the Financial Supervisory Commission has made a designation or has granted authorization under paragraph (1), the counterpart insurer shall be so notified. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

(3) A conference referred to in paragraph (1) shall be subject to a resolution of a general meeting of shareholders or a general meeting of members of each insurer.

(4) When a conference under paragraph (1)

has been settled, each insurer shall, without delay, apply to the Financial Supervisory Commission for his authorization therefor. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

(5) Article 115 shall apply *mutatis mutandis* to the resolution referred to in paragraph (3).

Article 128 (Transfer of Property)
(1) In cases of making a transfer of insurance contracts in accordance with the order of the Financial Supervisory Commission, the insurer shall make provisions in the conference referred to in Article 127 (1) for transfer of its property corresponding to the reserve fund relating to the insurance contracts to be transferred. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

(2) The proviso of Article 117 (2) shall apply *mutatis mutandis* in the case of paragraph (1).

(3) Articles 120 and 121 shall apply *mutatis mutandis* to the conference referred to in Article 127 (1).

Article 129 (Accounting of Contracts to be Transferred)
When an order of transfer of insurance contracts has been issued, the Financial Supervisory Commission may, if it is deemed necessary, order that a special accounting for calculations shall be made in regard of the accounting relating to the insurance contracts to be transferred, or may make such other orders as are necessary in safeguarding the interest of the policyholders, the insured or the beneficiaries of the transferee insurer. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

Article 130 (Decision of Force Transfer)
(1) When no conference for the transfer of contracts is held or may be held or no conference is settled, the Financial Supervisory Commission may, as provided for by the Presidential Decree, make such decisions as are necessary for a transfer of contracts. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

(2) When the Financial Supervisory Commission intends to make a decision under paragraph (1), it shall first ask for the opinions of each insurer. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

Article 131 (Effect and Public Notice of Forced Transfer)
(1) The transfer of contract in accordance with the order of the Financial Supervisory Commission shall come into effect upon obtaining the authorization or decision of the Financial Supervisory Commission. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

(2) When the authorization or decision under paragraph (1) has been obtained or rendered, the insurer shall, without delay, make a public notice thereof and reveal the gist of the conference for the decision of the transfer of the contracts.

Article 132 (Provisions Applicable *Mutatis Mutandis*)
The provisions of Articles 110, 111, 123, 124 and 126 shall apply *mutatis mutandis* in cases of transfer of contracts pursuant to an order of the Financial Supervisory Commission. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

Article 133 (Authorization of Transfer of Business)
If an insurer intends to transfer or take over an insurance business, he shall obtain authorization from the Financial Supervisory Commission.
[This Article Wholly Amended by Act No. 5982, May 24, 1999]

Article 134 (Public Notice on Resolution of Merger or Amalgamation)
(1) When an insurer has passed a resolution of merger or amalgamation, it shall, within two weeks from the date of the resolution, give public notice revealing the gist of the merger or amalgamation contract and the balance sheet of each insurer.

(2) Articles 118 (2) through (4), 122 and 126 shall apply *mutatis mutandis* in case of merger or amalgamation.

(3) When a merger or amalgamation is made in accordance with paragraphs (1) and (2), such merger or amalgamation may also be set up against the policyholders who have expressed their objections and any other persons entitled to rights accrued from the

insurance contracts.

Article 135 (Changes in Terms and Conditions of Contracts)
(1) When an insurer merges or amalgamates, it may, by the contract of merger or amalgamation, make provisions for alterations to the basis of calculation in connection with the insurance contracts or to the terms and conditions of the contracts.

(2) Articles 119 and 121 (3) shall apply *mutatis mutandis* to an insurer intending to make changes, in cases of making provisions for changes in the terms and conditions of the contracts in accordance with the provisions of paragraph (1).

Article 136 (Merger or Amalgamation of Mutual Company)
(1) A mutual company may merge or amalgamate with another insurer.

(2) In the case of paragraph (1), the remaining insurer after merger or the insurer to be incorporated by the amalgamation shall be a mutual company: Provided, That when one of the insurers to be merged or amalgamated is a stock company, the remaining insurer after the merger or the insurer to be incorporated by the amalgamation may be a stock company.

(3) The merger or amalgamation between a stock company and a mutual company shall be determined by the provisions of this Act or the Commercial Act.

(4) Particulars to be described in a contract for merger or amalgamation and other particulars necessary for a merger or amalgamation shall be provided for by the Presidential Decree.

Article 137 (Membership Relation in Case of Merger or Amalgamation)
(1) When a merger under Article 136 has been made, if the remaining insurer after the merger or the insurer to be incorporated by the amalgamation is a mutual company, the persons effecting insurance of the insurer to be dissolved by the merger or amalgamation shall become members of the remaining or new company to be incorporated and if it is a stock company, the members of the mutual company shall lose their status: Provided, That the rights and duties belonging to the insurance relationship shall be, in accordance with the provisions of contract of merger or amalgamation, succeeded to by the surviving stock company after the merger or by the stock company incorporated by the amalgamation.

(2) Persons to be members of the surviving company after merger in accordance with paragraph (1) shall be entitled to the same rights as members in a general meeting of members under Article 526 (1) of the Commercial Act: Provided, That this shall not apply in case where otherwise stipulated in the contract for merger.

(3) Article 46 (2) and (3) of this Act, and Articles 311, 312 and 316 (2) of the Commercial Act shall apply *mutatis mutandis* to an inaugural general meeting of a mutual company to be incorporated by the amalgamation.

SECTION 8 Liquidation

Article 138 (Liquidator)
(1) When an insurer is dissolved by the cancellation of the permission of insurance business, the liquidator shall be appointed by the Financial Supervisory Commission. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

(2) The liquidators as provided for in Articles 193, 252 and 531 (2) of the Commercial Act shall be appointed by the Financial Supervisory Commission. In such case, the appointment may be made without request from the interested persons. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

(3) Article 255 (2) of the Commercial Act shall apply *mutatis mutandis* in cases of paragraphs (1) and (2).

(4) The Financial Supervisory Commission may dismiss the liquidator at the request of an auditor or of shareholders who hold five hundredths or more of the shares for the last three months or of members representing five hundredths or more of the whole members. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

(5) A mutual company may, with regards the percentage of members needed to make a

request provided for in paragraph (4), stipulate another standard in the articles of incorporation.

(6) In cases where there are important reasons, the Financial Supervisory Commission may dismiss the liquidator without the request under paragraph (4). <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

Article 139 (Remuneration to Liquidator)
When liquidators are appointed in accordance with Article 138, the insurer may be obligated to give them remuneration, the amount of which shall be determined by the Financial Supervisory Commission. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

Article 140 (Payment of Claims, etc. after Dissolution)
(1) When an insurer is dissolved owing to the causes given under Article 114 (1) 2, 6 or 7, the amount insured shall be paid only if the cause by reason of which the amount insured is payable has taken place within three months from the date of dissolution.

(2) After the expiration of the period mentioned in paragraph (1), the insurer shall, if its object is life insurance, pay back the amount accumulated on behalf of the insured, and, if its object is non-life insurance, the premium for the period which has not lapsed.

Article 141 (Performance of Duties during Period for Presenting Claims)
The term "the court" as used in Article 536 (2) of the Commercial Act shall be deemed to read as "the Financial Supervisory Commission" in respect of the insurers. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

Article 142 (Supervision of Liquidator)
The Financial Supervisory Commission may inspect the progress of liquidation or the condition of the property of an insurer, or may order its property to be deposited, or may make such orders as are necessary for supervision over the liquidation. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

Article 143 (Forced Management after Dissolution)

(1) When the Financial Supervisory Commission deems it necessary from the perspective of the business or property of an insurer that has been dissolved, it may issue orders for the management of the business and property or for the transfer of contracts. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

(2) Article 125 (2) shall apply *mutatis mutandis* in cases where an order of paragraph (1) has been issued.

CHAPTER III INSURANCE SOLICITATION

Article 144 (Persons Qualified to Solicit)
The following persons shall qualify as persons qualified to solicit insurance:

1. Executive officer of an insurer (hereinafter in this Chapter, excluding the representative director and auditor) or employee;
2. Insurance solicitor;
3. Insurance agency or insurance broker; and
4. Executive officer and employee of insurance agency or insurance broker described in subparagraph 3 who has been reported under this Act.

Article 145 (Registration of Insurance Solicitor)
(1) A person who desires to be an insurance solicitor shall register in the Financial Supervisory Service under the conditions as determined by the Financial Supervisory Commission. <Amended by Act No. 4069, Dec. 31, 1988; Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998; Act No. 5751, Feb. 5, 1999; Act No. 6175, Jan. 21, 2000>

(2) A person who may register in accordance with paragraph (1) shall satisfy the qualification conditions as provided for by the Presidential Decree.

(3) No person who falls under any of the following subparagraphs may apply for registration as referred to in paragraph (1): <Newly Inserted by Act No. 4865, Jan. 5, 1995>

1. Person who is incompetent or quasi incompetent;
2. Person who is declared bankrupt, but not reinstated;

3. Person who was sentenced to a penalty heavier than the fine under this Act, and for whom two years have not passed after the execution of the sentence was terminated or the execution was exempted;
4. Person whose registration is cancelled under this Act, and for whom two years have not passed thereafter;
5. Person who is a minor not having the same ability as the adult with respect to the business, and whose legal representative falls under any of subparagraphs 1 through 4;
6. Juristic person or incorporated body or foundation which is not a juristic person, any of whose officers or managers falls under any of subparagraphs 1 through 4; and
7. Person for whom two years have not passed after he appropriated any premium received in connection with past subscription, for another purpose, or he committed any remarkably unreasonable act.

Article 146 Deleted. <by Act No. 4865, Jan. 5, 1995>

Article 147 (Cancellation, etc. of Registration)
(1) The Financial Supervisory Service shall cancel the registration when the insurance solicitor falls under any of the following subparagraphs: <Amended by Act No. 4069, Dec. 31, 1988; Act No. 4865, Jan. 5, 1995; Act No. 5500, Jan. 13, 1998>
1. When an insurance solicitor falls under any of subparagraphs of Article 145 (3);
2. When an insurance solicitor is proved to have fallen, at the time of registration, under any of subparagraphs of Article 145 (3); and
3. When an insurance solicitor is registered by illegal means under Article 145.

(2) The Financial Supervisory Service may, in case an insurance solicitor falls under any of the following subparagraphs, order the suspension of all business operations for a certain period or cancel the registration: <Amended by Act No. 4069, Dec. 31, 1988; Act No. 4865, Jan. 5, 1995; Act No. 5500, Jan. 13, 1998>
1. When an insurance solicitor violates an order issued or disposition taken under this Act; and
2. When an insurance solicitor is regarded as having committed extremely improper acts in respect of the soliciting.

(3) If the Financial Supervisory Service desires to cancel the registration or to order a suspension of business under paragraphs (1) and (2), it shall give the insurance solicitor an opportunity to file any evidence for explanation purposes. <Amended by Act No. 4865, Jan. 5, 1995; Act No. 5500, Jan. 13, 1998>

(4) If an insurance solicitor fails to file the evidence as referred to in paragraph (3) without any justifiable reason, the Insurance Supervisory Board shall cancel his registration or order the suspension of his business. <Newly Inserted by Act No. 4865, Jan. 5, 1995>

(5) The Financial Supervisory Service shall, upon canceling the registration of the insurance solicitor or ordering the suspension of his business, notify the insurance solicitor thereof without delay by a document specifying the reasons therefor. <Newly Inserted by Act No. 4865, Jan. 5, 1995; Act No. 5500, Jan. 13, 1998>

Article 148 (Restriction of Insurance Solicitation)
(1) An insurer shall not commission any soliciting to an insurance solicitor who belongs to another insurer.

(2) An insurance solicitor shall not solicit insurance for insurers other than the insurer to which he belongs.

Article 149 (Registration of Insurance Agency)
(1) A person who wishes to be an insurance agency shall register with the Financial Supervisory Commission in accordance with the provisions of the Presidential Decree. <Amended by Act No. 4865, Jan. 5, 1995; Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

(2) The Financial Supervisory Commission may have the person who has made the registration under paragraph (1), deposit a security money for the business to the organization as designated by the Financial

Supervisory Commission. <Amended by Act No. 4865, Jan. 5, 1995; Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

(3) The requirements for registration of the insurance agency and the limit of security money for the business shall be provided for by the Presidential Decree. <Amended by Act No. 4865, Jan. 5, 1995>

(4) No person who falls under any of the following subparagraphs, shall make an application for registration as referred to in paragraph (1): <Newly Inserted by Act No. 4865, Jan. 5, 1995; Act No. 5375, Aug. 28, 1997; Act No. 5751, Feb. 5, 1999>

1. Person who falls under any of the subparagraphs of Article 145 (3);
2. Person who is registered as an insurance solicitor, and person who is reported as an officer or employee of other insurance agencies; and
3. Person who might commit an unfair insurance solicitation act, such as restricting substantially the competition, and is prescribed by the Ordinance of the Ministry of Finance and Economy.

Article 150 (Cancellation, etc. of Registration of Insurance Agency)

(1) If any insurance agency falls under any of the following subparagraphs, the Financial Supervisory Commission shall cancel its registration: <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

1. Where it falls under any of the subparagraphs of Article 149 (4);
2. Where it is determined that it fell under any of the subparagraphs of Article 149 (4) at the time of registration;
3. Where it has made the registration as prescribed in Article 149 using unlawful means; and
4. Where it becomes a self-agency as prescribed in Article 153.

(2) The provisions of Article 147 (2) through (5) shall be applicable to the insurance agency. In this case, the term "Financial Supervisory Service" shall be deemed to read as "Financial Supervisory Commission", and the term "insurance solicitor", as "insurance agency". <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

[This Article Wholly Amended by Act No. 4865, Jan. 5, 1995]

Article 150-2 (Registration of Insurance Broker)

(1) Any person who desires to be an insurance broker shall pass the examination which the FSS Governor holds, and register with the Financial Supervisory Commission under the conditions as prescribed by the Presidential Decree. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998; Act No. 5751, Feb. 5, 1999>

(2) No person who falls under any of the following subparagraphs shall apply for registration as referred to in paragraph (1): <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5751, Feb. 5, 1999>

1. A person who falls under any of subparagraphs of Article 149 (4);
2. A person for whom the permission of an insurance broker was cancelled under this Act, and two years have not passed thereafter;
3. A person who is reported as an officer or employee of another insurance broker;
4. A person who is treated as one who falls under subparagraph 2 or any of subparagraphs of Article 145 (3) under foreign Acts and subordinate statutes;
5. A juristic person whose debts exceed assets; and
6. A person who does not have an office in the Republic of Korea.

(3) In order to assure a compensation for any damage inflicted by the insurance broker permitted pursuant to paragraph (1) on the policyholder in mediating the conclusion of the insurance contract, the Financial Supervisory Commission may have the insurance broker deposit the security money for business with the institution designated by the Financial Supervisory Commission, buy insurance, or take other necessary measures. <Newly Inserted by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998; Act No. 5751, Feb. 5, 1999>

(4) The criteria for and the period of the registration, and the limit of the security money for business, of the insurance broker, shall be determined by the Presidential Decree. <Amended by Act No. 5751, Feb. 5, 1999; Act No. 6175, Jan. 21, 2000>

(5) The subjects and methods of the examination as referred to in paragraph (1), and other matters necessary for the

examination shall be determined by the Ordinance of the Ministry of Finance and Economy. <Newly Inserted by Act No. 5375, Aug. 28, 1997; Act No. 5751, Feb. 5, 1999>
[This Article Newly Inserted by Act No. 4865, Jan. 5, 1995]

Article 150-3 (Obligation, etc. of Insurance Broker)
(1) In mediating a conclusion of an insurance contract, the insurance broker shall enter the contents relevant to the mediation in a book, inform the insurant thereof, and keep the matters concerning the fee to enable the insurant to inspect it, under the conditions as prescribed by the Presidential Decree.

(2) Deleted. <by Act No. 5375, Aug. 28, 1997>

(3) In mediating a conclusion of the insurance contract, the insurance broker may not concurrently engage in the affairs of the insurer, officer or employee of the insurer, insurance solicitor, insurance agency, insurance actuary or adjuster.
[This Article Newly Inserted by Act No. 4865, Jan. 5, 1995]

Article 150-4 (Cancellation, etc. of Permission on Insurance Broker)
(1) The Financial Supervisory Commission shall cancel registration on an insurance broker in a case where the insurance broker falls under any of the following subparagraphs: <Amended by Act No. 5500, Jan. 13, 1998; Act No. 5751, Feb. 5, 1999>

1. Where he falls under Article 150-2 (2) 1 or 3 through 6: Provided, That in the case of Article 150-2 (2) 5, the same shall not apply for corporations whose debt exceeds the asset temporarily who are determined by the Presidential Decree;
2. Where it is confirmed that he fell under any of subparagraphs of Article 150-2 (2) at the time of permission;
3. Where he has obtained the permission as referred to in Article 150-2 by unlawful means; and
4. Where he violates the provisions of Article 153.

(2) The provisions of Article 147 (2) through (5) shall apply *mutatis mutandis* to the case of any insurance broker. In this case, the term "Financial Supervisory Service" shall be deemed as "Financial Supervisory Commission", and "insurance solicitor", as "insurance broker", and "registration", as "permission". <Amended by Act No. 5500, Jan. 13, 1998; Act No. 5751, Feb. 5, 1999>
[This Article Wholly Amended by Act No. 5375, Aug. 28, 1997]

Article 150-5 (Right to Obtain Preference Payment of Amount of Damages out of Security Money for Business)
In a case where a policyholder or a person who is entitled to obtain the insurance amount has suffered damage in connection with the brokerage by an insurance broker of the conclusion of an insurance contract, he is entitled to obtain the amount of damages in preference to other creditors out of the security money for business as referred to in Article 150-2 (3).
[This Article Newly Inserted by Act No. 5375, Aug. 28, 1997]

Article 151 (Report and Inspection)
The provisions of Articles 14 and 20 shall apply *mutatis mutandis* to an insurance agency and broker. <Amended by Act No. 5500, Jan. 13, 1998>

Article 152 (Right to Order of Financial Supervisory Commission)
The Financial Supervisory Commission may, when it is deemed necessary due to the conditions of the business or properties of an insurance agency or broker, order restriction of solicitation or deposit of property and may issue other orders necessary for the supervision of business. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

Article 153 (Prohibition of Self-agency, etc.)
(1) An insurance agency or broker shall not, as his primary purpose, solicit insurance where the policyholder or the insured is himself or the person who employs him.

(2) When the total sum of premiums on insurance contracts solicited by an insurance agency or broker where the policyholder or where the insured is the insurance agency or broker of the person by whom he is employed comes to exceed fifty hundredths of the total sum of the premium on the insurance contracts solicited by an agent or broker concerned, he shall, in so far as the

application of the provision of paragraph (1) is concerned, be deemed to be one whose primary purpose is to solicit insurance contracts where the policyholder or the insured is himself or the person who employs him.

Article 154 (Matters to be Reported)

(1) When an insurance solicitor, agency or broker falls under any of the following subparagraphs, an insurance solicitor shall, without delay, report it to the Financial Supervisory Service and likewise an insurance agency or broker to the Financial Supervisory Commission: <Amended by Act No. 4069, Dec. 31, 1988; Act No. 4865, Jan. 5, 1995; Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998; Act No. 5751, Feb. 5, 1999>

1. When changes have occurred with regard to the matters entered in the document submitted at the time of application for registration in accordance with Articles 145, 149 and 150-2;
2. When an insurance solicitor falls under any of the Article 145 (3) 1 through 6;
3. When a soliciting business is discontinued;
4. In case of an individual, when he dies;
5. In case of a juristic person, when it is dissolved;
6. In case of an unincorporated association or foundation, when it ceases to exist; and
7. When an insurance agency or broker has his executive officer or employees solicit insurance, or when the reported executive officer or employees ceases to solicit insurance.

(2) The report under paragraph (1) shall be made by the respective successor in the case of paragraph (1) 4, by the respective liquidator, or the person who was executive officer, or the trustee in bankruptcy in the case of paragraph (1) 5 and by the respective person who was an administrator in the case of paragraph (1) 6.

(3) Where the insurer who has entrusted with a solicitation discovers the fact that an insurance solicitor or agency falls under any of subparagraphs of paragraph (1), he shall report it to the Financial Supervisory Service or the Financial Supervisory Commission, notwithstanding the provisions of paragraphs (1) and (2). <Newly Inserted by Act No. 3340, Dec. 31, 1980; Act No. 4069, Dec. 31, 1988; Act No. 4865, Jan. 5, 1995; Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

Article 155 (Insurance Information Materials)

(1) The writings and drawings used for the purpose of soliciting (hereinafter referred to as "insurance information materials") shall bear the trade name or designation of the affiliated insurer or the names, trade names or designation of the insurance solicitors, agencies or brokers. <Amended by Act No. 4865, Jan. 5, 1995; Act No. 5375, Aug. 28, 1997>

(2) In case of entering the particulars concerning the assets and liabilities of an insurer in the insurance information materials, particulars which are different in content from those entered in the documents submitted to the Financial Supervisory Commission in accordance with Article 93 shall not be entered. <Amended by Act No. 4865, Jan. 5, 1995; Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

(3) In the insurance information materials, particulars concerning estimates of the distribution of future profits or surplus of an insurer shall not be entered, except in cases where it is deemed necessary to assist in the understanding of policyholders, and prescribed by the Financial Supervisory Commission. <Amended by Act No. 4865, Jan. 5, 1995; Act No. 5375, Aug. 28, 1997; Act No. 5751, Feb. 5, 1999; Act No. 6175, Jan. 21, 2000>

(4) Paragraphs (2) and (3) shall apply *mutatis mutandis* when particulars concerning the assets and liabilities and trade related estimates of the distribution of future profits or surplus of an insurer are made known to unspecific persons by means of radio-broadcastings, motion pictures, speeches or other means.

Article 156 (Prohibited Acts concerning Conclusion or Soliciting)

(1) A person who is engaged in the conclusion or soliciting of insurance contracts shall not do the following acts in connection therewith: <Amended by Act No. 4865, Jan. 5, 1995>

1. The act of making misrepresentations to

the policyholders or the insured, or of informing them of comparisons of particular contract clauses contained in insurance contracts, or of withholding information from them with regard to important items of the contract clauses contained in insurance contracts;

2. The act of hindering the policyholders or the insured from stating material facts to the insurer or of inducing them not to state them;
3. The act of inducing the policyholders or the insured to make a misrepresentation to the insurer with regard to material facts;
4. The act of promising the policyholders or the insured special benefits or of offering premium discounts or other special benefits; and
5. The act of obtaining an application for a new insurance contract from a policyholder or from the insured by improperly nullifying the insurance contract then in force(in this subparagraph, referred to as the "existing insurance contract"), or of improperly nullifying the existing insurance contract by obtaining an application for a new insurance contract, or of improperly obtaining an application for a new insurance contract, or any act persuading such acts.

(2) The provisions of prohibition of comparison of particular insurance contract clauses as referred to in paragraph (1) 1 shall not apply in cases where a person falling under any of the following subparagraphs compares the clauses so that policyholders may select insurance contracts reasonably: <Newly Inserted by Act No. 5375, Aug. 28, 1997; Act No. 5751, Feb. 5, 1999>

1. Of insurance agencies registered pursuant to Article 149, an insurance agency which has concluded a contract for an agency with two or more life insurers or non-life insurers (excluding insurers carrying on only guarantee insurance businesses), respectively: and
2. An insurance broker who has made the registration pursuant to Article 150-2.

(3) Paragraph (1) 4 shall not apply when the act is performed by an insurer based upon the fundamental documents or the method of use of properties under Article 19.

Article 157 (Prohibition of Commission Payment, etc.)

(1) An insurer shall not commit other persons to engage in the soliciting or pay them commissions, remunerations and other compensations in relation to the soliciting other than to those authorized to solicit in accordance with Article 144, except in case as prescribed by the Ordinance of the Ministry of Finance and Economy, such as acceptance, etc. of the insurance contract in a foreign country by an insurer. <Amended by Act No. 4865, Jan. 5, 1995; Act No. 5375, Aug. 28, 1997; Act No. 5751, Feb. 5, 1999>

(2) The provisions of Article 156 (3) shall apply *mutatis mutandis* in case of paragraph (1). <Amended by Act No. 5375, Aug. 28, 1997>

(3) An insurance solicitor, an agency or a broker shall not get anyone to solicit, or perform acts having the effect thereof, or pay commissions, remuneration and other compensations in relation to soliciting except to another insurance solicitor in case of an insurance solicitor or to executive officers or employees who have been reported in accordance with Article 154 (1) 7 or other insurance agencies or brokers in case of insurance agency and broker.

(4) Except as otherwise provided for by the Financial Supervisory Commission, an insurance broker shall not request a policyholder to pay a fee or other considerations in connection with the brokerage of conclusion of an insurance contract. <Newly Inserted by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

Article 158 (Liability for Indemnification of Insurer entrusting Solicitation)

(1) The insurer shall be liable to indemnify the loss which an executive officer or employee, or an insurance solicitor or agency has inflicted upon the policyholder in connection with soliciting: Provided, That this shall not apply in case of an insurance solicitor or agency, if the insurer who has entrusted with the solicitation, took due care in commissioning the respective insurance solicitor or agency, and made efforts for the prevention of loss inflicted upon the policyholder in the course of their solicitation. <Amended by Act No. 4865, Jan. 5, 1995>

(2) The provisions of paragraph (1) shall not prevent the insurer from exercising his right of reimbursement against the executive officer, employee, insurance solicitor or agency concerned.

(3) The provisions of Article 766 of the Civil Act shall apply *mutatis mutandis* to the right of claims of paragraph (1).

(4) Deleted. <by Act No. 4865, Jan. 5, 1995>

Article 159 (Fee)
A person who wishes to be an insurance solicitor, agency or broker in accordance with Articles 145, 149 and 150-2 shall, at the time of application for registration, pay such fees as are prescribed by the Ordinance of the Ministry of Finance and Economy. <Amended by Act No. 4865, Jan. 5, 1995; Act No. 5375, Aug. 28, 1997; Act No. 5751, Feb. 5, 1999>

CHAPTER IV FINANCIAL SUPERVISORY BOARD

SECTIONS 1 AND 2 Deleted.

Articles 160 through 178 Deleted. <by Act No. 5500, Jan. 13, 1998>

SECTION 3 Business

Article 179 Deleted. <by Act No. 5500, Jan. 13, 1998>

Article 180 Deleted. <by Act No. 6175, Jan. 21, 2000>

Article 180-2 (Publication of Insurance Information)
The Financial Supervisory Service may, when it is deemed necessary for sound development of the insurance business and for protection of the policyholders, etc., publish information and materials relating to the business of mediating any insurance dispute under the provisions of Article 53 of the Act on the Establishment, etc. of Financial Supervisory Organizations.
[This Article Wholly Amended by Act No. 6175, Jan. 21, 2000]

Article 181 (Power of FSS Governor to Issue Order)
If it is deemed detrimental to sound insurance transaction and to rights and interests of policyholders or the insured in carrying out affairs as prescribed by this Act, the FSS Governor may issue to insurers any other order necessary for supervision such as suspension or rectification of the concerned action. <Amended by Act No. 5500, Jan. 13, 1998; Act No. 5751, Feb. 5, 1999>
[This Article Wholly Amended by Act No. 4069, Dec. 31, 1988]

Article 182 (Investigation, etc. over Interested Persons)
(1) If there is any fact violating this Act or an order or direction issued or made under this Act, or if it is deemed necessary for the public interest or the establishment of a sound insurance transaction order, the FSS Governor may conduct an investigation of insurers, policyholders and other interested persons. <Amended by Act No. 5500, Jan. 13, 1998>

(2) If it is necessary for an investigation as referred to in paragraph (1), the Financial Supervisory Service may demand from an interested person the following matters or hear a testimony as to matters of investigation: <Amended by Act No. 5500, Jan. 13, 1998>

1. Presentation of a written statement as to facts and other situations related to the investigated matters; and
2. Presentation of books, documents, etc. as deemed necessary.

(3) If an officer or employee of an insurance-related organization prepares false material to be presented under this Act, or neglects to present relevant information, or interferes with an investigation, the FSS Governor may request the head of the organization to censure the officer or employee. <Amended by Act No. 5500, Jan. 13, 1998>
[This Article Wholly Amended by Act No. 4069, Dec. 31, 1988]

Article 183 Deleted. <by Act No. 4069, Dec. 31, 1988>

Article 184 Deleted. <by Act No. 6175, Jan. 21, 2000>

SECTION 4 Accounting

Articles 185 and 186 Deleted. <by Act No.

5500, Jan. 13, 1998>

Articles 187 and 188 Deleted. <by Act No. 4069, Dec. 31, 1988>

Articles 189 and 190 Deleted. <by Act No. 5500, Jan. 13, 1998>

Article 191 (Contributions)
(1) Any insurer subject to an inspection by the Financial Supervisory Service shall pay contributions to meet the inspection expenses.

(2) The sharing rates and limits referred to in paragraph (1) and other necessary matters on the payment of contributions shall be determined by the Presidential Decree.
[This Article Wholly Amended by Act No. 5500, Jan. 13, 1998]

Article 192 Deleted. <by Act No. 5500, Jan. 13, 1998>

SECTION 5 Supervision

Article 193 (Supervision)
(1) The Financial Supervisory Commission may supervise the business of the Financial Supervisory Service and issue necessary orders therefor. <Amended by Act No. 4069, Dec. 31, 1988; Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

(2) The Financial Supervisory Commission may, when it deems that any disposition of the Financial Supervisory Service under this Act is illegal or extremely improper for the protection of public interests, or policyholders and the insured, cancel the whole or a part of the disposition or suspend the execution thereof. <Amended by Act No. 4069, Dec. 31, 1988; Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

Article 194 Deleted. <by Act No. 5500, Jan. 13, 1998>

Article 195 Deleted. <by Act No. 6175, Jan. 21, 2000>

Article 196 (Approval of Regulations)
(1) The Financial Supervisory Service shall obtain approval of the Financial Supervisory Commission when it intends to formulate or amend the regulations with regard to its business. <Amended by Act No. 4069, Dec. 31, 1988; Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

(2) The provisions of Article 22 shall apply *mutatis mutandis* to paragraph (1).

Article 197 Deleted. <by Act No. 5500, Jan. 13, 1998> CHAPTER IV-2 Deleted.

Articles 197-2 through 197-8 Deleted. <by Act No. 5500, Jan. 13, 1998> CHAPTER IV-3 Deleted.

Articles 197-9 through 197-20 Deleted. <by Act No. 5751, Feb. 5, 1999>

CHAPTER V INSURANCE-RELATED ORGANIZATION, ETC.

SECTION 1 Insurance Association, etc.

Article 198 (Insurance Association)
(1) Insurers may incorporate an insurance association in order to maintain the order of business among them and contribute to the development of the insurance business.

(2) The insurance association shall be a juristic person.

Article 198-2 (Premium Rate Calculation Institution)
(1) Any insurer may establish a premium rate calculation institution, after obtaining authorization from the Financial Supervisory Commission, to compute fairly and rationally a premium rate (hereinafter referred to as "net premium rate") used for determining premium (hereinafter referred to as "net premium") to be appropriated for payments of insurance benefits and to efficiently administer and utilize information pertaining to insurance. <Amended by Act No. 4865, Jan. 5, 1995; Act No. 5375, Aug. 28, 1997; Act Nos. 5751 and 5815, Feb. 5, 1999; Act No. 5982, May 24, 1999>

(2) The premium rate calculation institution shall be a juristic person. <Amended by Act No. 4865, Jan. 5, 1995>

(3) The premium rate calculation institution shall carry out the following affairs under the conditions as prescribed by the articles of association: <Amended by Act No. 4865, Jan. 5, 1995; Act No. 5815, Feb. 5, 1999>
1. Calculation and verification of net

premium rate;
2. Collection of information and preparation of statistics relating to insurance;
3. Research and study on insurance;
4. Deleted; and <by Act No. 5815, Feb. 5, 1999>
5. Affairs entrusted by government agencies, insurers and other insurance related organizations within the limit of the establishment objectives of the premium rate calculation institution.

(4) The net premium rate calculation institution may calculate a premium rate which insurers may apply, and request the Financial Supervisory Commission to authorize it. <Amended by Act No. 4865, Jan. 5, 1995; Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998; Act No. 5815, Feb. 5, 1999>

(5) In case where an insurer applies a net premium rate for which the premium rate calculation institution has obtained authorization thereof under paragraph (4), he shall be deemed to obtain authorization for the modification of the premium (limited to the net premium) as prescribed in Article 7 (1) 1. <Amended by Act No. 4865, Jan. 5, 1995; Act No. 5815, Feb. 5, 1999>

(6) Any insurer may have the premium rate calculation institution confirm fundamental documents of those presented to the Financial Supervisory Commission under this Act. In this case, such documents shall be considered to be confirmed by an actuary under Article 203. <Amended by Act No. 4865, Jan. 5, 1995; Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

(7) The premium rate calculation institution may collect fees from insurers in connection with its affairs under the conditions as prescribed by the articles of association. <Amended by Act No. 4865, Jan. 5, 1995>

(8) If it is deemed necessary to protect the rights and interests of policyholders, the premium rate calculation institution may publish materials falling under each of the following subparagraphs: <Newly Inserted by Act No. 4865, Jan. 5, 1995; Act No. 5815, Feb. 5, 1999>
1. Materials concerning the calculation of net premium rates; and
2. Various research, study and statistic materials related to insurance.

(9) If the premium rate calculation institution deems it necessary for the calculation of a net premium rate, it may be furnished private information concerning the violation of traffic regulations by the head of an agency that has such information, and may have an insurer use it in calculating the net premium to be applied to a policyholder. <Newly Inserted by Act No. 5375, Aug. 28, 1997; Act No. 5815, Feb. 5, 1999>

(10) The matters necessary for the scope, procedure, method, etc. of use of the private information which has been furnished to the premium rate calculation institution pursuant to paragraph (9) shall be determined by the Presidential Decree. <Newly Inserted by Act No. 5375, Aug. 28, 1997>
[This Article Newly Inserted by Act No. 4069, Dec. 31, 1988]

Article 198-3 (Duty of User of Private Information concerning Violation of Traffic Regulations)
A person who is or was engaged in the affairs of calculating or applying a net premium rate by using private information concerning the violation of traffic regulations furnished pursuant to Article 198-2 (9) shall not divulge such private information which is learned in respect of his duties, furnish such information for the use of another person, or use for other unlawful purposes. <Amended by Act No. 5815, Feb. 5, 1999>
[This Article Newly Inserted by Act No. 5375, Aug. 28, 1997]

Article 199 (Supervision)
The provision of Articles 14, 15 and 20 shall apply *mutatis mutandis* to the insurance association and the premium rate calculation institution. <Amended by Act No. 4069, Dec. 31, 1988; Act No. 4865, Jan. 5, 1995; Act No. 5500, Jan. 13, 1998>

Article 200 (*Mutatis Mutandis* Application of Civil Act)
The provisions of an incorporated association in the Civil Act shall apply *mutatis mutandis* to the insurance association and the premium rate calculation institution except where specifically provided for in this Act or orders issued under this Act. <Amended by Act No. 4069, Dec. 31, 1988; Act No. 4865, Jan. 5,

1995>

Article 201 (Establishment and Supervision of Other Insurance Organizations Concerned)
(1) A person may incorporate an organization composed of an insurance solicitor, agency, broker, actuary, adjuster or others for the purpose of protecting public interests, policyholders and the insured, and maintaining orderly insurance solicitation. <Amended by Act No. 5751, Feb. 5, 1999>

(2) The provisions of Articles 14, 15 and 20 (1) 1 shall apply *mutatis mutandis* to the insurance related organizations which are established pursuant to paragraph (1). <Amended by Act No. 5500, Jan. 13, 1998; Act No. 5751, Feb. 5, 1999; Act No. 6175, Jan. 21, 2000>

SECTION 2 Actuaries and Adjusters

Article 202 (Actuarial Affairs)
The insurer shall employ an insurance actuary to take charge of actuarial affairs or appoint a person operating an actuarial business, and entrust him with such affairs.
[This Article Wholly Amended by Act No. 4069, Dec. 31, 1988]

Article 202-2 (Insurance Actuary)
(1) Any person who desires to be an insurance actuary shall pass an examination to be conducted by the FSS Governor, and after completing an in-service training for a prescribed period, register with the Financial Supervisory Service. <Amended by Act No. 5500, Jan. 13, 1998>

(2) Matters necessary for subjects of the examination as referred to in paragraph (1), exemption from the examination, period of in-service training, etc. shall be determined by the Ordinance of the Ministry of Finance and Economy. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5751, Feb. 5, 1999>
[This Article Newly Inserted by Act No. 4069, Dec. 31, 1988]

Article 202-3 (Actuarial Business)
(1) Any person who desires to operate an actuarial business shall register with the Financial Supervisory Commission. <Amended by Act No. 4865, Jan. 5, 1995; Act No. 5500, Jan. 13, 1998>

(2) Any juristic person who desires to operate an actuarial business shall employ insurance actuaries exceeding the number as determined by the Presidential Decree.

(3) Any person who desires to make a registration under paragraph (1) shall pay such fee as determined by the Ordinance of the Ministry of Finance and Economy. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5751, Feb. 5, 1999>

(4) Matters necessary for the registration of actuarial business shall be determined by the Presidential Decree. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5751, Feb. 5, 1999; Act No. 6175, Jan. 21, 2000>
[This Article Newly Inserted by Act No. 4069, Dec. 31, 1988]

Article 203 (Duties, etc. of Insurance Actuary)
(1) An insurance actuary shall confirm whether the calculation of the liability reserve, other reserves concerning the insurance contracts, premiums, dividends, etc. made by the insurance contracts, from the matters included in the documents to be submitted to the Financial Supervisory Commission by an insurer in accordance with this Act, are correct. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

(2) Necessary matters concerning requirements, authority, the guarantee of independence for business performance with respect to any insurance actuary in charge of the verification affairs of paragraph (1) shall be prescribed by the Presidential Decree. <Newly Inserted by Act No. 5375, Aug. 28, 1997; Act No. 6175, Jan. 21, 2000>

(3) The Financial Supervisory Commission may have the insurance actuary in charge of the affairs of confirmation as referred to in paragraph (1) advance an opinion in connection with his affairs. <Newly Inserted by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

Article 204 (Adjustment)
The non-life insurer shall employ an adjuster to take charge of affairs concerning the adjustment of the loss amount and insurance money caused by an insurance accident (hereinafter referred to as "adjustment") or appoint a person operating the adjustment as

a business and entrust him with such affairs, except in case where the insurance accident occurs in a foreign country, or policyholders, etc. appoint separately an adjuster in conformity with the criteria as prescribed by the Financial Supervisory Commission. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>
[This Article Wholly Amended by Act No. 4069, Dec. 31, 1988]

Article 204-2 (Adjuster)
(1) Any person who desires to be an adjuster, shall pass an examination to be conducted by the FSS Governor, and after completing an in-service training for a prescribed period, register with the Financial Supervisory Service. <Amended by Act No. 5500, Jan. 13, 1998>

(2) Matters necessary for subjects of the examination as referred to in paragraph (1), exemption from the examination, in-service training period, etc. shall be determined by the Ordinance of the Ministry of Finance and Economy. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5751, Feb. 5, 1999>
[This Article Newly Inserted by Act No. 4069, Dec. 31, 1988]

Article 204-3 (Adjustment Business)
(1) Any person who desires to engage in the adjustment business shall register with the Financial Supervisory Commission. <Amended by Act No. 4865, Jan. 5, 1995; Act No. 5500, Jan. 13, 1998>

(2) Any juristic person who desires to engage in the adjustment business shall employ adjusters exceeding the number as determined by the Presidential Decree.

(3) Any person who desires to make a registration under paragraph (1) shall pay such fee as determined by the Ordinance of the Ministry of Finance and Economy. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5751, Feb. 5, 1999>

(4) Matters necessary for the registration of the adjustment business shall be determined by the Presidential Decree. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5751, Feb. 5, 1999; Act No. 6175, Jan. 21, 2000>
[This Article Newly Inserted by Act No. 4069, Dec. 31, 1988]

Article 204-4 (Duties of Adjuster, etc.)
The duties of an adjuster or person engaged in the adjustment business shall be as follows:

1. Confirmation that the loss has occurred;
2. Judgment on whether the insurance agreement and the application of related Acts and subordinate statutes are proper or not;
3. Assessment of the amount of the damage and the insurance money; and
4. Other matters necessary for the adjustment.

[This Article Newly Inserted by Act No. 4865, Jan. 5, 1995]

Article 205 (Prohibition of False Adjustment)
An adjuster (including a juristic person engaging in the adjustment business) shall not intentionally conceal the truth or make a false adjustment in carrying out his duties. <Amended by Act No. 4069, Dec. 31, 1988>

Article 205-2 (Cancellation of Registration)
The provisions of Articles 146 and 147 shall be applicable to insurance actuaries, the actuarial business, adjusters and the adjustment business. In this case, the term "Article 145" in Article 147 (1) 3 shall be read as "Article 202-2 (1), 202-3 (1), 204-2 (1) or 204-3 (1)".
[This Article Newly Inserted by Act No. 4069, Dec. 31, 1988]

Article 206 (Guarantee of Indemnity)
The Financial Supervisory Commission may have the actuarial businessman or adjustment businessman deposit his property in the institution designated by the Financial Supervisory Commission, insure his liability or take other necessary measures for the loss inflicted upon another person intentionally or by negligence by the actuarial businessman or adjustment businessman in the course of operating his business. <Amended by Act No. 4069, Dec. 31, 1988; Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

Article 207 (Supervision)
(1) The Financial Supervisory Commission may, when it deems that an insurance actuary or an adjuster was negligent in performing his duties or did an improper act in performing his duties, order suspension of the business operation for a certain period or may order

him to be dismissed. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

(2) The provisions of Articles 14 and 15 shall apply *mutatis mutandis* to the actuarial businessmen and adjustment businessmen. <Amended by Act No. 4069, Dec. 31, 1988; Act No. 4865, Jan. 5, 1995>

CHAPTER VI SUPPLEMENTARY PROVISIONS

Article 208 (Consultation for Mutual Aid Service)
(1) The Financial Supervisory Commission may, when it is deemed necessary for a balanced development between the mutual aid service operated under other Acts and the insurance business under this Act, request a conference with the person who operates the mutual aid service to discuss matters concerning the fundamental documents. <Amended by Act No. 4069, Dec. 31, 1988; Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998>

(2) A person who is requested under paragraph (1) shall comply therewith unless he has a justifiable reason not to do so.

Article 209 (Entrustment of Duties)
(1) The Financial Supervisory Commission may entrust part of its duties under this Act to the FSS Governor under the conditions as prescribed by the Presidential Decree. <Amended by Act No. 4069, Dec. 31, 1988; Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998; Act No. 6175, Jan. 21, 2000>

(2) The FSS Governor may entrust part of his duties under this Act to the heads of organizations, etc. established pursuant to the provisions of Articles 198, 198-2 and 201, under the conditions as prescribed by the Presidential Decree. <Newly Inserted by Act No. 3340, Dec. 31, 1980; Act No. 4069, Dec. 31, 1988; Act No. 4865, Jan. 5, 1995; Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998; Act No. 5751, Feb. 5, 1999; Act No. 6175, Jan. 21, 2000>

Article 210 (Hearings)
Where the Financial Supervisory Commission intends to cancel any insurance business license in accordance with the provisions of Article 20 (2) or 82 (1), it shall hold hearings. <Amended by Act No. 5751, Feb. 5, 1999; Act No. 5982, May 24, 1999; Act No. 6175, Jan. 21, 2000>
[This Article Wholly Amended by Act No. 5422, Dec. 13, 1997]

CHAPTER VII PENAL PROVISIONS

Article 211 (Business Operation without Permission, etc.)
(1) A person who has violated the provisions of Article 5 (1) or 83 shall be subject to imprisonment not exceeding three years or a fine not exceeding twenty million won. <Amended by Act No. 4865, Jan. 5, 1995>

(2) Deleted. <by Act No. 5751, Feb. 5, 1999>

Article 212 (Breach of Trust by Staff)
(1) Insurance administrators, actuaries, adjusters or promoters of a mutual company, or establishing members under Article 175 (1) of the Commercial Act which is applied *mutatis mutandis* by Article 77 (1) of this Act, directors, auditors, or proxies under Articles 386 (2) and 407 (1) of the Commercial Act which is applied *mutatis mutandis* by Article 66 of this Act, or managers or other employees entrusted in matters of some kind relating to the business or in special matters, who have acquired property benefits or who have allowed a third person to acquire it in contravention of their duties and thereby caused damage to the property of the insurer shall be subject to imprisonment for a period from one to ten years or a fine not exceeding fifty million won. <Amended by Act No. 4865, Jan. 5, 1995>

(2) The provisions of paragraph (1) shall also apply where liquidators of a mutual company, or proxies under Articles 386 (2) and 407 (1) of the Commercial Act which is applied *mutatis mutandis* by Article 81 of this Act, commit any of the acts described in paragraph (1).

Article 213 (Breach of Trust Acting Institution for General Meeting)
When the persons constituting an organ under Article 31 (1) or 61 (1) have acquired property benefits or have allowed a third person to acquire it in contravention of their duties and thereby caused damage to property of the policyholders or of the members, they

shall be subject to imprisonment not exceeding seven years or to a fine not exceeding forty million won. <Amended by Act No. 4865, Jan. 5, 1995>

Article 214 (Attempted Crime)
An attempt to commit an offense of Articles 212 and 213 shall be punished.

Article 215 (Act Endangering Property of Insurer)
Persons mentioned in Article 212 (1), or inspectors of a mutual company shall be subject to imprisonment not exceeding seven years or to a fine not exceeding forty million won in any of the following cases: <Amended by Act No. 4865, Jan. 5, 1995>

1. Making false statements to or concealing facts from the court or general meeting with regard to the number of members, acceptance for the total amount of the foundation fund or payment of the foundation fund, or particulars mentioned in subparagraphs 4 through 6 and 9 of Article 41 and of Article 45 (2) 3 and 5 in the event of the incorporation of a mutual company;
2. Illegally obtaining the shares of the insurer on its account in whatever name or receiving the same as an object of a pledge;
3. Clearing off the foundation fund, paying interest thereon or distributing any profit or surplus in contravention of the Acts and subordinate statutes or of the articles of incorporation; and
4. Disposing of property of the insurer for the purpose of speculative transactions outside the scope of the business of the insurer.

Article 216 (Corruption)
(1) When persons mentioned in Articles 212 and 213, or inspectors of a mutual company have received, demanded or promised property benefits upon illegal solicitation in relation to their duties, they shall be subject to imprisonment not exceeding five years or a fine not exceeding thirty million won. <Amended by Act No. 4865, Jan. 5, 1995>

(2) Paragraph (1) shall also apply to a person who has given, proposed or promised the benefits described in paragraph (1).

Article 216-2 (Violation of Duty by User of Private Information concerning Violation of Traffic Regulations)
Any person who, in violation of the provisions of Article 198-3, divulges private information concerning the violation of traffic regulations, furnishes such information for the use of another person, or uses for other unlawful purposes shall be subject to imprisonment for not more than three years or a fine not exceeding ten million won.
[This Article Newly Inserted by Act No. 5375, Aug. 28, 1997]

Article 217 (Illegal Acts concerning Right to Vote)
(1) A person who has received, demanded or promised property benefits, upon illegal solicitation in relation to any of the matters mentioned below, shall be subject to imprisonment not exceeding one year or a fine not exceeding ten million won: <Amended by Act No. 4865, Jan. 5, 1995>

1. Speaking, or exercising the right to vote at a general meeting of policyholders, an inaugural general meeting of, or a general meeting of the members of a mutual company; and
2. Bringing an action under Sections 2, 3 and 8 of Chapter 2 or exercising the right of shareholders representing not less than five hundredths of the capital or members representing not less than five hundredths of the whole members.

(2) The provisions of paragraph (1) shall also apply to a person who has given, proposed or promised the benefit of paragraph (1).

Article 218 (Solicitation, etc. without Registration)
A person falling under any of the following subparagraphs shall be subject to imprisonment not exceeding one year or a fine not exceeding ten million won: <Amended by Act No. 4069, Dec. 31, 1988; Act No. 4865, Jan. 5, 1995; Act No. 5751, Feb. 5, 1999>

1. A person who has engaged in soliciting in contravention of Article 144;
1-2. A person who registers as an insurance solicitor, agency, or insurance broker by false or other unlawful methods;
2. A person who has engaged in soliciting in contravention of an order of suspension of business under Article 147 (2) (including the case of *mutatis mutandis* application by Article 150 and 150 (4));

3. A person who has violated the provisions of Article 148 (2);
3-2. A person who has violated the provisions of Article 150-3;
4. A person who has violated the provisions of Article 155 (2) through (4);
5. A person who has violated the provisions of Article 156;
6. A person who, in contravention of Article 157 (3), has had another person engage in soliciting or has entrusted such person to solicit on his behalf; and
7. A person who has operated the actuarial or adjustment business without having registered under Article 202-3 (1) or 204-3 (1).

Article 219 (Concurrent Imposition)
A penal servitude and a fine may be imposed concurrently upon a person who has committed an offense prescribed in Articles 211 through 218 in consideration of the circumstances.

Article 220 (Confiscation)
In case of Articles 216 and 217, the benefits which the offender received or intended to give shall be confiscated; if unable to confiscate the whole or part thereof, the amount equivalent thereto shall be collected.

Article 221 (Violation of Restriction on Soliciting)
When a representative, proxy, employee or other workers of an insurer has violated the provisions of Article 148 (1) or entrusted any person with soliciting in contravention of Article 157 (1), he shall be subject to imprisonment not exceeding one year or a fine not exceeding ten million won. <Amended by Act No. 4865, Jan. 5, 1995>

Article 222 Deleted. <by Act No. 5751, Feb. 5, 1999>

Article 223 (Unjust Affirmation, etc. of Insurance Actuary)
(1) In case an insurance actuary has, in contravention of Article 203, not made an affirmation without any justifiable reason or made an unjust affirmation, or when an adjuster has, in contravention of Article 205, made a false adjustment or concealed the truth intentionally in carrying out his duties, he shall be subject to imprisonment not exceeding one year or a fine not exceeding ten million won. <Amended by Act No. 4865, Jan. 5, 1995>

(2) Any person who has an insurance actuary or adjuster conduct the act as referred to in paragraph (1) or aids and abets such act shall be punished in conformity with the punishment of the principal. <Newly Inserted by Act No. 5375, Aug. 28, 1997>

Article 224 (Violation of Prohibition of Using Similar Name)
A person who violates the provisions of Article 8 (2) shall be punished by imprisonment for not more than one year or a fine not exceeding ten million won.
[This Article Wholly Amended by Act No. 5500, Jan. 13, 1998]

Article 225 (Violation of Particulars in Insurance Information Materials)
A person who has violated the provisions of Article 155 (1) shall be subject to a fine not exceeding five million won. <Amended by Act No. 4865, Jan. 5, 1995>

Article 226 (Acts Subject to Fine for Negligence)
(1) When a promoter, establishing member, director, auditor, inspector or liquidator of an insurer, or a company entrusted with management under Article 99 (1) or an insurance administrator, or a proxy under Articles 386 (2) and 407 (1) of the Commercial Act (including cases applied *mutatis mutandis* under Articles 66 and 81) or manager performs the act falling under any of the following subparagraphs, he shall be subject to a fine for negligence not exceeding five million won: <Amended by Act No. 4865, Jan. 5, 1995; Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998; Act No. 5751, Feb. 5, 1999; Act No. 6175, Jan. 21, 2000>
1. Where he violates the provisions of Article 9 or 11;
2. Where he violates the provisions of Article 17;
2-2. Where he violates the provisions of Article 19-3;
3. Where he violates any orders by the Financial Supervisory Commission under this Act;
4. Where he refuses, obstructs, or evades inspections under this Act;
5. Where he makes a false statement to, or conceals facts from government offices,

general meetings, or the organizations under Articles 31 (1) and 61 (1);

6. Where he effects matters mentioned in each subparagraph of Article 7 (1), without obtaining authorization thereof;
7. Where he neglects to make registrations required under this Act;
8. Where he neglects to make a public notice, announcement, notification, report or statement required under this Act, or makes a false public notice, announcement, notification, report or statement;
9. Where he refuses, in contravention of the provisions of this Act and without any justifiable reason therefor, inspection or copying of documents, or delivery of copies or extracts thereof;
10. Where he fails to make instruments of subscription for membership, or fails to make entries of particulars to be given in the instruments of subscription for shares, or in the instruments of subscription for membership, or makes false entries therein, in contravention of Article 45 (2);
11. Where he takes procedures for the capital reduction in contravention of Article 24 or 25;
12. Where he fails to make entries or makes false entries, with regard to particulars in the articles of incorporation, list of members, minutes of meetings, inventories, balance sheets, business plans, business reports, reports of closing of accounts books under Article 29 (1) of the Commercial Act applied *mutatis mutandis* under Article 51;
13. Where he fails to keep documents in contravention of Article 448 (1) of the Commercial Act applied *mutatis mutandis* under Article 64 (1) (including cases applied *mutatis mutandis* under Article 81), Articles 71 and 81;
14. Where he convenes in contravention of Article 364, or 365 (1) of the Commercial Act applied *mutatis mutandis* under Article 66, or fails to convene, or convenes in a place other than that fixed in the articles of incorporation, a general meeting of members or an organ under Article 61 (1);
15. Where he neglects to effect procedures for appointment when there are vacancies of directors, auditors, or insurance actuaries under this Act or in the articles of incorporation;
16. Where he fails to set aside reserves or uses them in contravention of Article 67, 69 or 97;
17. Where he fails to calculate the liability reserve, or fails to make entries thereof in the books, in contravention of Article 98 (1);
18. Where he takes procedures for dissolution in contravention of Article 76;
19. Where he disposes of the property or distributes the remaining property of the insurer in contravention of Articles 79 and 80, or of the articles of incorporation;
20. Where he neglects to seek for adjudication of bankruptcy, in contra vention of Article 254 of the Commercial Act applied *mutatis mutandis* under Article 81;
21. Where he determines the period under Article 535 (1) of the Commercial Act applied *mutatis mutandis* under Article 81, unjustly for the purpose of delaying the termination of liquidation;
22. Where he performs obligations in contravention of Article 536 of the Commercial Act applied *mutatis mutandis* under Article 81;
23. Where he refuses, without any justifiable reason, to be an insurance administrator in contravention of Article 108 (2);
24. Where he fails to hand over the business to the insurance administrator or liquidator appointed by the Financial Supervisory Commission, or to the administrator or liquidator appointed by the court;
25. Where he engages in business in contravention of Article 110 (including cases applied *mutatis mutandis* under Article 132);
26. Where he takes procedures for the transfer of insurance contracts in contravention of Article 118;
27. Where he violates the provisions of Article 133;
28. Where he takes procedures for merger in contravention of Article 231 or 232 of the Commercial Act applied *mutatis mutandis* under Articles 134 (1) and (2), 136 (3) or 77 (1);
29. Where he effects insurance contracts,

disposes of property, or does acts liable to result in obligations in contravention of Article 119 or 121 (including cases applied *mutatis mutandis* under Article 135 (2)); and

30. Where he violates the provisions of Article 619 or 620 of the Commercial Act applied *mutatis mutandis* under Article 89 (2).

(2) A person who falls under any of the following subparagraphs shall be punished by a fine for negligence not exceeding five million won. <Amended by Act No. 4069, Dec. 31, 1988; Act No. 4865, Jan. 5, 1995; Act No. 6175, Jan. 21, 2000>

1. A person who violates the provisions of Article 4;

1-2. A person who refuses to comply with any request made pursuant to the provisions of Article 14 (3) (including the case where the provisions apply *mutatis mutandis* in the provisions of Articles 151, 199, 201 (2) and 207 (2));

2. A person who neglects the duty to report under Article 154;

3. A person who violates the provisions of Article 105-2;

4. A person who violates any order under Article 14 (1) which is applicable *mutatis mutandis* by Articles 151, 199, 201 (2) and 207 (2), or under Article 15 which is applicable *mutatis mutandis* by Articles 199, 201 (2) and 207 (2), or under Article 152 or 207 (1); and

5. A person who refuses, obstructs, or evades an inspection under Article 14 (2) which is applicable *mutatis mutandis* by Articles 151, 199, 201 (2) and 207 (2).

Article 226-2 (Procedure of Imposition of Fine for Negligence)

(1) The fine for negligence as prescribed in Article 226 shall be imposed and collected by the Financial Supervisory Commission under the conditions as prescribed by the Presidential Decree. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998; Act No. 5751, Feb. 5, 1999; Act No. 5982, May 24, 1999>

(2) Any person who is dissatisfied with the disposition of fine for negligence as referred to in paragraph (1), may make an objection against the Financial Supervisory Commission within thirty days after he is informed of the dispositions. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998; Act No. 5751, Feb. 5, 1999; Act No. 5982, May 24, 1999>

(3) If a person who is subject to the disposition of fine for negligence as referred to in paragraph (1), has made an objection under paragraph (2), the Financial Supervisory Commission shall notify without delay the competent court thereof without delay, which shall, upon receiving the notification, bring the case of fine for negligence to a trial under the Non-Contentious Case Litigation Procedure Act. <Amended by Act No. 5375, Aug. 28, 1997; Act No. 5500, Jan. 13, 1998; Act No. 5751, Feb. 5, 1999; Act No. 5982, May 24, 1999>

(4) If no objection is made, and no fine for negligence is paid within the period as referred to in paragraph (2), it shall be collected according to the examples of the disposition of national taxes in arrears.

[This Article Newly Inserted by Act No. 4865, Jan. 5, 1995]

Article 227 (Joint Penal Provisions)

(1) In case a representative of a juristic person (hereinafter in this paragraph, including an unincorporated association or foundation which has a representative or a system of administrator), or an agent, employee or other workers of a juristic person or of an individual has committed any offense prescribed in Article 211, 218, 221 or 225 in connection with the business of the juristic person or of the individual, the person who has committed such offense as well as the juristic person or the individual concerned shall be subject to a fine as prescribed in each respective Article.

(2) In case where an unincorporated association or foundation is subject to punishment in accordance with paragraph (1), the representative or administrator thereof shall represent the association or foundation concerned with regard to the procedures and the provisions of those Acts dealing with criminal actions which apply to a juristic person as a defendant, which shall be applicable *mutatis mutandis* thereto.

Article 228 Deleted. <by Act No. 4865, Jan. 5, 1995>

Article 229 (Act of Violation of Juristic Person)
In case a person described in Article 212, 213, 215 or 216 (1) is a juristic person, penalties in this Chapter shall apply to the directors or other staff executing the business of the juristic person or managers who have committed such acts.

ADDENDA

Article 1 (Enforcement Date)
This Act shall enter into force on March 1, 1978: Provided, That Articles 16 through 18 of this Addenda shall enter into force on the date of its promulgation and the provisions with regard to the abrogation of the Korea Reinsurance Corporation Act prescribed in Article 19 of this Addenda shall enter into force on the date of the registration under Article 16 (8) of this Addenda.

Article 2 (General Transitional Measures)
Authorization, permission, statement and other acts made under the previous provisions at the time of enforcement of this Act shall be deemed to be made in accordance with the provisions of this Act when there are corresponding provisions thereto in this Act.

Article 3 (Transitional Measures on Insurer)
(1) An insurer at the time of the enforcement of this Act shall be deemed as an insurer under this Act.

(2) The properties of a foreign insurer deposited in accordance with the Act concerning Foreign Insurers at the time of the enforcement of this Act shall be converted into the business fund under Article 6 (2): Provided, That when the deposited amount is less than the amount of the business fund as prescribed in the Presidential Decree, the deficit shall be made up for with the remittance from its home country by December 31, 1978.

Article 4 (Transitional Measures on Insurance Solicitor)
A life insurance solicitor registered in the Ministry of Finance and Economy under the previous provisions at the time of the enforcement of this Act shall be deemed to have been registered in the Corporation in accordance with this Act.

Article 5 (Transitional Measures on Insurance Agent)
A non-life insurance agent registered in the Ministry from Finance and Economy under the previous provisions at the time of the enforcement of this Act shall be deemed to have obtained permission of the Minister of Finance and Economy under this Act for one year after the standard of permission thereof is set up in accordance with Article 149 (3).

Article 6 (Transitional Measures on Fundamental Documents)
As to the fundamental documents for which the authorization of the Minister of Finance and Economy has been obtained in accordance with the previous provisions at the time of the enforcement of this Act, the authorization under this Act shall be deemed to have been obtained.

Article 7 (Transitional Measures on Staff)
The staff of an insurer at the time of the enforcement of this Act shall be deemed to have been appointed in accordance with this Act: Provided, That his tenure shall be governed by the previous provisions concerned.

Article 8 (Transitional Measures on Mutual Agreement)
As to a mutual agreement between the insurers reported to the Minister of Finance and Economy in accordance with the previous provisions at the time of the enforcement of this Act, the authorization of the Minister of Finance and Economy under this Act shall be deemed to have been obtained.

Article 9 (Transitional Measures on Insurance Actuary)
An insurance actuary at the time of the enforcement of this Act shall be deemed an insurance actuary under this Act.

Article 10 (Transitional Measures on Adjustment)
A non-life insurer may carry out an adjustment until the number of persons who satisfy the requirements for qualification provided for in Article 204 (2) reaches the number as prescribed by the Presidential Decree, notwithstanding the provisions of Article 204 (1).

Article 11 (Transitional Measures on

Business of Corporation)
The business of the Corporation under this Act shall be carried out in accordance with the previous provisions concerned until the Corporation commences its business.

Article 12 (Transitional Measures on Business Offices)
As to a business office of an insurer set up prior to the enforcement of this Act, the authorization of the Minister of Finance and Economy under this Act shall be deemed to have been obtained.

Article 13 (Transitional Measures on Insurance Related Organizations Concerned)
A corporate association relating to the insurance business incorporated prior to the enforcement of this Act, in accordance with Article 32 of the Civil Act, shall be deemed to have been incorporated under this Act.

Article 14 (Transitional Measures concerning Penal Provisions)
In the application of penalties to violations of the previous Insurance Business Act, the Act concerning Foreign Insurers, the Act concerning the Control of Insurance Soliciting and the Korea Reinsurance Corporation Act, which were committed prior to the enforcement of this Act, the previous provisions concerned shall govern.

Article 15 (Transitional Measures on Statutes with Citations of Previous Act)
In case any other statute cites the provisions of the previous Insurance Business Act or of other Acts to be abrogated by this Act, such citations shall be read as the relevant provisions of this Act in substitution of the previous provisions in so far as there are corresponding provisions thereto in this Act.

Article 16 (Conversion of Korea Reinsurance Corporation into Stock Company)
(1) The Korea Reinsurance Corporation (hereinafter referred to as "Korea Reinsurance Corporation") incorporated in accordance with the Korea Reinsurance Corporation Act shall be converted into a stock company under the Commercial Act.

(2) The Korea Reinsurance Corporation shall decrease its capital by purchasing and absorbing Government-owned shares: Provided, That the purchasing price shall be the amount which has been evaluated in accordance with the net value of the estate on the basis of the actual value of assets and liabilities of the Korea Reinsurance Corporation on December 31, 1977 and for which the approval of the Minister of Finance and Economy has been obtained.

(3) The Korea Reinsurance Corporation may, in case where the value of the Government-owned shares purchased in accordance with paragraph (2), exceeds the amount of the capital decreased, appropriate its surplus in the assets account of the balance sheet. In this case, the appropriated amount of surplus shall be redeemed within the period not exceeding ten years since its appropriation.

(4) The proceeds from the sale of the Government-owned shares as prescribed in paragraph (2) shall revert to the Corporation.

(5) The properties that revert to the Corporation in accordance with paragraph (4) shall be deemed to have been contributed to the Corporation by the Government in accordance with Article 189.

(6) The president of the Korea Reinsurance Corporation shall convene a general meeting of shareholders within two months after the promulgation of this Act to pass the resolutions for conversion into a stock company, for the decrease of capital and for the articles of incorporation of a stock company, and to appoint the staff.

(7) Among the business of the Korea Reinsurance Corporation, business incidental and parallel to the incorporating purpose of the Corporation and designated by the Minister of Finance and Economy and the assets and liabilities incident thereto shall be succeeded to by the Corporation.

(8) The Korea Reinsurance Corporation shall, when the procedures under paragraphs (2) through (7), are completed, file for registration within two weeks, as provided for in Article 317 of the Commercial Act.

Article 17 (Presentation of Objection to Conversion and Decrease of Capital)
(1) The Korea Reinsurance Corporation shall make a public notice within two weeks after the promulgation of this Act to its creditors

advising them to raise an objection if any, within one month in regard of its conversion into a stock company and decrease of its capital in accordance with this Act.

(2) It shall be deemed that no objection has been made when the creditors of the Korea Reinsurance Corporation do not raise an objection within the period prescribed in paragraph (1).

(3) The Korea Reinsurance Corporation shall perform its obligation or provide for an appropriate security therefor to the creditors who raise an objection under paragraph (1).

Article 18 (Establishment of Corporation)
(1) The Minister of Finance and Economy shall appoint not more than seven establishing members to organize the incorporation committee, and have them work on the matters concerning the establishment of the Corporation.

(2) The incorporation committee shall draw up the articles of incorporation of the Corporation and obtain authorization of the Minister of Finance and Economy.

(3) The incorporation committee shall file for registration in accordance with Article 164 after obtaining the authorization under paragraph (2).

(4) The incorporation committee shall transfer its business and property to the president of the Corporation after completing the registration under paragraph (3).

Article 19 (Abrogation of Statute)
The Act concerning Foreign Insurers, the Act concerning the Control of Insurance Soliciting and the Korea Reinsurance Corporation Act shall hereby be abrogated.

ADDENDUM
<Act No. 3340, Dec. 31, 1980>

This Act shall enter into force on the date of passage of thirty days after its promulgation.

ADDENDA
<Act No. 4069, Dec. 31, 1988>

Article 1 (Enforcement Date)
This Act shall enter into force on April 1, 1989: Provided, That the revised provisions of Article 23-2 shall enter into force on January 1, 1989.

Article 2 (Amendment to Other Acts etc.)
(1) through (3) Omitted.

(4) The Korea Insurance Corporation or its president that is cited in other Acts and subordinate statutes at the time when this Act enters into force, shall be read as the Insurance Supervisory Board or its director.

Article 3 (Establishment of Insurance Supervisory Board)
(1) The Minister of Finance and Economy may have the president of the Korea Insurance Corporation take charge of affairs as to the establishment of the Insurance Supervisory Board even before this Act enters into force.

(2) When the president of the Korea Insurance Corporation has completed the formalities for establishment of the Insurance Supervisory Board, he shall hand over the affairs to the director of the Insurance Supervisory Board.

Article 4 (Dissolution of Korea Insurance Corporation)
The Korea Insurance Corporation shall be dissolved on the enforcement date of this Act.

Article 5 (Succession of Property, Rights and Duties)
(1) All properties, rights and duties belonging to the Korea Insurance Corporation at the time of the enforcement of this Act shall be handed comprehensively over to the Insurance Supervisory Board, and the name of the Korea Insurance Corporation indicated on a register or public book concerning such properties, rights and duties shall be considered to be that of the Insurance Supervisory Board.

(2) The value of any property succeeded by the Insurance Supervisory Board shall be the book value at the time of succession, and such property shall be considered as that to be contributed by the Government and shall be the operational fund.

Article 6 (Special Cases as to Appointment, etc. of Director, Vice-Director, Assistant Vice-Directors and Staff)
(1) The president, vice-president and

directors of the Korea Insurance Corporation at the time of the enforcement of this Act shall be considered to be appointed as the director, vice-director and assistant vice-directors of the Insurance Supervisory Board under this Act, respectively, under the conditions as nominated by the Minister of Finance and Economy, but their term of office shall be the remaining period of the president, vice-president and directors of the Korea Insurance Corporation.

(2) The staff of the Korea Insurance Corporation at the time when this Act enters into force this Act shall be considered to be appointed as the staff of the Insurance Supervisory Board.

Article 7 (Special Cases as to Capital or Fund)
If there are provisions which are different from the revised provisions of Article 6 concerning capital or fund by any agreement, etc. with a foreign country before this Act enters into force, such provisions shall be applicable.

Article 8 (Example of Application to Deposit of Protection Deposit)
The revised provisions of Article 6-2 (1) shall be applicable to the initially permitted portions after this Act enters into force: Provided, That any insurer who obtained the permission before the enforcement of this Act, and deposited the protection deposit to a financial institution in accordance to the conditions of such permission, shall deposit it with the Insurance Supervisory Board within one month after this Act enters into force.

Article 9 (Example of Application to Restriction, etc. on Shareholders)
The revised provisions of Article 23-2 shall be applicable to the initially permitted portions after the proviso of Article 1 of this Addenda enters into force.

Article 10 (Example of Application to Payment of Compensation Money)
The revised provisions of Articles 197-13 through 197-15 shall be applicable to the portion of insurance contract made after this Act enters into force.

Article 11 (General Transitional Measures)
Any permission, authorization and other acts made or done by the Korea Insurance Corporation, or any registration, report and other acts made or done to the Korea Insurance Corporation pursuant to the previous provisions at the time of the enforcement of this Act shall be considered as acts made or done by or to the Insurance Supervisory Board.

Article 12 (Transitional Measures concerning Payment of Contribution)
Any insurer whose business year has ended before the enforcement date of this Act, shall pay the contribution within three months from the enforcement date of this Act regardless of the provisions of Article 197-10 (2).

Article 13 (Transitional Measures concerning Insurance Actuaries, etc.)
(1) Any person who is qualified as an insurance actuary pursuant to the previous provisions at the time of the enforcement of this Act, shall be considered as an insurance actuary under this Act.

(2) Notwithstanding the revised provisions of Article 202, any insurer may appoint an actuarial businessman or insurance actuary, and entrust him with actuarial affairs until the time as prescribed by the Ordinance of Ministry of Finance and Economy arrives.

Article 14 (Transitional Measures concerning Adjusters, etc.)
(1) Any person who is qualified as an adjuster pursuant to the previous provisions at the time of the enforcement of this Act, shall be considered as an adjuster under this Act.

(2) Any juristic person who operates the adjustment as a business after obtaining permission under the previous Article 204 (3) at the time of the enforcement of this Act, shall be to have been registered pursuant to the revised provisions of Article 204-3: Provided, That it shall meet such requirements as prescribed in Article 204-3 (2) within one year from the enforcement date of this Act.

Article 15 (Transitional Measures concerning Penal Provisions)
The previous provisions shall be applicable in application of penal provisions to acts done before this Act enters into force.

ADDENDA
<Act No. 4423, Dec. 14, 1991>

Article 1 (Enforcement Date)
This Act shall enter into force on February 1, 1992.

Articles 2 through 6 Omitted.

ADDENDA
<Act No. 4865, Jan. 5, 1995>

Article 1 (Enforcement Date)
This Act shall enter into force on April 1, 1995.

Article 2 (Transitional Measures concerning Domestic Office of Foreign Insurer, etc.)
Any domestic office of the foreign insurer, etc. established pursuant to other Acts at the time this Act enters into force, shall be considered to have obtained permission under this Act.

Article 3 (Transitional Measures concerning Business Office)
Any business office authorized pursuant to the provisions of the previous Article 7 (1) 2 at the time this Act enters into force, shall be considered to have been reported under this Act.

Article 4 (Transitional Measures concerning Juristic Person, etc. Established in Foreign Country)
Any juristic person of a branch office established by an insurer outside the Republic of Korea pursuant to other Acts at the time this Act enters into force, shall be considered to have been authorized under this Act.

Article 5 (Transitional Measures concerning Term of Auditor)
Notwithstanding the revised provisions of Article 13, the term of any auditor of an insurer, who is in office at the time this Act enters into force, shall be subject to the previous provisions.

Article 6 (Transitional Measures concerning Restriction on Holding of Another Office by Officers)
Any person who has obtained permission to hold concurrently another office under the previous Article 11 at the time this Act enters into force, shall be considered to have obtained the approval of the director of the Insurance Supervisory Board under this Act.

Article 7 (Transitional Measures concerning Insurance Agency)
Any insurance agency with proper permission to exist pursuant to the provisions of the previous Article 149 (1) at the time this Act enters into force, shall be considered to have been registered with the Ministry of Finance and Economy under this Act.

Article 8 (Transitional Measures concerning Term of Members of Conciliation Committee)
Notwithstanding the revised provisions of Article 197-3 (3), the term of members of the conciliation committee who are in office at the time this Act enters into force, shall be subject to the previous provisions.

Article 9 (Transitional Measures concerning Actuarial Business, etc.)
Any person who has been registered with the Ministry of Finance to carry on the actuary or adjustment as a business, pursuant to the previous Articles 202-3 (1) and 204-3 (1), at the time this Act enters into force, shall be considered to have been registered with the Insurance Supervisory Board under this Act.

ADDENDA
<Act No. 5375, Aug. 28, 1997>

Article 1 (Enforcement Date)
This Act shall enter into force on the date of its promulgation.

Article 2 (Applicable Cases to Qualifications of Officer)
The revised provisions of Article 12 (2) and (3) shall not apply to any officer of an insurer in office at the time when this Act enters into force.

Article 3 (Applicable Cases to Expenses for Incorporation, etc.)
The revised provisions of Article 96 (1) shall not apply to an insurer existing at the time when this Act enters into force.

Article 4 (Special Cases to Restriction on Shareholders, etc.)
(1) Notwithstanding the revised provisions of Article 23-2, a company which belongs to a large enterprise group as provided for by the

Monopoly Regulation and Fair Trade Act (including a juristic person or private enterprise as deemed by the Financial Supervisory Commission to belong actually to such an enterprise group), or a person who substantially controls such a large enterprise group, and a person who has a special relation with such person and who falls under the criteria as determined by the Presidential Decree, shall not be a shareholder of an insurer until March 31, 2003. <Amended by Act No. 5982, May 24, 1999>

(2) In determining the criteria as referred to in paragraph (1), the scale of such an enterprise group and credit from financial institutions, etc. shall be taken into consideration.

(3) Notwithstanding the revised provisions of Article 23-2, no shareholder of an insurer shall make a sale, donation, exchange, etc. of shares in question for any person falling under the provisions of paragraph (1) until March 31, 2003.

(4) If a person acquires and holds shares issued by an insurer in violation of the provisions of paragraph (1), the Financial Supervisory Commission may have him sell such shares, or restrict the voting rights of the shares. <Amended by Act No. 5982, May 24, 1999>

(5) The provisions of paragraphs (1) through (4) shall not apply to any person who has, under the conditions as separately prescribed by the Financial Supervisory Commission, acquired or merged the business of an insurer falling under an insolvent financial institution as provided for in Article 2 of the Act on the Structural Improvement of the Financial Industry or an insurer who received the order for an increase of the capital or funds under the provisions of Article 6-3 of this Act. <Amended by Act No. 5982, May 24, 1999>

ADDENDA
<Act No. 5422, Dec. 13, 1997>

Article 1 (Enforcement Date)
This Act shall enter into force on the date of its promulgation: Provided, That the revised provisions of Article 210 shall enter into force on January 1, 1998.

Article 2 (Applicable Cases)
The revised provisions of Article 12 (2) shall be applied from an officer appointed for the first time after this Act enters into force.

ADDENDUM
<Act No. 5454, Dec. 13, 1997>

This Act shall enter into force on January 1, 1998. (Proviso Omitted.)

ADDENDA
<Act No. 5500, Jan. 13, 1998>

Article 1 (Enforcement Date)
This Act shall enter into force on April 1, 1998: Provided, That the amended provisions of Article 197-10 (1) shall enter into force on the date of its promulgation and shall remain in force until March 31, 1998.

Article 2 (General Transitional Measures)
(1) Any permission, authorization, approval, registration, order, disposition, inspection or other acts of the Minister of Finance and Economy, the Director of the Insurance Supervisory Board or the Insurance Supervisory Board under the previous provisions at the time of the entry into force of this Act shall be deemed to be acts of the Minister of Finance and Economy, the Financial Supervisory Commission, the FSS Governor or the Financial Supervisory Service under this Act.

(2) Any report, statement, application or other acts addressed to the Minister of Finance and Economy, the FSS Governor or the Financial Supervisory Service under the previous provisions at the time of the entry into force of this Act shall be deemed to be acts addressed to the Minister of Finance and Economy, the FSS Governor or the Financial Supervisory Service under this Act.

Article 3 (Transitional Measures on Penal Provisions)
The application of penal provisions to acts committed prior to the entry into force of this Act shall be governed by the previous provisions.

Article 4 (Survival of Insurance Supervisory Board and Succession to Property and Rights and Duties)
(1) Notwithstanding the amendments to this Act, the Insurance Supervisory Board shall continue to exist until the date on which the

Financial Supervisory Service under the Act on the Establishment of Financial Supervisory Organization is established.

(2) All property and rights and duties other than the Insurance Guarantee Fund, which belong to the Insurance Supervisory Board, shall be succeeded to by the Financial Supervisory Service by universal title on the date on which the Financial Supervisory Service is established .

(3) Any title of the Insurance Supervisory Board on the register or other public books on the property, rights, and duties succeeded to by the Financial Supervisory Service pursuant to paragraph (2) shall be deemed to be the title of the Financial Supervisory Service.

(4) The value of property succeeded to by the Financial Supervisory Service pursuant to paragraph (2) shall be the book value at the time of succession.

Article 5 (Succession to Insurance Guarantee Fund)
(1) All property, rights, and duties which belong to the Insurance Guarantee Fund at the time of the entry into force of this Act shall be succeeded to by the Deposit Insurance Corporation (hereinafter referred to as the "Corporation") established under the Depositor Protection Act.

(2) The title of the Insurance Supervisory Board on the register or other public books on the property, rights, and duties succeeded to by the Corporation pursuant to paragraph (1) shall be deemed to be the title of the Corporation.

(3) The value of property succeeded to by the Corporation pursuant to paragraph (1) shall be the book value at the time of succession.

ADDENDA
<Act No. 5507, Jan. 13, 1998>

Article 1 (Enforcement Date)
This Act shall enter into force on the date of its promulgation.

Article 2 Omitted.

ADDENDA
<Act No. 5591, Dec. 28, 1998>

Article 1 (Enforcement Date)
This Act shall enter into force on the date of its promulgation. (Proviso Omitted.)

Articles 2 through 5 Omitted.

ADDENDA
<Act No. 5751, Feb. 5, 1999>

(1) (Enforcement Decree) This Act shall enter into force on the date of its promulgation.

(2) (Transitional Measures on Insurance Brokers) The authorization of insurance brokers who obtained authorization under previous provisions or whose authorization has been extinguished shall be deemed to be registered or cancelled pursuant to the amended provisions of Articles 150-2 and 150-4.

ADDENDA
<Act No. 5815, Feb. 5, 1999>

(1) (Enforcement Date) This Act shall enter into force on the date of its promulgation: Provided, That the provisions of Articles 1 and 7 shall enter into force ... <Omitted> ... on January 1, 2000.

(2) Omitted.

ADDENDA
<Act No. 5982, May 24, 1999>

Article 1 (Enforcement Date)
This Act shall enter into force on the date of its promulgation. (Proviso Omitted.)

Articles 2 through 6 Omitted.

ADDENDA
<Act No. 6175, Jan. 21, 2000>

Article 1 (Enforcement Date)
This Act shall enter into force three months after the date of its promulgation: Provided, That the amended provisions of Articles 12-2, 12-3, 25 and 65 shall enter into force on the date of its promulgation.

Article 2 (Transitional Measures concerning Standards for Internal

Control)
Any insurer shall set the standards for internal control in accordance with the amended provisions of Article 6-5 within six months after the enforcement of this Act.

Article 3 (Transitional Measures concerning Concurrent Operation of Other Business)
Any insurer who runs any business other than insurance business in accordance with the provisions of Article 9 (1) at the time that this Act is enforced shall make his insurance business consistent with the amended provisions of Article 9 (4) within 6 months after the enforcement of this Act.

Article 4 (Transitional Measures concerning Disqualification for Officer of Insurer)
Where a person who is an officer of an insurer at the time that this Act is enforced is disqualified in accordance with the amended provisions of Article 12 for the cause that has occurred prior to the enforcement of this Act, his disqualification shall, notwithstanding the same amended provisions, be dealt with according to the previous provisions.

Article 5 (Transitional Measures concerning Appointment of Outside Director)
Any insurer who is liable to appoint any outside director in accordance with the amended provisions of Article 12-2 shall appoint him at a regular general meeting of shareholders, etc. called first after the enforcement of this Act. In this case, such person who is appointed as such outside director at such regular general meeting of shareholders shall be deemed to be recommended by the Outside Director Candidate Recommendation Committee in accordance with the provisions of Article 12-2 (2).

Article 6 (Transitional Measures concerning Establishment of Inspection Committee)
Any insurer shall establish an Inspection Committee in accordance with the amended provisions of Article 12-3 at a regular general meeting of shareholders, etc. called first after the enforcement of this Act.

Article 7 (Transitional Measures concerning Standing Auditor following Establishment of Inspection Committee)
Any person who is a standing auditor (referring to the standing auditor designated by the board of directors of the insurer concerned in case that there are not less than two standing auditors) of an insurer liable to establish an Inspection Committee at the time that this Act is enforced, where his term of office does not expire and is not dismissed at a regular general meeting of shareholders by the date on which such regular general meeting of shareholders is called to establish an Inspection Committee in accordance with the provisions of Article 6 of the Addenda, shall be deemed a member of the Inspection Committee who is not an outside director from among the members of the Inspection Committee of the insurer concerned until his term of office expires. In this case, the standing auditor concerned shall be deemed a director elected at a general meeting of shareholders in accordance with the provisions of Article 382 (1) of the Commercial Act until his term of office expires.

Article 8 (Transitional Measures concerning Prohibition on Financial Assistance)
Any insurer shall, where he is deemed to commit a violation of the amended provisions of Article 19-3 due to the act he has performed prior to the enforcement of this Act, dispose of shares concerned or recover the extended credits within 6 months after the enforcement of this Act.

Article 9 (Transitional Measures concerning Fine for Negligence)
The application of the provisions concerning any fine for negligence against any act of violation peformed prior to the enforcement of this Act shall be dealt with according to the previous provisions.

Article 10 (Application Example concerning Incorporation Expenses)
The depreciation of expenses involved in the incorporation and business of any insurer prior to the enforcement of this Act shall be dealt with according to the previous provisions, notwithstanding the amended provisions of Article 96.

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