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Korea Seeks to Earn Investor Trust
Op-Ed Commentary for Korea Herald

August 18, 2004

As a result of aggressive restructuring and bold reform of the past six years, Korea's financial service industry was able to come out of the 1997 financial crisis wholly revitalized and poised for renewed growth. But despite the successes of the past, many see difficult hurdles ahead for Korea's financial service industry to overcome if it is to stand shoulder-to-shoulder with the leading global competitors.

This is particularly true for Korea's asset management industry. Notwithstanding the principle of "performance-based dividend" that the asset management industry began to embrace after 1999, the industry has not been able to fully restore investor confidence because of persistent unmet investor expectations as well as inadequate outside monitoring and self-discipline.

Investor assets placed under asset management companies broke through 260 trillion won in 1999 but began to fall rapidly after Daewoo crisis in August that year amid mounting investor losses. With problems from SK Global and the credit card sector further eroding investor confidence, the size of assets managed by asset managers has diminished further and is now estimated to hover around 160 trillion won. All in all, it may take some time before we see a complete turnaround in investor sentiment in the local investment market.

But it must be stressed that, with an increasingly aging population and a trend toward low interest rates coupled with deregulation and competition, the growth prospect for Korea's asset management industry is in fact quite promising. For one, as more retirement plans turn to the investment fund market, the demand for investor-tailored asset management services is expected to grow.

The newly consolidated Indirect Investment Asset Management Business Act that took effect in April this year is also expected to lift investor confidence and contribute to enhanced competition and services in the asset management market by providing a level-playing field for all asset management companies.



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The recent pace of foreign asset management companies entering or expanding their presence in the local market also bespeaks Korea's growth potential. As asset management services continue to grow in importance, the supervisory policy will be geared toward laying a firm foundation for stable long-term growth.

This will entail, first and foremost, creating a well-disciplined market in which transparency and investor protection are respected and vigorously enforced so that investors both at home and from abroad can invest with confidence. To this end, regulators are looking to require asset management companies to operate within clearly established risk management guidelines and policies, improve risk management processes, and expand disclosures on their fund management activities.

New measures are also planned to ensure that brokers selling funds to investors abide by high standards of conduct and do not mislead investors with unrealistic claims or exaggerated sales pitch. The regulators also recognize the critical role that trustees can play in providing the much needed checks on the investment activities of asset managers and are considering new covenants that reinforce the duties of the trustee and with which the trustee must comply to better protect investors. Aggressive enforcement actions will also be taken against fund managers who engage in trading practices that favor one investor to another in the same fund and other abuses that harm investor trust.

As we take steps to restore investor confidence, we remain deeply committed to providing policy support and promoting innovation in the marketplace to ensure a vibrant and competitive asset management industry. To this end, the regulators will encourage the creation of more large funds rather than the smaller ones and promote more diversified investment products and services.

There is also a plan to build a stable, long-term demand base for asset management services by channeling more of the national pension funds to outside portfolio managers and promoting corporate pension funds. We will also continue to encourage more foreign asset management companies to come to Korea and take steps to facilitate consolidation and more investor-tailored services. As a way to channel local investor assets and promote restructuring, we are also working on plans to encourage private equity funds.

More importantly, we will continue to focus our efforts on improving Korea's corporate accounting, disclosures and corporate governance to help create a market environment where competitive, transparent companies can earn investor trust and prosper. We are not complacent of our past successes with the reform and restructuring efforts and will continue to focus on our drive to become a dynamic financial hub for Northeast Asia backed by a vibrant asset management industry.