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Weekly Newsletter

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Plans to Better Protect Investors from Back-Door Listing

On June 4, 2001, the FSC/FSS announced a set of new measures aimed at giving better protection to investors from losses arising from back-door listing (BDL). BDL is generally understood as a way for unlisted venture companies to get listed on stock exchanges through M&A or acquisition & development (A&D) with listed companies. However, investors are exposed to potential losses when companies engage in BDL for short-term capital gains. As such, the new measures will require more strict disclosure on purchase of controlling shares in unlisted companies and impose mandatory share-holding period for the controlling shareholders of the unlisted companies targeted for merger.

First, listed companies that acquire controlling shares in unlisted companies will be required to disclose the purchase share prices in their Registration Statements for Securities Issuance and Public Disclosure Statements. One important goal of the disclosure requirement is to prevent share purchases at unreasonably high prices through collusion with the company being acquired, which can lead to significant deterioration in the financial position of the acquiring company and thus its shareholders. In the event of a merger between a listed company and an unlisted company, the controlling shareholders of the unlisted company will be barred from selling their shares for a certain period of time as is the case for the controlling shareholders of the listed company after its initial public offering.

The new measures are expected to go into effect by the end of June after revisions to the regulations on Korea Stock Exchange and the Korea Securities Dealers Automated Quotation are completed.



FSC/FSS Held 1st High-Level Dialogues with German and Japanese Financial Supervisory Authorities

The First Annual High-Level Dialogue between FSC/FSS and the Federal Banking Supervisory Office of Germany (FBSO) took place in Bonn, Germany, on June 5, 2001. Mr. Ji-Chang Yoo, Vice Chairman of the Financial Supervisory Commission (FSC) and Mr. Jochen Sanio, President of the FBSO, headed the meeting between the two supervisory authorities. The FSC and FBSO signed a memorandum of understanding for bilateral exchange of financial supervisory information between the two supervisory authorities.

The topics discussed at the meeting included ways to expand cooperation between the supervisory authorities with respect to supervision of Korean financial companies operating in Germany and that of German financial companies operating in Korea, prevention of money laundering, progress on integration of financial supervisory authorities in Germany, and exchange of senior managers between the two supervisory authorities.

Mr Ji-Chang Yoo also visited Tokyo, Japan, to hold the First High-Level Dialogue with Hakuo Yanagisawa, the Minister for Financial Services of the Financial Services Agency (FSA) of Japan on June 8, 2001.

At the meeting in Tokyo, the Korean delegation discussed the organizational structure and activities of FSC/FSS and the ongoing financial sector restructuring in Korea. The Japanese delegation shared its role and experiences in establishing the FSA as well as Japanese responses to the current economic situation. They also discussed issues of mutual interest, including exchange of supervisory information on Korea financial companies operating in Japan and Japanese financial companies operating in Korea and exchange of senior managers between the two supervisory authorities.



Easing Investment Restrictions on Privately Placed Corporate Bonds

The FSC/FSS is expected to ease restrictions on investment in privately placed corporate bonds (PPCB) by private and public investment funds by the end of June this year.

Under the relaxed restrictions, private investment funds-funds formed by 100 or fewer individual investors-will no longer be subject to any ceiling on investment in PPCB of listed firms with at least a single “A” credit rating. Currently, private funds are allowed to invest only up to 3 % of their total assets in PPCB.

Additionally, the investment ceiling on all private and public investment funds for corporate bonds that are privately placed by venture companies and guaranteed by Korea Technology Credit Guarantee Fund or Korea Credit Guarantee Fund is to be raised from 3% of their total assets to 10%.

A performance-based pay system will be allowed for private investment fund and close-ended fund managers.

Rising Portfolio Investment by Foreign Investors in May

In May, foreign investors purchased stocks worth 5.53 trillion and sold 4.52 trillion won on the Korea Stock Exchange (KSE), ending the month as net buyers of 1.01 trillion won. While the market value of foreign investors’ stockholdings increased to 74.8 trillion won from 71.8 trillion won from the previous month, the total market share of foreign stockholdings fell slightly to 30.9% from 31.4% in April.

In the technology-heavy KOSDAQ, foreign investors were net sellers of stocks worth 2.5 billion won. While the market value of their stockholdings rose to 3.94 trillion won, an increase of 86.8 billion won from April, the total market share of foreign investors dropped slightly to 8.3% from 8.6% in April.



Foreign Stockholdings in KSE/KOSDAQ: May 2001

(In billions of won)

	KSE		KOSDAQ	
	Net Purchases ¹⁾	Total Market Value of Stockholdings ²⁾	Net Purchases ¹⁾	Total Market Value of Stockholdings ²⁾
Feb. 2001	369.0	67,799.0 (29.6%)	-10.2	3,376.2 (7.9%)
Mar. 2001	41.1	63,006.2 (30.2%)	42.2	3,077.8 (8.1%)
Apr. 2001	1,124.7	71,763.3 (31.4%)	170.9	3,854.6 (8.6%)
May 2001	1,009.8	74,827.7 (30.9%)	-2.5	3,941.4 (8.3%)

Note: Figures in parentheses denote the percentage of foreign stockholdings.

1) For the entire month;

2) As of the end of the month;

In the domestic bond market, foreign investors were net purchasers of 20.0 billion won, which increased their total bond holdings to 551.2 billion won from 536.4 billion won at the end of April. The total market share of foreign investors, however, remained unchanged from April at 0.12%. Special purpose bonds, including Monetary Stabilization Bonds and Industrial Financial Debentures, accounted for 58.3% of foreign investors' total bond holdings while corporate bonds accounted for 22.3%.

Foreign Investment in Bonds: May 2001

(In billions of won)

	Net Purchases ¹⁾	Value of Bond Holdings ²⁾
Feb. 2001	68.0	593.8 (0.14%)
Mar. 2001	-35.0	532.1 (0.12%)
Apr. 2001	40.1	536.4 (0.12%)
May 2001	20.0	551.2 (0.12%)

Note: Figures in parentheses denote the percentage of foreign bond holdings.

1) For the entire month;

2) As of the end of the month;



Summary of Bank Trust Accounts for the First Quarter of 2001

The FSC/FSS released a summary of trust accounts managed by 21 domestic banks for the first quarter of 2001. According to the summary, the total amount placed in the bank trust accounts increased to 83 trillion won as of the end of March from 79 trillion won at the end of December 2000. The increase was mostly attributed to the introduction of investment trust products such as real estate investment trusts.

Trust Accounts Managed by Domestic Banks

(In trillions of won)

Dec. 1998	Dec. 1999	Mar. 2000	Dec. 2000	Mar. 2001
152	114	109	79	83

Among the 21 banks, KorAm Bank recorded the highest increase with a 14.8% jump, followed by 11.9% increase by Shinhan Bank and 9% increase by Kookmin Bank. Korea Development Bank, Jeonbuk Bank and Hana Bank experienced a drop in their trust accounts during the same period.

As a whole, the 21 banks recorded 274.7 billion won in combined profits from their trust accounts for the first quarter by allocating 80.1 percentage of the total trust assets to securities, 12.4 percentage to loans and 3.9 percentage to loans to banking accounts.

Of the total amount of trust assets managed by the banks, 26.9 trillion won was subject to reserves for evaluation loss, and assets worth 4.2 trillion won or 15.6% of the 26.9 trillion won was classified as substandard or below trust assets. The 15.6% represents a drop of 4.2 percentage points from December 2000, which largely resulted from the sale of bad assets. Despite the drop, however, the proportion of substandard or below assets managed by trust accounts is still much higher than that of the banking accounts, primarily due to the unsettled loans to the Daewoo-affiliated companies and other workout companies. If these unsettled loans are excluded from the trust assets, the ratio drops to 4.5%.



Performances of Securities Companies and Investment Trust Management Companies in FY2000

According to the financial results announced for FY 2000 ending in March 31, 2001, domestic securities companies held assets totaling 42.1 trillion won, a drop of 19.5% from the previous year largely due to the reduced deposits for beneficiary certificates such as marketable securities. Unlike last year's profits totaling 1,443.9 billion won, domestic securities companies reported pre-tax losses totaling 344.2 billion for FY 2000. The overall losses for FY 2000 were mainly due to a significant drop in commission fees, losses from securities trading, and increased competition among the securities companies. Among the 45 domestic securities companies, 31 firms recorded pre-tax profits while 14 posted losses.

Domestic investment trust management companies (ITMCs), on the other hand, reported pre-tax profits totaling 132.0 billion won in FY 2000, a turnaround from the pre-tax losses of 64.9 billion won they suffered for FY 1999. The combined profits for the ITMCs occurred despite a significant drop in investment trust fees from declining sales of beneficiary certificates. The ITMCs were helped by the substantial drop in expenses related to Daewoo Group. Of the 29 domestic ITMCs, 24 posted profits while 5 recorded losses.

Pre-Tax Profits at Securities Companies and ITMCs

(In billions of won)

	FY 1999	FY 2000	Change
Securities Companies	1,443.9	-344.2	-1,788.1
Investment Trust Management Companies	-64.9	132.0	196.9



(Appendix)

1. Major Financial Statistics

(unit: point, percent, won)

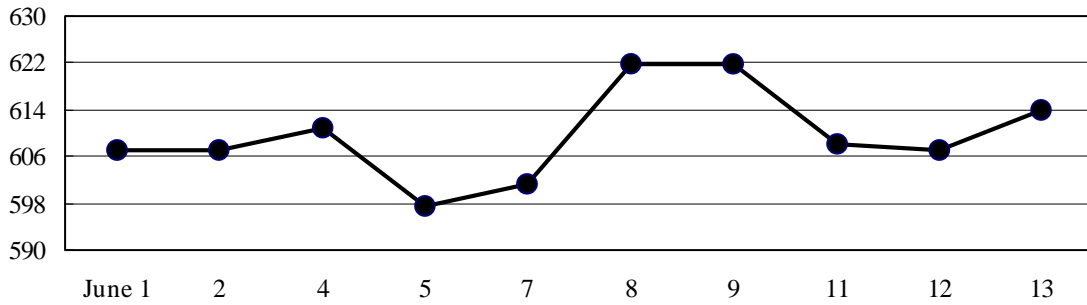
	Equity Indexes			Interest Rates				Exchange Rates	
	KOSPI Index	KOSPI 200 Index	KOSDAQ Index	Corp. Bond Yields (3 years)	Gov't Bond Yields (3 years)	Call Rate (1day)	CD Yields (91days)	Won/USD	Won/100 JPY
2001 Jan.	617.91	77.98	84.36	7.38	5.68	5.26	5.94	1,258.0	1,080.29
Feb	578.10	72.14	76.76	6.77	5.43	5.05	5.68	1,249.0	1,075.33
Mar	523.22	65.16	68.43	7.69	6.31	4.94	5.70	1,335.0	1,056.17
Apr	577.36	72.45	78.97	8.05	6.80	5.00	5.92	1,320.0	1,065.38
May	612.16	76.09	81.35	7.37	6.17	5.00	5.77	1,283.0	1,073.64
June 1	607.07	75.34	80.11	7.35	6.15	4.99	5.76	1,282.0	1,077.31
2	-	-	-	7.35	6.15	4.94	5.75	1,285.0	1,077.12
4	610.91	75.74	80.37	7.32	6.11	5.00	5.74	1,285.0	1,076.21
5	597.66	74.13	78.92	7.42	6.23	5.00	5.82	1,286.7	1,076.29
7	601.14	54.57	78.14	7.42	6.23	5.01	5.81	1,287.5	1,071.13
8	621.78	77.19	80.77	7.30	6.10	4.85	5.73	1,286.0	1,068.99
9	-	-	-	7.30	6.10	4.97	5.73	1,288.0	1,064.02
11	608.23	75.27	79.52	7.31	6.10	5.02	5.73	1,290.0	1,060.86
12	607.15	75.08	80.12	7.33	6.13	5.01	5.70	1,290.0	1,058.24
13	614.05	75.90	81.68	7.30	6.10	5.01	5.67	1,293.0	1,056.37

Note : End of Period

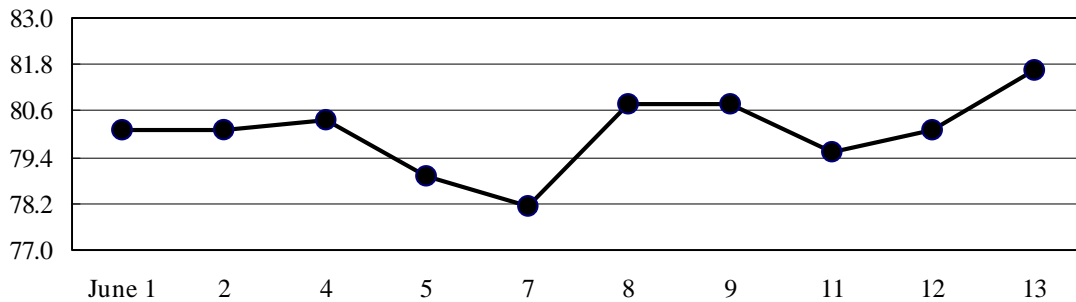


2. Daily Trends

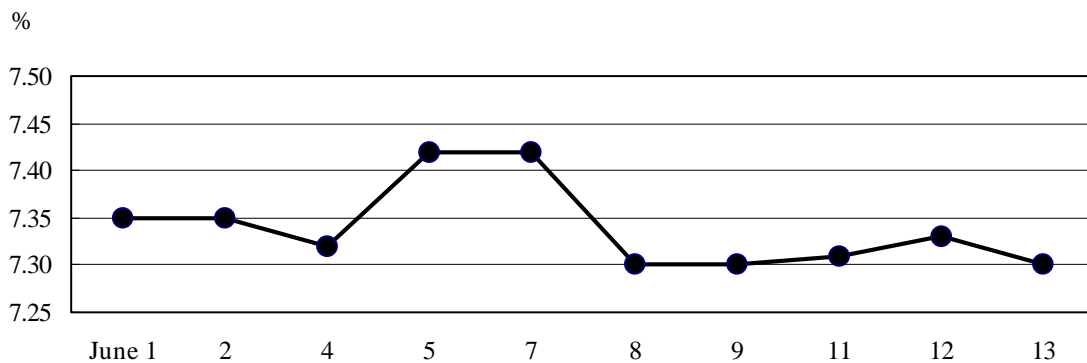
1) KOSPI



2) KOSDAQ Index

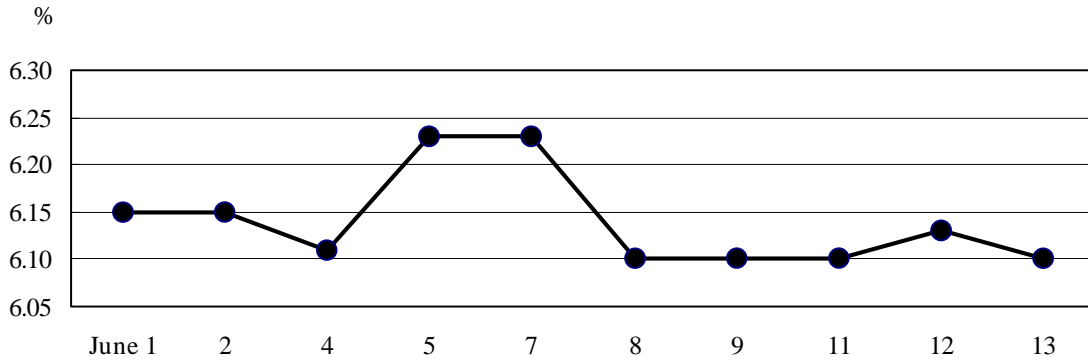


3) Yields on Corporate Bond (3 Years)

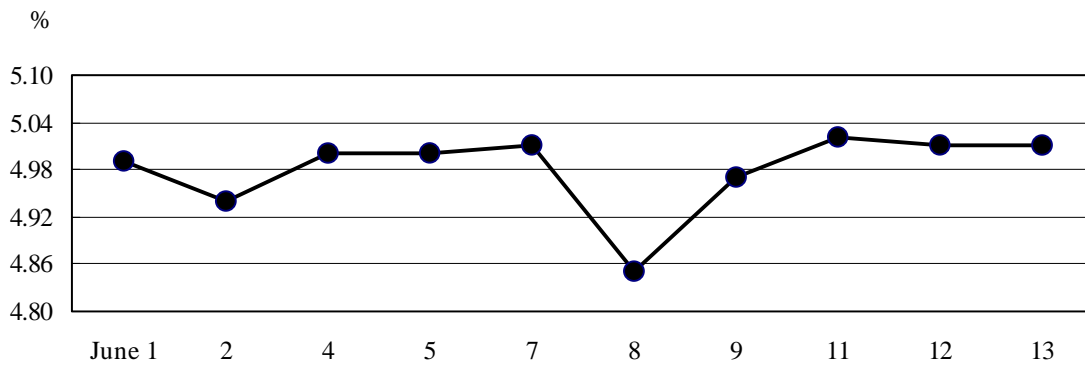




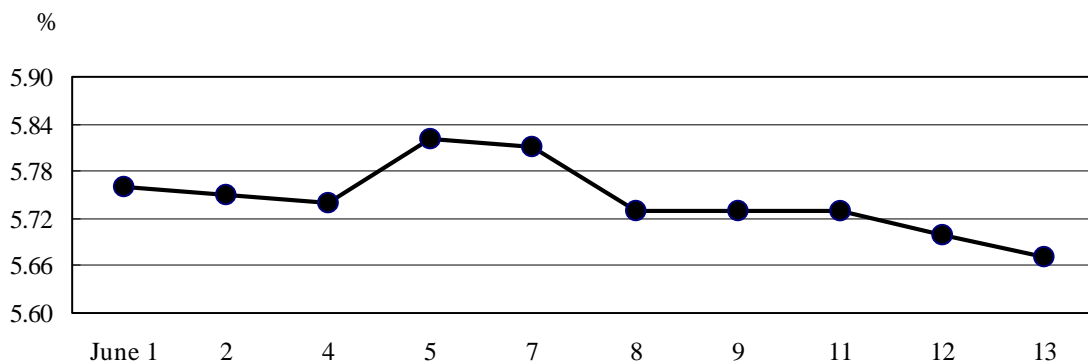
4) Yields on Government Bond (3 Years)



5) Call Rate (1 Day)

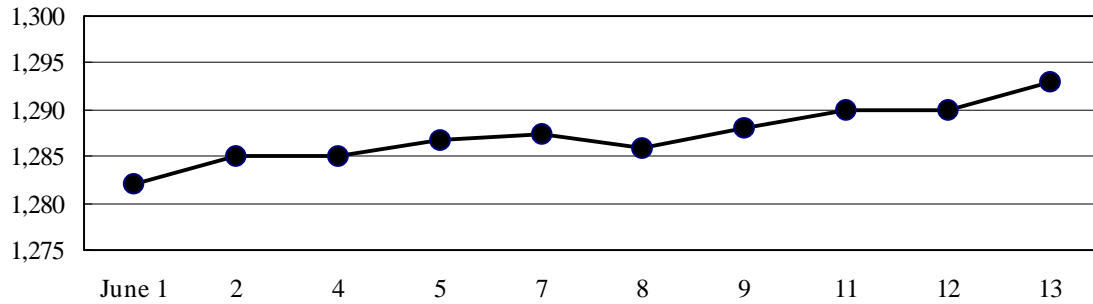


6) Yields on CD (91 Days)

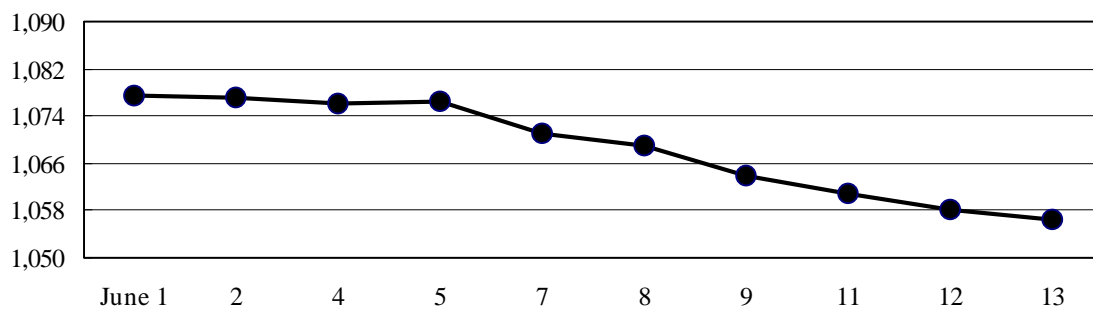




7) Won/US Dollar



8) Won/100 Japanese Yen





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