Non-resident participation in domestic market KOREA

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MINISTRY OF STRATEGY AND FINANCE

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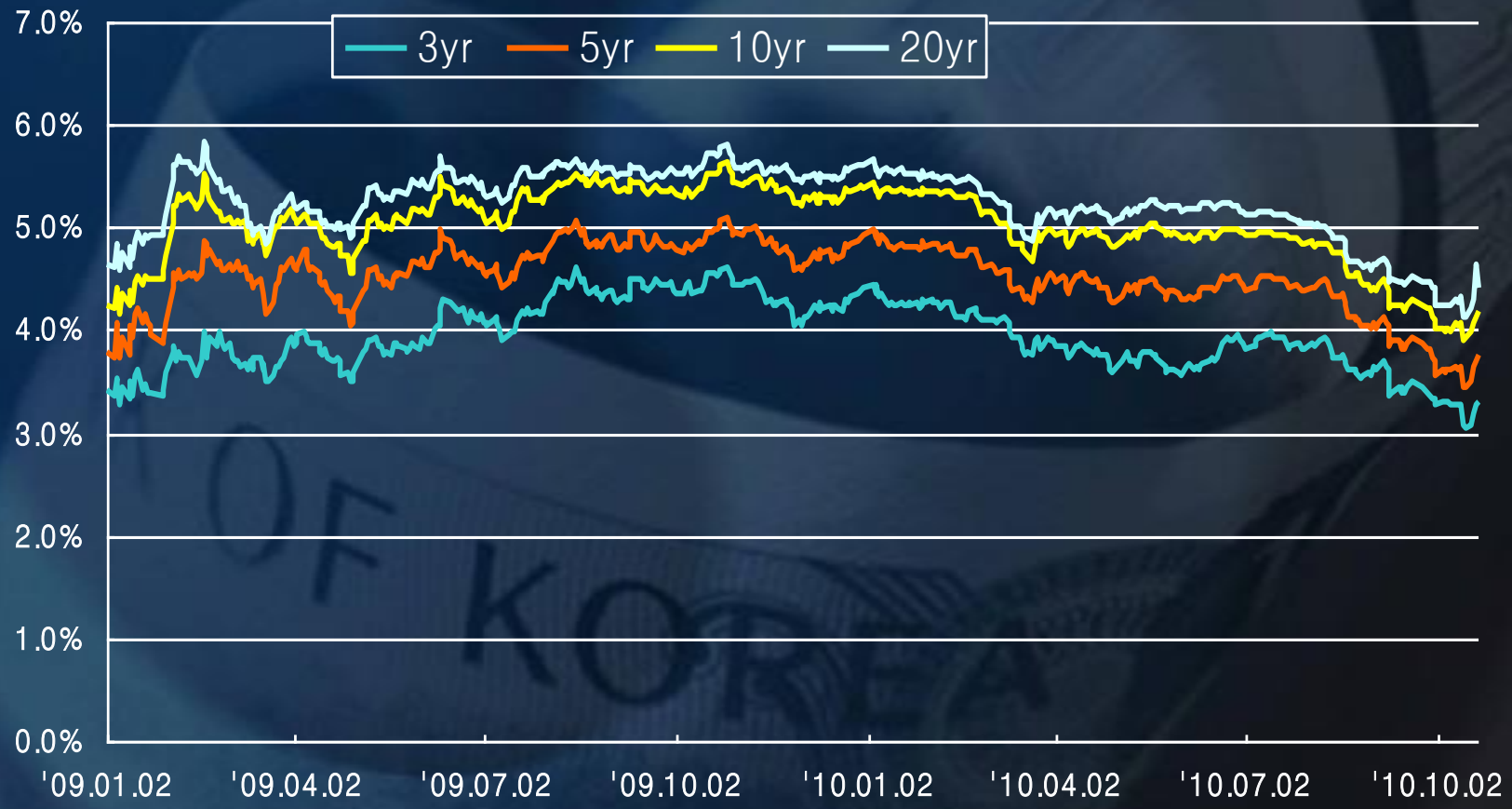
Interest rate continues to decrease in 2010



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Increase of Foreign Holdings after 2009.1H

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Residual maturity of foreign investor's holding

1. Omnibus Account at ICSD

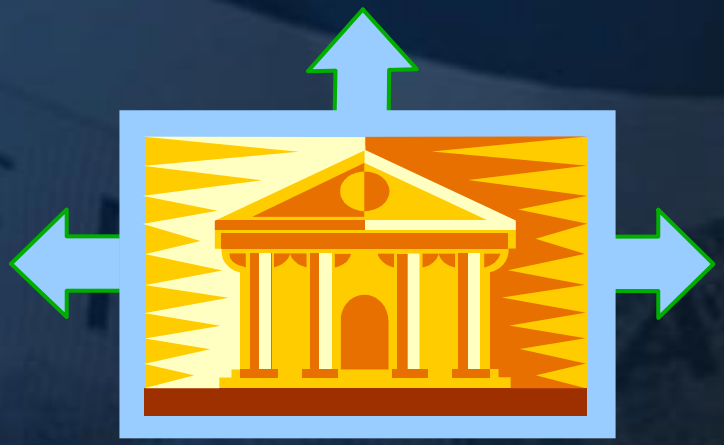
ICSDs agreed to establish Omnibus Account for KTB investments

- Euroclear: Omnibus Account opened and activated in September, 2009
- Clearstream: Omnibus Account opened and activated in February, 2010

What does this mean for foreign Investors….

1. Exemption on Investment Registration Certificate (IRC)

2. Exemption on local-custodian account



3. Over-the-Counter trade* among Foreign Investors allowed

* Foreign investors who invest through omnibus accounts at ICSD can trade in the international OTC market among themselves

2. KRW Borrowing for Security Investment

Amount of KRW borrowing required to report to BOK is increased from KRW10bil to KRW30bil (Dec.2007)

- As previous "Banking Act" did not allow loans for "speculation" purpose, however, banks find it restrictive to lend out KRW to foreign investors for investment purpose

Banking Act "Article 38" (Prohibited Business) No financial institution shall engage in any of the following activities:

4. Loans of funds to speculate in commodities or securities

- New Banking Act eliminated the restriction on KRW borrowings for speculation purpose (revised in May 2010, implemented in Nov. 2010)

What does this mean for foreign Investors….

- Foreign investors can freely borrow KRW for KTB investments from Korean banks as long as their credits are good

3. Conversion of Foreign Currency into KRW

Foreign Investors can freely buy KRW at any time without purchasing underlying security

- **Before**

  Can buy KRW only after the final investment decision has been made

- **Today** (since Dec. 2007)

  Can buy KRW at any time

What does this mean for foreign Investors….

- Foreign investors can convert foreign currencies into KRW at any time before investment

→ Helps to manage FX risks better..

4. Exemption From Withholding Tax for Foreign Investors

Foreign Investors are exempted from withholding tax on interest income and capital gains

- Income Tax Act and Corporate Tax Act amended on April 30, 2009
- Exempted Investments: 1. Direct Investment 2. Investment through QFI
- Exempted Securities: Any outstanding and newly issued KTBs
- Apply to the investment paid or transferred after May 21, 2009

What does this mean for foreign Investors….

- Foreign investors can expect higher returns on KTB (On average 50 ~ 70bps per annum)
- 50 ~ 70 bps = Avg KTB rate (5.02%) * withholding tax rate (10~14%)

4. Exemption From Withholding Tax for Foreign Investors

Withholding Tax Exemption Application

- Direct Investment: Foreign Investors need to apply for exemption
- Investment through QFI: QFI needs to apply for exemption on behalf of individual investors

Examples of Qualified Foreign Intermediaries (QFI)

- Foreign Securities Depository Institutions or Settlement Institutions
- International Central Securities Depository
- Global Custodians