

FINANCIAL INVESTMENT SERVICES AND CAPITAL MARKETS ACT

Act No. 8635, Aug. 3, 2007
Amended by Act No. 8852, Feb. 29, 2008
Act No. 8863, Feb. 29, 2008
Act No. 9407, Feb. 3, 2009
Act No. 9625, Apr. 22, 2009
Act No. 9784, Jun. 9, 2009
Act No. 10063, Mar. 12, 2010

PART I GENERAL PROVISIONS

Article 1 (Purposes)

The purpose of this Act is to contribute to the development of the national economy by facilitating financial innovation and fair competition in the capital market, protecting investors, fostering the development of the financial investment business, and heightening the fairness, reliability, and efficiency of the capital market.

Article 2 (Applicability to Activities Conducted Abroad)

Activities conducted in a foreign country shall be governed by this Act, if the effects of such activities extend to the territory of the Republic of Korea.

Article 3 (Financial Investment Instruments)

(1) The term "financial investment instrument" in this Act means a right acquired by an agreement to pay, at a specific time in the present or in the future, money or any other valuable thing (hereinafter referred to as "money or similar"), with an intention to earn a profit or avoid a loss, where there is a risk that the total amount of such money or similar, paid or payable, for the purpose of acquiring such right (excluding any sums specified by Presidential Decree, such as sales commissions) may exceed the total amount of money or similar already recovered or recoverable from the right (hereinafter referred to as "investment risk"): *Provided*, That the following instruments shall be excluded herefrom:

1. Negotiable certificates of deposit in Korean won; and
2. Beneficial interest in a trust with no power (excluding the power to dispose of the trust property under [Articles 42](#) and [43 of the Trust Act](#)) granted to the trustee to dispose of the trust property (hereinafter referred to as "management trust").

(2) The financial investment instruments under paragraph (1) shall be classified as follows:

1. Securities; and
2. Derivatives:
 - (a) Exchange-traded derivatives; and
 - (b) Over-the-counter derivatives.

Article 4 (Securities)

(1) The term "securities" in this Act means financial investment instruments issued by a citizen of Korea or a foreigner, for which investors do not owe any obligation to pay anything further on any ground, in addition to the money or similar that the investors paid at the time of acquiring such instruments (excluding obligations to pay where an investor assumes such an obligation by exercising a right to effectuate the purchase and sale of an underlying asset).

(2) The securities under paragraph (1) shall be classified as follows:

1. Debt securities;
2. Equity securities;
3. Beneficiary certificates;
4. Investment contract securities;
5. Derivatives-combined securities; and
6. Securities depository receipts.

(3) The term "debt securities" in this Act means state bonds, local government bonds, special bonds (referring to bonds issued by a corporation established by direct operation of an Act; hereinafter the same shall apply), corporate bonds, corporate commercial papers (referring to promissory notes issued by a company for raising the funds required for its business, which shall meet the requirements prescribed by Presidential Decree; hereinafter the same shall apply), and other similar instruments, which bear the indication of a right to claim the payment.

- (4) The term "equity securities" in this Act means stock certificates, instruments representing a preemptive right, investment securities issued by a corporation established by direct operation of an Act, equity shares in contribution to a limited partnership company, limited liability company, or undisclosed association under the [Commercial Act](#), equity shares in contribution to an association under the [Civil Act](#), and other similar instruments, which bear the indication of equity shares in contribution.
- (5) The term "beneficiary certificates" in this Act means the beneficiary certificates under [Article 110](#), the beneficiary certificates under [Article 189](#), and other similar instruments, which bear the indication of a beneficial interest in a trust.
- (6) The term "investment contract securities" in this Act means instruments bearing the indication of a contractual right under which a specific investor is entitled to the profits earned, or liable for losses sustained, depending upon the results of a joint venture in which the investor makes an investment jointly with another person and which is to be run mainly by the other person.
- (7) The term "derivatives-combined securities" in this Act means instruments bearing the indication of a right under which the amount payable or recoverable shall be determined according to a predetermined formula tied to fluctuations in the price of any underlying assets, an interest rate, an indicator, a unit, an index based upon any of the aforementioned, or any other similar factor.
- (8) The term "securities depository receipts" in this Act means instruments issued by a person with whom any of the securities enumerated in paragraph (2) 1 through 5 are deposited in a country other than the country where such underlying securities were issued, which bear the indication of the relevant right on the deposited underlying securities.
- (9) The rights that may or must be indicated on any of the securities under subparagraphs of paragraph (2) shall be deemed as securities, even where any certificate representing such rights is not issued in a physical form.
- (10) The term "underlying assets" in this Act means:
 1. Financial investment instruments;
 2. Currency (including any foreign currency);
 3. Ordinary commodities (referring to agricultural products, livestock products, fisheries products, forestry products, mining products, energies, the goods manufactured or processed with such products as raw materials, and other similar goods);
 4. Credit risk (referring to a change in credit owing to a change in credit rating, bankruptcy, debt readjustment, etc. of a party or a third party); or
 5. Other risk that is one of natural, environmental, or economic phenomena, which can be computed or assessed by price, interest, indicator, or unit in a reasonable and appropriate way.

Article 5 (Derivatives)

- (1) The term "derivatives" in this Act means a contractual right falling under any of the following subparagraphs:
 1. A contract in which it is agreed to deliver money or similar at a specific time in the future, which shall be computed on the basis of underlying assets, the price of the underlying assets, an interest rate, an indicator, a unit, or an index based on any of the aforesaid factors;
 2. A contract in which the parties agree to grant, by either party's unilateral expression of willingness, a right to effectuate a transaction of delivering and accepting money or similar, which shall be computed on the basis of underlying assets, the price of the underlying assets, an interest rate, an indicator, a unit, or an index based on any of the aforesaid factors; and
 3. A contract in which the parties agree to exchange money or similar during a certain period of time in the future at a predetermined price, which shall be computed on the basis of underlying assets, the price of the underlying assets, an interest rate, an indicator, a unit, or an index based on any of the aforesaid factors.
- (2) The term "exchange-traded derivatives" in this Act means the instruments traded in the domestic derivatives market or an overseas derivatives market (referring to a market in a foreign country, similar to the domestic derivatives market, or a market in which foreign derivatives, specified by Presidential Decree, are traded).
- (3) The term "over-the-counter derivatives" in this Act means the derivatives that are not exchange-traded derivatives.
- (4) The execution of a contract that falls within any of the subparagraphs of paragraph (1) which is not a sales contract, shall be deemed a sales contract for the purposes of this Act.

Article 6 (Financial Investment Business)

- (1) The term "financial investment business" in this Act means activities conducted continuously or repeatedly for the purpose of earning a profit, which shall fall under:
 1. Investment trading business;
 2. Investment brokerage business;
 3. Collective investment business;
 4. Investment advisory business;
 5. Discretionary investment business; or

6. Trust business.
- (2) The term "investment trading business" in this Act means a business making transactions in financial investment instruments, issuing and underwriting securities, inviting offers, offering, and accepting offers for securities on its own account no matter whose name in whosever named.
- (3) The term "investment brokerage business" means a business making transactions in financial investment instruments, inducing offers, offering, and accepting offers for such instruments, or inducing offers, offering, and accepting offers for the issuance and acceptance of securities on another person's account in whosever named.
- (4) The term "collective investment business" in this Act means a business making collective investments.
- (5) The term "collective investments" in paragraph (4) means the activities of acquiring, disposing of, and managing in any way such assets as are valuable for investment with money or similar pooled by inviting two or more persons for such investment, or with a surplus fund under [Article 81 of the National Finance Act](#), without being bound by management instructions given from time to time by investors or by any fund management entity, and distributing the yields therefrom to vest in investors or any fund management entity: *Provided*, That a case falling under any of the following subparagraphs shall be excluded:
1. Money or similar is pooled through private placement for management and distribution in accordance with the Acts specified by Presidential Decree, and the total number of investors specified by Presidential Decree does not exceed the number prescribed by Presidential Decree;
 2. Money or similar is pooled for management and distribution in accordance with an asset-backed securitization plan under [Article 3 of the Asset-backed Securitization Act](#); and
 3. The case falls within any case prescribed by Presidential Decree, taking into consideration the nature of the activities, the need to protect investors, etc.
- (6) The term "investment advisory business" in this Act means a business providing advice on the value of financial investment instruments or related judgments (referring to judgments over class, item, acquisition, disposition, methods of acquisition or disposition, quantity, price, timing, etc.; hereinafter the same shall apply).
- (7) The term "discretionary investment business" in this Act means a business making acquisition, disposition, and management in any of financial investment instruments, earmarking them for investors, with authorization from investors for discretionary judgment, entirely or partially, over financial investment instruments.
- (8) The term "trust business" in this Act means a business engaging in trusts.

Article 7 (Exception of Financial Investment Business from Application)

- (1) A business shall not be deemed an investment trading business when it issues its own securities (excluding beneficiary certificates of an investment trust, derivatives-combined securities specified by Presidential Decree, and deposits and insurances in the nature of investment).
- (2) A business shall not be deemed an investment brokerage business when an investment solicitor under [Article 51](#) (9) acts as an agent for recommending an investment.
- (3) A business shall not be deemed an investment advisory business when it provides advice through a periodical, publication, correspondence, broadcast or any other medium that is issued or transmitted to an unspecified number of people, and which is available to an unspecified number of people for purchase or receipt from time to time.
- (4) A business shall not be deemed a discretionary investment business when it is necessary for an investment broker to be authorized to make discretionary judgments, entirely or partially, over investments in financial investment instruments in the course of dealing with orders received from investors for trading, as prescribed by Presidential Decree.
- (5) A business shall not be deemed a trust business, in cases where it is a trust business for secured debentures under the Secured Debentures [Trust Act](#), or a copyright trust management business under the [Copyright Act](#). <Amended by Act No. 9625, Apr. 22, 2009>
- (6) In addition to the businesses specified in paragraphs (1) through (5), a business shall not be deemed a financial investment business under each subparagraph of [Article 6](#) (1) when it falls under any of the following subparagraphs, as prescribed by Presidential Decree:
1. When the Korea Exchange established pursuant to [Article 373](#) (hereinafter referred to as the "Korea Exchange") establishes and operates the securities exchange and derivatives market;
 2. When it sells or buys financial investment instruments directly to or from an investment trader or through an investment broker; and
 3. When it is necessary to exclude the business from treatment as a financial investment business for any other reason, taking into consideration the nature of its activities, the need to protect investors, etc., as prescribed by Presidential Decree.

Article 8 (Financial Investment Business Entity)

- (1) The term "financial investment business entity" in this Act means an entity that runs a financial investment business under subparagraphs of [Article 6](#) (1) with authorization from, or a registration with, the Financial Services Commission. <Amended by Act No. 8863, Feb. 29, 2008>

- (2) The term "investment trader" in this Act means an entity that runs an investment trading business.
- (3) The term "investment broker" in this Act means an entity that runs an investment brokerage business.
- (4) The term "collective investment business entity" in this Act means a financial investment business entity that runs a collective investment business.
- (5) The term "investment advisory business entity" in this Act means a financial investment business entity that runs an investment advisory business.
- (6) The term "discretionary investment business entity" in this Act means a financial investment business entity that runs a discretionary investment business.
- (7) The term "trust business entity" in this Act means a financial investment business entity that runs a trust business.

Article 9 (Other Definitions)

- (1) The term "major shareholder" in this Act means a shareholder who falls under any of the following subparagraphs: *<Amended by Act No. 9407, Feb. 3, 2009>*
 1. A principal who holds the greatest number of stocks (including securities depository receipts that are related to the stocks) out of the total number of outstanding voting stocks when the number of stocks held by him/ herself and the number of stocks held by his/her specially related person, as defined by Presidential Decree (hereinafter referred to as "specially related person"), no matter whose name the principal's account stand in (hereinafter referred to as the "largest shareholder"); and
 2. A person who falls under any of the following items (hereinafter referred to as "significant shareholder"):
 - (a) A person who holds 10/100 or more of the total number of outstanding voting stocks (including securities depository receipts that are related to the stocks) of a corporation, no matter whose name the account stand in; and
 - (b) A shareholder who exercises *de facto* control over major matters to a corporation through appointment and dismissal of executives or in any other way, as prescribed by Presidential Decree.
- (2) The term "executives" in this Act means directors and auditors.
- (3) The term "outside director" in this Act means a director who is not engaged in ordinary business affairs of a company and appointed pursuant to [Article 25](#).
- (4) The term "investment recommendation" in this Act means the act of making a recommendation to a specific investor to make a contract for trading financial investment instruments, for investment advising, for discretionary investment, or for a trust (excluding a management trust contract and a trust contract with no investment risk).
- (5) The term "professional investor" in this Act means an investor who has an ability to take risks accompanying the investment in light of the expertise that it possesses in connection with financial investment instruments, the scale of assets owned by it, etc., and who falls under any of the following subparagraphs: *Provided*, That a financial investment business entity shall give consent to a professional investor prescribed by Presidential Decree when the investor notifies the financial investment business entity in writing of its willingness to be treated as an ordinary investor, unless there is a justifiable ground otherwise, and such investor shall be treated as an ordinary investor when the financial investment business entity gives such consent: *<Amended by Act No. 9407, Feb. 3, 2009>*
 1. State;
 2. The Bank of Korea;
 3. Financial institutions specified by Presidential Decree;
 4. Stock-listed corporations: *Provided*, That trading over-the-counter derivatives with a financial investment business entity shall be limited to cases where an investor notifies the financial investment business entity in writing of its willingness to be treated as a professional investor; and
 5. Other persons specified by Presidential Decree.
- (6) The term "ordinary investor" in this Act means any investor other than professional investors.
- (7) The term "public offering" in this Act means the invitation of 50 or more investors, as computed by a formula prescribed by Presidential Decree, to make offers to acquire securities newly issued.
- (8) The term "private placement" in this Act means the invitation of people to acquire securities newly issued without putting them on public offering.
- (9) The term "public sale" in this Act means offering 50 or more investors, as computed by a formula prescribed by Presidential Decree, to make an offer to sell or invite offers to purchase securities already issued.
- (10) The term "issuer" in this Act means an entity that has already issued or intends to issue securities: *Provided*, That the term means an entity that has issued or intends to issue the securities that underlie securities depository receipts in the context of issuing securities depository receipts.
- (11) The term "underwriting" in this Act means any of the following acts conducted in public offering, private placement, or public sale of securities:

1. Acquiring all or part of such securities with an intent to have third parties acquire such securities;
and
 2. Making a contract which provides that if there are no third parties who are willing to acquire all or part of such securities, the acquiring party under the contract shall take over all remaining securities.
- (12) The term "underwriter" in this Act means an entity that conducts the acts set forth in any subparagraph of paragraph (11) in the context of public offering, private placement, or public sale of securities.
- (13) The term "securities exchange" in this Act means the markets established by the Korea Exchange for trading securities, which shall be divided into the following markets:
1. A market established for trading the securities defined under subparagraphs of [Article 4](#) (2) (hereinafter referred to as the "securities market"); and
 2. A market established for trading specific securities designated by Presidential Decree among the securities defined under subparagraphs of [Article 4](#) (2) (hereinafter referred to as "KOSDAQ market").
- (14) The term "derivatives market" in this Act means a market established by the Korea Exchange for trading exchange-traded derivatives.
- (15) The terms "listed corporation", "unlisted corporation", "stock-listed corporation", and "stock-unlisted corporation" in this Act refer to the following persons respectively: <Amended by Act No. 9407, Feb. 3, 2009>
1. Listed corporation: A corporation that issues securities listed on the securities exchange (hereinafter referred to as "listed securities");
 2. Unlisted corporation: Any corporation other than listed corporations;
 3. Stock-listed corporation: A corporation falling under any of the following items:
 - (a) A corporation that has issued stock certificates listed on the securities market; or
 - (b) In cases where securities depository receipts that are related to stock certificates are listed on the securities market, a corporation that has issued the stock certificates; and
 4. Stock-unlisted corporation: Any corporation other than stock-listed corporations.
- (16) The term "foreign corporation or similar" in this Act means:
1. A foreign government;
 2. A foreign local government;
 3. A foreign public institution;
 4. A foreign company established pursuant to Acts and subordinate statutes of a foreign country;
 5. Any international organizations specified by Presidential Decree; or
 6. Any other juristic person in a foreign country, as specified by Presidential Decree.
- (17) The term "institutions related to financial investment business" in this Act means: <Amended by Act No. 9407, Feb. 3, 2009>
1. Korea Financial Investment Association established pursuant to [Article 283](#) (hereinafter referred to as the "Association");
 2. Korea Securities Depository established pursuant to [Article 294](#) (hereinafter referred to as the "Securities Depository");
 3. A person with authorization under [Article 324](#) (1) (hereinafter referred to as "financial securities company");
 4. A merchant bank under Article 336;
 5. A person with authorization under [Article 355](#) (1) (hereinafter referred to as "financial brokerage company");
 6. A person with authorization under [Article 360](#) (1) (hereinafter referred to as "short-term financial company");
 7. A person with registration under [Article 365](#) (1) (hereinafter referred to as "transfer agency company"); and
 8. An organization related to financial investment, established pursuant to Article 370.
- (18) The term "collective investment scheme" in this Act means any of the following schemes established for making collective investment:
1. A collective investment scheme in the form of a trust, in which trustors, who are collective investment business entities, require a trust business entity to invest and manage the property entrusted to the trust business entity in compliance with instructions provided by the collective investment business entities (hereinafter referred to as "investment trust");
 2. A collective investment scheme in the form of a stock company under the [Commercial Act](#) (hereinafter referred to as "investment company");
 3. A collective investment scheme in the form of a limited liability company under the [Commercial Act](#) (hereinafter referred to as "investment limited liability company");
 4. A collective investment scheme in the form of a limited partnership company under the [Commercial Act](#) (hereinafter referred to as "investment limited partnership company");
 5. A collective investment scheme in the form of an association under the [Civil Act](#) (hereinafter referred to as "investment association");

6. A collective investment scheme in the form of an undisclosed association under the [Commercial Act](#) (hereinafter referred to as "undisclosed investment association"); and
7. A collective investment scheme in the form of a limited partnership company that invests and manages its fund in equity securities, etc. for participation in management, improvement of business structure, corporate governance, etc. by issuing equity securities only through private placement (hereinafter referred to as "private equity fund").
- (19) The term "privately placed fund" in this Act means a collective investment scheme that issues collective investment securities only through private placement, in which the total number of the investors specified by Presidential Decree shall not exceed the number prescribed by Presidential Decree.
- (20) The term "collective investment property" in this Act means the property of a collective investment scheme, which means the property of an investment trust, the property of an investment company, the property of an investment limited liability company, the property of an investment limited partnership company, the property of an investment association, or the property of an undisclosed investment association.
- (21) The term "collective investment securities" in this Act means instruments by which the equity shares in a collective investment scheme (referring to the beneficial interest in the case of an investment trust) are indicated.
- (22) The term "collective investment agreement" in this Act means an agreement that provides for the organization and management of a collective investment scheme and the rights and duties of investors therein, which means the trust contract of an investment trust, the articles of incorporation of an investment company, an investment limited liability company, or an investment limited partnership company, or the association agreement of an investment association or an undisclosed investment association.
- (23) The term "general meeting of collective investors" in this Act means a decision-making body composed of all investors in a collective investment scheme, which means the general meeting of beneficiaries, the general meeting of shareholders, the general meeting of partners, or the general meeting of undisclosed members.
- (24) The term "trust" in this Act means a trust as defined in [Article 1 \(2\) of the Trust Act](#).

Article 10 (Relation to other Acts)

- (1) Except as specifically provided for in other Acts, all financial investment businesses shall be governed by the provisions of this Act.
- (2) [Article 246 of the Criminal Act](#) shall not apply to a financial investment business entity in the carrying out of its financial investment business activities.
- (3) [Article 6-2 of the Issuance and Distribution of Electronic Bills Act](#) shall not apply to cases where corporate commercial papers are issued. <Newly Inserted by Act No. 10063, Mar. 12, 2010>

PART II FINANCIAL INVESTMENT BUSINESS

CHAPTER I AUTHORIZATION AND REGISTRATION OF FINANCIAL INVESTMENT BUSINESS

SECTION 1 Requirements and Procedure for Authorization

Article 11 (Prohibition against Business Activities without Authorization)

No one may engage in financial investment business (excluding investment advisory business and discretionary investment business; hereafter the same shall apply in this Section) without authorization (including authorization for changes) for financial investment business under this Act.

Article 12 (Authorization for Financial Investment Business)

- (1) An entity that wishes to engage in financial investment business shall select all or part of its business units defined by Presidential Decree (hereinafter referred to as "authorized business units"), by specifying the constituents enumerated in the following subparagraphs, and shall obtain authorization for a single financial investment business from the Financial Services Commission: <Amended by Act No. 8863, Feb. 29, 2008>
 1. The type of financial investment business (referring to investment trading business, investment brokerage business, collective investment business, and trust business, and also including underwriting business in the category of investment trading businesses);
 2. The range (referring to securities, exchange-traded derivatives, and over-the-counter derivatives, including state bonds, corporate bonds, and other instruments specified by Presidential Decree in

- the category of securities, and also including derivatives based on underlying assets of stocks and other instruments specified by Presidential Decree in the category of derivatives) of financial investment instruments (referring to the type of collective investment scheme under [Article 229](#) in cases of collective investment business, or referring to the trust property under subparagraphs of [Article 103](#) (1) in cases of trust business);
3. The class of investors (referring to the classification of professional investors and ordinary investors; hereinafter the same shall apply).
 - (2) An entity that wishes to obtain authorization for financial investment business under paragraph (1) shall satisfy all of the following requirements: *<Amended by Act No. 10063, Mar. 12, 2010>*
 1. An entity shall fall under any of the following items: *Provided*, That an investment brokerage business entity willing to run an electronic securities brokerage business under [Article 78](#) shall be a stock company under the [Commercial Act](#) and a member of the Korea Exchange:
 - (a) A stock company under the [Commercial Act](#) or one of the financial institutions specified by Presidential Decree;
 - (b) A foreign financial investment business entity (referring to a person who runs business corresponding to financial investment business in a foreign country in accordance with the Acts and subordinate statutes of the foreign country), who has installed a branch office or any other business office necessary for carrying on financial investment business consistent with the business it currently runs in the foreign country;
 2. An entity shall have its own equity capital equivalent to or more than the amount set by Presidential Decree, which shall be at least 500 million won for each authorized business unit;
 3. An entity's business plan shall be feasible and sound;
 4. An entity shall be equipped with human resources, an electronic computer system, and other physical facilities adequate for protecting investors and running financial investment business in which it intends to engage;
 5. No executive may fall under any subparagraph of [Article 24](#);
 6. The major shareholders or a foreign financial investment business entity shall meet the requirements set forth under the following categories:
 - (a) In cases of subparagraph 1 (a), its largest shareholder (including shareholders who are specially related persons of the largest shareholder; and where the largest shareholder is a corporation, persons who exercise *de facto* control over the matters material to the management of the corporation, as specified further by Presidential Decree, shall be included herein) shall have adequate investing capabilities, good financial standing and social credibility;
 - (b) In cases of subparagraph 1 (b), the foreign financial investment business entity shall have adequate investing capabilities, good financial standing and social credibility;
 - 6-2. An entity shall have good financial standing and social credibility prescribed by Presidential Decree;
 7. An entity shall have a system for preventing conflicts of interest between the financial investment business entity and investors, as well as between a specific investor and other investors.
 - (3) Further details necessary for fulfilling requirements for authorization under paragraph (2) shall be prescribed by Presidential Decree.

Article 13 (Application for Authorization and Examination)

- (1) An entity that wishes to obtain authorization for a financial investment business under [Article 12](#) (1) shall file an application for authorization with the Financial Services Commission. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (2) The Financial Services Commission, within three months of receiving an application filed in accordance with paragraph (1) (or within one month where a preliminary authorization has been granted pursuant to [Article 14](#)), shall examine the application to determine whether authorization for the financial investment business shall be granted, and shall notify the applicant in writing of its decision and the grounds thereof, without delay. In such cases, the Commission may demand that the applicant make a supplementary correction, if there is any deficiency in an application for authorization. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (3) In calculating the examination time period under paragraph (2), the duration for making a supplementary correction of a deficiency in the application for authorization, or other duration specified by Ordinance of the Prime Minister shall not be included in the examination time period. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (4) The Financial Services Commission may, when granting authorization for a financial investment business pursuant to paragraph (2), attach conditions as may be necessary for securing soundness in management and protecting investors. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (5) An entity that has obtained authorization for a financial investment business with conditions attached therewith pursuant to paragraph (4) may file an application for revocation of, or revision to, such conditions with the Financial Services Commission, due to a change in circumstances or any other justifiable ground. In such cases, the Financial Services Commission shall make a

- decision on whether to revoke or revise the attached conditions within two months, and shall notify the applicant in writing of its decision without delay. <Amended by Act No. 8863, Feb. 29, 2008>
- (6) The Financial Services Commission shall, whenever it grants authorization for a financial investment business pursuant to paragraph (2), or revokes or revises the conditions attached to such authorization pursuant to paragraph (5), provide public notice of the following matters through the official gazette, its Internet homepage, or any other medium: <Amended by Act No. 8863, Feb. 29, 2008>
1. The contents of authorization for the financial investment business;
 2. The conditions attached to authorization for the financial investment business (limited to cases where such conditions are attached therewith); and
 3. The contents of revocation of, or revision to, the conditions attached to authorization for the financial investment business (limited to cases where such conditions have been revoked or revised).
- (7) The matters concerning the application for authorization under paragraphs (1) through (6), including mandatory descriptions in the application for authorization, its accompanying documents, and other necessary matters, including the method and procedure for an examination for authorization, shall be prescribed by Presidential Decree.

Article 14 (Preliminary Authorization)

- (1) An entity that wishes to obtain authorization for a financial investment business under [Article 12](#) (hereafter referred to as "final authorization" in this Article) may file an advance application for a preliminary authorization with the Financial Services Commission. <Amended by Act No. 8863, Feb. 29, 2008>
- (2) The Financial Services Commission, within two months of receiving an application for preliminary authorization, shall examine the application to determine whether the applicant meets the requirements set forth under subparagraphs of [Article 12](#) (2) and thereby decide whether to grant the preliminary authorization. The Commission shall notify the applicant in writing of its decision and the grounds thereof without delay. In such cases, the Commission may demand that the applicant make a supplementary correction of any deficiencies in the application for preliminary authorization. <Amended by Act No. 8863, Feb. 29, 2008>
- (3) In calculating the examination time period under paragraph (2), the duration for correcting a deficiency in the application for preliminary authorization, or other duration specified by Ordinance of the Prime Minister shall not be included in the examination time period. <Amended by Act No. 8863, Feb. 29, 2008>
- (4) The Financial Services Commission may, when granting a preliminary authorization pursuant to paragraph (2), attach conditions as may be necessary for securing soundness in management and protecting investors. <Amended by Act No. 8863, Feb. 29, 2008>
- (5) The Financial Services Commission shall, upon receiving an application for final authorization from an entity to whom a preliminary authorization has been granted, verify whether the applicant has fulfilled the conditions attached to the preliminary authorization under paragraph (4), and whether the applicant meets all requirements under subparagraphs of [Article 12](#) (2) in order to determine whether to grant a final authorization. <Amended by Act No. 8863, Feb. 29, 2008>
- (6) The matters concerning the application for preliminary authorization under paragraphs (1) through (5), including mandatory descriptions in the application and its accompanying documents, and other necessary matters, including the method and procedure for preliminary authorization, shall be prescribed by Presidential Decree.

Article 15 (Sustainment of Requirements for Authorization)

Each financial investment business entity shall continue to meet requirements for authorization under subparagraphs of [Article 12](#) (2) (excluding subparagraph 6-2 of the same paragraph of the same Article and, in cases of subparagraphs 2 and 6 of the same paragraph, referring to the mitigated requirements prescribed by Presidential Decree), while running financial investment business with proper authorization under [Article 12](#). <Amended by Act No. 10063, Mar. 12, 2010>

Article 16 (Addition of Business Activities and Revision to Authorization)

- (1) Each financial investment business entity shall, whenever it wishes to run financial investment business for any other business unit subject to authorization in addition to the business unit already authorized pursuant to [Article 12](#), obtain authorization on changes from the Financial Services Commission in accordance with [Articles 12](#) and [13](#). In such cases, [Article 14](#) shall apply. <Amended by Act No. 8863, Feb. 29, 2008; Act No. 9407, Feb. 3, 2009>
- (2) In granting authorization on changes pursuant to paragraph (1), the mitigated requirements prescribed by Presidential Decree shall apply to requirements for authorization under [Article 12](#) (2) 6, notwithstanding the provisions of the said subparagraph. <Newly Inserted by Act No. 10063, Mar. 12, 2010>

SECTION 2 Requirements and Procedure for Registration

Article 17 (Prohibition against Unregistered Business Activities)

No one may engage in investment advisory business or discretionary investment business, without registration (including registration of revision) for the financial investment business under this Act.

Article 18 (Registration of Investment Advisory Business or Discretionary Investment Business)

(1) An entity that wishes to engage in investment advisory business or discretionary investment business shall select all or part of the business units defined by Presidential Decree (hereinafter referred to as "registered business units"), specifying the items set forth in the following subparagraphs, and shall register each financial investment business with the Financial Services Commission: <Amended by Act No. 8863, Feb. 29, 2008>

1. The investment advisory business or the discretionary investment business;
2. The range of financial investment instruments (referring to securities, exchange-traded derivatives, and over-the-counter derivatives);
3. The class of investors.

(2) An entity that wishes to register financial investment business under paragraph (1) shall satisfy all the requirements set forth in the following subparagraphs: <Amended by Act No. 10063, Mar. 12, 2010>

1. An entity shall fall under any of the following items: *Provided*, That the same shall not apply to a foreign investment advisory business entity (referring to a person who currently runs a business, consistent with investment advisory business in a foreign country in accordance with the Acts and subordinate statutes of the foreign country; hereinafter the same shall apply) or a foreign discretionary investment business entity (referring to a person who currently runs a business, consistent with discretionary investment business in a foreign country in accordance with the Acts and subordinate statutes of such foreign country; hereinafter the same shall apply) who runs a business directly engaging domestic residents in a foreign country or investment advisory business or discretionary investment business, via any telecommunications medium:
 - (a) A stock company under the [Commercial Act](#);
 - (b) A foreign investment advisory business entity that has installed a branch office or any other business office necessary for carrying on investment advisory business;
 - (c) A foreign discretionary investment business entity that has installed a branch office or any other business office necessary for carrying on discretionary investment business;
2. An entity shall have equity capital equivalent to, or more than, the amount set by Presidential Decree, which shall be at least 100 million won for each registered business unit;
3. An entity shall retain professional advisors for investment recommendation (referring to the professional advisors for investment recommendation under [Article 286](#) (1) 3 (a); hereinafter the same shall apply) or fund managers (referring to the fund managers under [Article 286](#) (1) 3 (c); hereinafter the same shall apply) according to the classifications of the following items. In such cases, any entity specified in the proviso to subparagraph 1 above shall be deemed to have met all relevant requirements if it secures human resources corresponding to the requirements for professional advisors for investment recommendation or fund managers in its own country, the number of which shall be equivalent to, or more than, the number set forth in the following items:
 - (a) An investment advisory business entity shall retain professional advisors for investment recommendation, the number of which shall be equivalent to, or more than, the number prescribed by Presidential Decree;
 - (b) A discretionary investment business entity shall retain fund managers, the number of which shall be equivalent to, or more than, the number prescribed by Presidential Decree;
4. No executive may fall under any subparagraph of [Article 24](#);
5. The major shareholders, or the foreign investment advisory business entity or foreign discretionary investment business entity shall meet all the requirements under the following classifications:
 - (a) In cases of subparagraph 1 (a), major shareholders (referring to major shareholders as defined in [Article 12](#) (2) 6 (a)) shall have good social credibility prescribed by Presidential Decree;
 - (b) In cases of the proviso to subparagraph 1 above and items (b) and (c) of the same subparagraph, the foreign investment advisory business entity or foreign discretionary investment business entity shall have good social credibility prescribed by Presidential Decree;
- 5-2. An entity shall have good financial standing and social credibility prescribed by Presidential Decree;
6. An entity shall have a system for preventing conflicts of interest between the financial investment business entity and investors, as well as between a specific investor and other investors, in compliance with the requirements prescribed by Presidential Decree.

Article 19 (Application for Registration, etc.)

(1) An entity that wishes to register financial investment business under [Article 18](#) shall file a registration application with the Financial Services Commission. <Amended by Act No. 8863, Feb.

29, 2008>

- (2) The Financial Services Commission, within two months of receiving a registration application filed in accordance with paragraph (1), shall examine details of the application in order to determine whether to approve the registration of the financial investment business, and the Commission shall notify the applicant in writing of its decision and the grounds thereof without delay. In such cases, the Commission may demand that the applicant make a supplementary correction of any deficiencies in the registration application. <Amended by Act No. 8863, Feb. 29, 2008>
- (3) In calculating the period for examination under paragraph (2), the duration for correcting a deficiency in the registration application, or other duration specified by Ordinance of the Prime Minister shall not be included in the period for examination. <Amended by Act No. 8863, Feb. 29, 2008>
- (4) In making a decision whether to approve the registration of the financial investment business under paragraph (2), the Financial Services Commission shall not reject such registration, unless any of the following grounds exist: <Amended by Act No. 8863, Feb. 29, 2008>
 1. The applicant fails to meet the requirements for registration of financial investment business under [Article 18](#) (2);
 2. The registration application under paragraph (1) contains false information;
 3. The applicant has not complied with the demand for correction under the latter part of paragraph (2).
- (5) The Financial Services Commission shall, upon making a decision to approve the registration of the financial investment business under paragraph (2), make an entry of the necessary descriptions in the register of the investment advisory business entities or in the register of the discretionary investment business entities, and shall give public notice of the details of such registration through the official gazette, its Internet homepage, or any other medium. <Amended by Act No. 8863, Feb. 29, 2008>
- (6) The matters concerning the registration application under paragraphs (1) through (5), including mandatory descriptions in the registration application, its accompanying documents, and any other necessary matters, including the method and procedure for the examination of the application, shall be prescribed by Presidential Decree.

Article 20 (Maintenance of Requirements for Registration)

Each investment advisory business entity or discretionary investment business entity shall continue to meet the requirements under subparagraphs of [Article 18](#) (2) (excluding subparagraph 5-2 of the same paragraph of the same Article and, in cases of subparagraphs 2 and 5 of the same paragraph, referring to the mitigated requirements pursuant to Presidential Decree), while carrying on financial investment business after registration. <Amended by Act No. 10063, Mar. 12, 2010>

Article 21 (Addition of Business Activities and Revision to Registration)

- (1) Each financial investment business entity shall, whenever it wishes to add another business unit subject to registration to the business unit already registered pursuant to [Article 18](#) while carrying on the financial investment business, make a revised registration with the Financial Services Commission in accordance with [Articles 18](#) and 19. <Amended by Act No. 8863, Feb. 29, 2008>
- (2) In making a revised registration pursuant to paragraph (1), the mitigated requirements prescribed by Presidential Decree shall apply to requirements for registration under [Article 18](#) (2) 5, notwithstanding the provisions of the said subparagraph. <Newly Inserted by Act No. 10063, Mar. 12, 2010>

CHAPTER II GOVERNANCE OF FINANCIAL INVESTMENT BUSINESS ENTITY

Article 22 (Scope of Application)

This Chapter shall not apply to an entity that falls under any of the following subparagraphs and that concurrently runs financial investment business (hereinafter referred to as "concurrently-run financial investment business entity"):

1. A financial institution under [Article 2 of the Banking Act](#) and a credit business division treated as a financial institution under [Article 5](#) of the same Act (hereinafter referred to as "bank");
2. An insurance company under [Article 2 of the Insurance Business Act](#) (hereinafter referred to as "insurance company");
3. Other financial institutions or similar specified by Presidential Decree.

Article 23 (Approval on Change of Major Shareholders, etc.)

- (1) A person who intends to become a major shareholder (referring to a major shareholder as defined in [Article 12](#) (2) 6 (a), and the persons specified by Presidential Decree shall be excluded herefrom; hereafter the same shall apply in this Article) of a financial investment business by acquiring stocks issued by the financial investment business entity (excluding an investment advisory business entity

- or discretionary investment business entity) shall meet the requirements for major shareholders under [Article 12](#) (2) 6 (a) prescribed by Presidential Decree to ensure soundness in management, and shall obtain prior approval of the Financial Services Commission. <Amended by Act No. 8863, Feb. 29, 2008>
- (2) The Financial Services Commission may issue an order to dispose of stocks acquired without approval required under paragraph (1) within a fixed period of up to six months. <Amended by Act No. 8863, Feb. 29, 2008>
 - (3) No person who has acquired stocks without approval required under paragraph (1) may exercise his/her voting right for the portion of stocks acquired without such approval.
 - (4) Each investment advisory business entity and discretionary investment business entity shall, when any of its major shareholders is changed, submit a report of such change to the Financial Services Commission within two weeks. In such cases, it shall be deemed that a person who concurrently runs investment advisory business or discretionary investment business and financial investment business under any of [Article 6](#) (1) 1 through 3 and 6 has submitted the report when it obtains approval under paragraph (1). <Amended by Act No. 8863, Feb. 29, 2008>
 - (5) Matters pertaining to the detailed requirements of the approval and disposition order under paragraphs (1) and (2) shall be prescribed by Presidential Decree.

Article 24 (Qualification of Executives)

No person who falls under any of the following subparagraphs shall become an executive of a financial investment business entity (including a person falling under [Article 401-2 \(1\) 3 of the Commercial Act](#) who is prescribed by Presidential Decree; hereafter the same shall apply in this Article), and an executive shall lose his/her office if he/she falls hereunder after taking the office: <Amended by Act No. 10063, Mar. 12, 2010>

1. A minor, an incompetent, or a quasi-incompetent;
2. A person declared bankrupt, not yet reinstated;
3. A person for whom five years have not elapsed since the completion (or deemed completion) of, or exemption from, a sentence of imprisonment without prison labor or heavier punishment, pronounced against him/her, or payment of a fine for negligence or greater, imposed upon him/her pursuant to this Act, other finance-related Acts and subordinate statutes specified by Presidential Decree (hereafter referred to as "finance-related Acts and subordinate statutes" in this Article) or finance-related Acts and subordinate statutes of a foreign country (referring to Acts and subordinate statutes of a foreign country, similar to this Act or any finance-related Acts and subordinate statutes; hereafter the same shall apply in this Article);
4. A person against whom a sentence of suspension of imprisonment without labor, or greater punishment, was pronounced and who is still under a period of suspension;
5. A person who was once an executive or an employee of a corporation or company whose business authorization, authorization or registration was revoked pursuant to this Act, other finance-related Acts and subordinate statutes, or finance-related Acts and subordinate statutes of a foreign country (limited to a person who is directly or substantially liable for the occurrence of the cause or event that gave rise to the revocation as specified by Presidential Decree) and for whom five years have not elapsed since such revocation;
6. A person for whom five years have not elapsed since he/she was removed or dismissed pursuant to this Act, other finance-related Acts and subordinate statutes, or finance-related Acts and subordinate statutes of a foreign country;
7. A person against whom a notice was given that he/she should, as a retired executive or employee, have been subjected to a disposition of demand for removal or dismissal pursuant to this Act or other finance-related Acts and subordinate statutes if he/she was in service or in employment at the time of such notice, and for whom five years have not elapsed since such notice was delivered (or seven years since the date of his/her retirement or resignation, in cases where the period of five years after the date of such notice exceeds the period of seven years after such retirement or resignation);
8. A person prescribed by Presidential Decree as likely to undermine the protection of investors or sound trade practice.

Article 25 (Appointment of Outside Directors and Composition of Board of Directors)

- (1) Each financial investment business entity (excluding the financial investment business entities specified by Presidential Decree, considering the size of assets; hereafter the same shall apply in this Article) shall have three or more outside directors, and the number of outside directors shall account for at least one half of the total number of directors.
- (2) Each financial investment business entity shall organize a committee under [Article 393-2 of the Commercial Act](#) for recommendation of candidates for outside directors (hereinafter referred to as the "committee on the recommendation of candidates for outside directors"). In such cases, the committee shall have outside directors as its members, who shall account for one half or more of the total number of committee members.

- (3) The latter part of paragraph (2) shall not apply when a financial investment business entity that is to appoint outside directors as it comes to fall under the requirements under paragraph (1) for the first time appoints such outside directors.
- (4) A financial investment business entity shall, whenever it intends to appoint an outside director at a general meeting of shareholders, appoint such director from among the persons recommended by the committee on the recommendation of candidates for outside directors. In such cases, the committee on the recommendation of candidates for outside directors shall, when recommending candidates for outside directors, include candidates recommended by shareholders who satisfy the requirements for exercising the shareholder's proposal right set forth in [Article 29](#) (6).
- (5) A person who falls under any of the following subparagraphs shall not qualify as an outside director of a financial investment business entity under paragraph (1), and an outside director shall lose his/her office if he/she comes to fall under any of the following subparagraphs after being appointed as an outside director: *Provided*, That in applying subparagraph 2, if a person comes to fall under a specially related person of the largest shareholder as he/she becomes an outside director, he/she shall qualify as an outside director:
 1. The largest shareholder;
 2. A specially related person of the largest shareholder;
 3. A significant shareholder, his/her spouse, and his/her lineal ascendants and descendants;
 4. A person who is a standing executive or a full-time employee of the company or an affiliated company (referring to an affiliated company as defined in the [Monopoly Regulation and Fair Trade Act](#); hereinafter the same shall apply) or who was a standing executive or a full-time employee during the preceding two years;
 5. The spouse or lineal ascendants or descendants of an executive of the company;
 6. A person who is a standing executive or a full-time employee of a corporation, which has a significant business relationship with the company, as specified further by Presidential Decree, or which is a competitor of the company in business, or which has a cooperative relationship with the company, or a person who was a standing executive or a fulltime employee of such corporation during the preceding two years;
 7. A person who is a standing executive or a full-time employee of a company, of which any executive or employee of the company concurrently serves as a non-standing director; and
 8. A person who has a difficulty in performing the duties of an outside director faithfully due to any other reason or who possesses a potential to influence the management of the company, as specified further by Presidential Decree.
- (6) Where the number of outstanding directors does not comply with the requisites for the formation of the board of directors under paragraph (1), owing to retirement or death of an outside director or any other unexpected cause or event, the financial investment business entity shall fill such vacancy at the first general meeting of shareholders held after such cause or event occurs for the purpose of coming into compliance with the requisites of paragraph (1).

Article 26 (Formation of Audit Committee)

- (1) Each financial investment business entity (excluding those specified by Presidential Decree, considering the size of assets, etc.; hereafter the same shall apply in this Article) shall possess an audit committee under [Article 415-2 of the Commercial Act](#) (hereinafter referred to as the "audit committee").
- (2) The audit committee shall comply with the following requisites:
 1. Two-thirds or more of all committee members shall be outside directors;
 2. At least one of the committee members shall be an expert in accounting or finance as prescribed by Presidential Decree; and
 3. The representative of the audit committee shall be an outside director.
- (3) A person who falls under any of the following subparagraphs may not become a non-outside-director member of the audit committee, and a non-outside-director member of the audit committee shall lose his/her office if he/she comes to fall under any of the following subparagraphs after being appointed as a member of the audit committee: *Provided*, That a person who currently serves or served as a member of the audit committee and is not a standing auditor or an outside director of the company may become a non-outside-director member of the audit committee, notwithstanding subparagraph 2:
 1. A significant shareholder of the company;
 2. A person who is a standing executive or a full-time employee of the company or a person who was a standing executive or a full-time employee during the preceding two years; and
 3. A person who possesses a potential to influence the management of the company or who has a difficulty in faithfully performing his/her duties as a non-outside-director member of the audit committee due to any other reason, as specified further by Presidential Decree.
- (4) Where the number of outside directors does not comply with the requisites for the formation of an audit committee under paragraph (2), owing to retirement or death of an outside director or any other unexpected cause or event, the financial investment business entity shall fill such vacancy at

the first general meeting of shareholders held after such cause or event occurs in order to come into compliance with the requisites of paragraph (2).

- (5) The proviso to [Article 415-2 \(2\) of the Commercial Act](#) shall not apply to the formation of the audit committee under paragraph (1).
- (6) [Article 409 \(2\) and \(3\) of the Commercial Act](#) shall apply *mutatis mutandis* to the appointment of outside directors who become members of the audit committee.

Article 27 (Standing Auditors)

- (1) Each financial investment business entity (excluding those specified by Presidential Decree, considering the size of assets, etc.) shall have one or more standing auditors: *Provided*, That it shall not have a standing auditor if there is an audit committee formed in accordance with this Act (including cases where a financial investment business entity has established an audit committee in compliance with the requisites of [Article 26](#) (2) and (3), although it is not obligated to have an audit committee). <Amended by Act No. 9407, Feb. 3, 2009>
- (2) [Article 26](#) (3) shall apply *mutatis mutandis* to the qualifications for standing auditors under paragraph (1).

Article 28 (Internal Control Guidelines and Compliance Officer)

- (1) Each financial investment business entity shall establish appropriate guidelines and procedures that shall be complied with when its executives or employees perform their duties (hereinafter referred to as "internal control guidelines") so as to abide by the Acts and subordinate statutes, manage its assets in a sound manner, prevent conflicts of interest, and protect investors in every aspect.
- (2) A financial investment business entity (excluding an investment advisory business entity or a discretionary investment business entity as specified by Presidential Decree, considering the size of assets, etc.; hereafter the same shall apply in this Article) shall have one or more persons, who shall be responsible for monitoring compliance with the internal control guidelines, investigating violations of the internal control guidelines, and reporting to the audit committee or the auditors (hereinafter referred to as "compliance officers").
- (3) Each financial investment business entity shall, whenever intending to appoint or dismiss a compliance officer, refer the case to the board of directors for resolution.
- (4) Each compliance officer shall meet all of the following requirements, and a compliance officer shall lose his/her position if he/she fails to meet the requirements under subparagraph 2 or 3 after being appointed as compliance officer: <Amended by Act Nos. 8852 & 8863, Feb. 29, 2008>
 1. Each compliance officer shall have any of the following professional experience: *Provided*, That a person shall not be qualified for the position of compliance officer, if five years have not passed since the person falling under any of items (a) through (d) retired or resigned from an institution specified in item (d):
 - (a) A person who has a total of at least ten years professional experience working for the Bank of Korea or the institutions subject to audit under [Article 38 of the Act on the Establishment, etc. of Financial Services Commission](#) (including foreign financial institutions corresponding to such institutions);
 - (b) A holder of a master's or higher degree in a finance-related area, who has a total of at least five years professional experience working for research institutes, universities, or colleges in the position of researcher, full-time lecturer, or higher;
 - (c) A holder of a qualification for attorney-at-law or certified public accountant, who has a total of at least five years professional experience engaging in a business related to the qualification; and
 - (d) A person who has a total of at least five years professional experience working for the Ministry of Strategy and Finance, the Financial Services Commission, the Securities and Futures Commission, the Financial Supervisory Service (referring to the Financial Supervisory Service under the [Act on the Establishment, etc. of Financial Services Commission](#); hereinafter the same shall apply), the Korea Exchange, the Association, or institutions specialized in finance-related legislation;
 2. No compliance officer may fall under any of subparagraphs of [Article 24](#); and
 3. No compliance officer may have any record of having been subjected to a disposition equivalent to, or greater than, a warning of reprimand under [Article 422](#) (1) 3 hereof or a demand for censure under paragraph (2) 4 of the same Article from the Financial Services Commission, the Governor of the Financial Supervisory Service (hereinafter referred to as the "Governor of the Financial Supervisory Service"), or any other institution specified by Presidential Decree due to a violation of this Act or any finance-related Acts and subordinate statutes specified by Presidential Decree during the preceding five years.
- (5) A compliance officer shall perform his/her duties with due fiduciary care, and shall not take charge of a job engaging in the following work:
 1. Management of the proprietary assets of the financial investment business entity;
 2. Matters related to the financial investment business that are run by the financial investment business entity and any work incidental thereto; and

3. Work run by the financial investment business entity pursuant to [Article 40](#).
- (6) A financial investment business entity shall ensure that the compliance officer can perform his/her duties independently.
- (7) A financial investment business entity shall, whenever it appoints or dismisses its compliance officer, notify the Financial Services Commission thereof. <Amended by Act No. 8863, Feb. 29, 2008>
- (8) Executives or employees of each financial investment business entity shall, whenever the compliance officer demands the submission of data or information in the course of performing his/her duties, comply with such demand in good faith.
- (9) No financial investment business entity shall unfairly prejudice a person who has served as compliance officer in relation to personnel management decisions on any ground related to the performance of his/her duties.
- (10) Other necessary matters concerning the guidelines for internal control and the compliance officer shall be prescribed by Presidential Decree.

Article 28-2 (Person in Charge of Derivatives Business)

- (1) A financial investment business entity as prescribed by Presidential Decree taking into consideration the size of asset, types of financial investment business, etc. (notwithstanding [Article 22](#), including concurrently run financial investment business entities) shall appoint not less than one person in charge of derivatives business prescribed by Presidential Decree as a standing officer (including persons falling under each of the subparagraphs of [Article 401-2 \(1\) of the Commercial Act](#)), and, in cases of the appointment and change of a person in charge of derivatives business, shall report the fact to the Financial Services Commission.
- (2) A person in charge of derivatives business under paragraph (1) shall perform duties falling under each of the following subparagraphs:
 1. Management and supervision of the establishment and implementation of procedures and standards necessary for the protection of investors in derivatives;
 2. Approval of transactions of over-the-counter derivatives; and
 3. Others prescribed by Presidential Decree.

[This Article Newly Inserted by Act No. 9407, Feb. 3, 2009]

Article 29 (Minority Shareholder's Rights)

- (1) Any person who has owned (including cases where the person has acquired proxies for exercising a shareholder's right or where two or more shareholders jointly exercise a shareholder's right; hereafter the same shall apply in this [Article 5/100,000](#) or more of the total outstanding stocks of a financial investment business entity (excluding financial investment business entities specified by Presidential Decree, considering the size of their assets, etc.; hereafter the same shall apply in this Article) continuously for the preceding six months, may exercise the shareholder's right provided for in [Article 403 of the Commercial Act](#) (including cases to which the same Article shall apply *mutatis mutandis* pursuant to [Article 324](#), [415](#), [424-2](#), [467-2](#), or [542](#) of the same Act).
- (2) Any person who has owned 250/1,000,000 (or 125/1,000,000 in the case of a financial investment business entity specified by Presidential Decree) or more of the total outstanding stocks of a financial investment business entity continuously for the preceding six months, may exercise the shareholder's right provided for in [Article 402 of the Commercial Act](#) (including cases to which the same Article shall apply *mutatis mutandis* pursuant to [Article 542](#) of the same Act).
- (3) Any person who has owned 50/100,000 (or 25/100,000 in the case of a financial investment business entity specified by Presidential Decree) or more of the total outstanding stocks of a financial investment business entity continuously for the preceding six months, may exercise the shareholder's right provided for in [Article 466 of the Commercial Act](#).
- (4) Any person who has owned 250/100,000 (or 125/100,000 in the case of a financial investment business entity specified by Presidential Decree) or more of the total outstanding stocks of a financial investment business entity continuously for the preceding six months, may exercise the shareholder rights provided for in [Articles 385](#) (including cases to which the same Article shall apply *mutatis mutandis* pursuant to [Article 415 of the same Act](#)) and [539 of the Commercial Act](#).
- (5) Any person who has owned 150/10,000 (or 75/10,000 in the case of a financial investment business entity specified by Presidential Decree) or more of the total outstanding stocks of a financial investment business entity continuously for the preceding six months, may exercise the shareholder rights provided for in [Articles 366](#) (including cases to which the same Article shall apply *mutatis mutandis* pursuant to [Article 542](#) of the same Act; hereafter the same shall apply in this paragraph) and [467 of the Commercial Act](#). In such cases, the exercise of the shareholder's right under [Article 366](#) of the same Act shall be based on voting stocks.
- (6) Any person who has owned 50/10,000 (or 25/10,000 in the case of a financial investment business entity specified by Presidential Decree) or more of the total outstanding voting stocks of a financial investment business entity continuously for the preceding six months, may exercise the shareholder rights provided for in [Article 363-2 of the Commercial Act](#).

- (7) The provisions of paragraph (1) through (6) shall not affect the exercise of a minority shareholder's right under each relevant provision of the [Commercial Act](#) stated in each of the said paragraphs.
- (8) Any shareholder under paragraph (1) may, if he/she wins a lawsuit filed by him/herself in accordance with [Article 403 of the Commercial Act](#) (including cases to which the same Article shall apply *mutatis mutandis* pursuant to [Article 324](#), [415](#), [424-2](#), [467-2](#), or [542](#) of the same Act), claim litigation expenses from the financial investment business entity, and all other expenses incurred by him/her in connection with the lawsuit.

CHAPTER III MAINTENANCE OF SOUND BUSINESS MANAGEMENT

SECTION 1 Supervision over Soundness in Business Management

Article 30 (Maintenance of Financial Soundness)

- (1) A financial investment business entity (excluding business entities that run a financial investment business concurrently and other financial investment business entities specified by Presidential Decree; hereafter the same shall apply in this Article) shall maintain the enumerated amounts, calculated by subtracting the sum under subparagraph 2 from the sum under subparagraph 1 (hereinafter referred to as "net operating capital"), to the level of the amount equivalent to or more than the aggregate of the risks inherent to the assets and liabilities of the financial investment business entity and accompanying its business, as converted into a monetary value (hereinafter referred to as "gross risks"): *<Amended by Act No. 8863, Feb. 29, 2008>*
 1. Capital, reserves, and other amount prescribed by Ordinance of the Prime Minister; and
 2. Fixed assets and assets difficult to make liquid in the short term, as specified by Ordinance of the Prime Minister.
- (2) Further specific guidelines and formula for calculation of the net operating capital and gross risks under paragraph (1) shall be determined by the Financial Services Commission, and public notice of such shall be provided. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (3) A financial investment business entity shall report in writing to the Financial Services Commission the amount calculated by subtracting gross risks from net operating capital as of the end of every quarter of the year within the period of time specified by Presidential Decree, not exceeding 45 days from the end of the quarter, and keep it in its head office, branch offices, and other sales offices for three months from the time limit for reporting, and disclose it to the public through its Internet homepage, etc. *<Amended by Act No. 8863, Feb. 29, 2008>*

Article 31 (Guidelines for Soundness in Business Management)

- (1) A financial investment business entity (excluding business entities that run a financial investment business concurrently; hereafter the same shall apply in this Section) shall comply with guidelines for soundness in business management determined by the Financial Services Commission, and provided by public notice, in relation to the following matters to maintain soundness in business management, and shall establish and implement a system appropriate for such compliance: *<Amended by Act No. 8863, Feb. 29, 2008>*
 1. The ratio of net worth to total capital, and other matters concerning the adequacy of capital;
 2. Matters concerning the soundness of assets;
 3. Matters concerning liquidity; and
 4. Other matters prescribed by Presidential Decree as may be necessary for securing soundness in business management.
- (2) In establishing guidelines for soundness in business management pursuant to paragraph (1), the Financial Services Commission may prescribe different guidelines applicable to each financial investment business, considering the type, etc. of financial investment business run by each business entity. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (3) The Financial Services Commission may conduct evaluation of the actual status of business management and risks in order to secure the soundness in business management of each financial investment business entity: *Provided*, That the evaluation shall be conducted for financial investment business entities prescribed by Presidential Decree taking into consideration the size of asset, etc. *<Amended by Act No. 8863, Feb. 29, 2008; Act No. 9407, Feb 3, 2009>*
- (4) If any financial investment business entity fails to meet guidelines under paragraphs (1) and (2) and violates [Article 30](#) (1) or (2), the Financial Services Commission may order such entity to take measures necessary for securing the soundness in business management, such as increasing the capital and placing restriction on distribution of dividends. *<Amended by Act No. 8863, Feb. 29, 2008>*

Article 32 (Accounting)

- (1) Each financial investment business entity shall comply with the following in accounting: <Amended by Act No. 8863, Feb. 29, 2008; Act No. 9407, Feb. 3, 2009>
 1. The fiscal year shall be the term specified by Ordinance of the Prime Minister for each type of financial investment business;
 2. The proprietary property of each financial investment business entity, the trust property, and other property of investors specified by Ordinance of the Prime Minister shall be clearly separated in accounting; and
 3. A financial investment business entity shall follow the general accounting principles of financial investment and standards for accounting under [Article 13 of the Act on External Audit of Stock Companies](#) determined by the Financial Services Commission, and provided by public notice, after going through a resolution of the Securities and Futures Commission.
- (2) Matters not provided for in paragraph (1) in relation to the accounting of the proprietary property of a financial investment business entity, types of account titles and order of arrangement, and other necessary matters shall be determined by the Financial Services Commission, and provided by public notice. <Amended by Act No. 8863, Feb. 29, 2008>

Article 33 (Business Report and Public Disclosure, etc.)

- (1) A financial investment business entity shall prepare business reports for three, six, nine, and twelve months respectively from the commencement date of each business year, and shall submit them to the Financial Services Commission within the period of time prescribed by Presidential Decree, not exceeding 45 days after the lapse of each relevant term as specified above. <Amended by Act No. 8863, Feb. 29, 2008>
- (2) A financial investment business entity shall keep a summary of the business reports submitted under paragraph (1) containing the material facts of each business report for public disclosure, in the head office, branch offices, and sales offices for one year from the date on which the report is submitted to the Financial Services Commission, and shall also disclose it to the public through its Internet homepage, etc. <Amended by Act No. 8863, Feb. 29, 2008>
- (3) In the event that anything that is likely to produce a significant impact on the business management status of a financial investment business entity, such as occurrence of any massive financial scandal or non-performing claims, as prescribed by Presidential Decree for each type of financial investment business, the financial investment business entity shall report it to the Financial Services Commission, and shall disclose it to the public through its Internet homepage, etc. <Amended by Act No. 8863, Feb. 29, 2008; Act No. 9407, Feb. 3, 2009>
- (4) A financial investment business entity shall submit reports indicating monthly business affairs in addition to business reports under paragraph (1) to the financial Services Commission by the end of the next month. <Newly Inserted by Act No. 9407, Feb. 3, 2009>
- (5) Matters concerning the business reports submitted under paragraph (1), the descriptions contained in the document for public disclosure under paragraph (2), and the public disclosure of the business management status under paragraph (3), the reports submitted under paragraph (4) and other necessary matters shall be prescribed by Presidential Decree. <Amended by Act No. 9407, Feb. 3, 2009>

SECTION 2 Restriction on Trading with Major Shareholders

Article 34 (Restriction on Trading, etc. with Major Shareholders)

- (1) Any financial investment business entity (excluding concurrently-run financial investment business entities; hereafter the same shall apply in this Section) shall not commit any of the following acts: *Provided*, That the same shall not apply to cases where it is necessary for exercising rights, such as security right, where manipulation for stabilization under [Article 176](#) (3) 1 or market creation under subparagraph 2 of the same paragraph is conducted, or where it is otherwise required for carrying on the financial investment business efficiently, as prescribed by Presidential Decree, to the extent that does not undermine the soundness of the financial investment business entity. In such cases, the Financial Services Commission may determine the holding period for each of the following subparagraphs and provide it by public notice: <Amended by Act No. 9407, Feb. 3, 2009>
 1. An act of owning securities issued by a major shareholder of the financial investment business entity;
 2. An act of owning stocks, bonds, or promissory notes (limited to those issued to raise funds required by an enterprise for business) issued by any specially related person (excluding major shareholders of the financial investment business entity) of the financial investment business entity, as specified further by Presidential Decree: *Provided*, That the same shall not apply in cases where the above issuances are owned within the limit of the ratio prescribed by Presidential Decree; and
 3. Any other act that is likely to undermine the sound management of the assets of the financial

- investment business entity, as prescribed further by Presidential Decree.
- (2) No financial investment business entity shall grant credit (referring to lending an asset possessing economic value, such as money and securities, guaranteeing performance of an obligation, purchasing securities with a view to providing financial support, or any other direct or indirect transaction accompanying a credit risk, as specified further by Presidential Decree; hereafter the same shall apply in this Section) to its major shareholders (including their specially related persons; hereafter the same shall apply in this Article), and no major shareholder shall receive a credit grant from his/her financial investment business entity: *Provided*, That such credit grant may be allowed where there is no possibility of undermining the soundness of the financial investment business entity, as prescribed further by Presidential Decree.
 - (3) Each financial investment business entity shall, when it intends to conduct any act under the provisos to paragraph (1) 2 or (2) (excluding any act specified by Presidential Decree), refer the case, in advance, to the board of directors for resolution. In such cases, the resolution of the board of directors shall be adopted by a unanimous vote of all incumbent directors.
 - (4) Any financial investment business entity that conducted an act falling under the provisos to paragraph (1) 2 or (2) (excluding any act specified by Presidential Decree) shall report it to the Financial Services Commission without delay, and shall disclose it to the public through its Internet homepage, etc. *<Amended by Act No. 8863, Feb. 29, 2008>*
 - (5) Each financial investment business entity shall prepare a comprehensive report for each quarter on the matters specified by Presidential Decree among the matters subject to reporting under paragraph (4), submit it to the Financial Services Commission, and disclose it to the public through its Internet homepage, etc. *<Amended by Act No. 8863, Feb. 29, 2008>*
 - (6) The Financial Services Commission may, if it suspects that a financial investment business entity or its major shareholder violated any provisions of paragraphs (1) through (5), order the financial investment business entity or its major shareholders to submit materials as may be necessary. *<Amended by Act No. 8863, Feb. 29, 2008>*
 - (7) If it is anticipated that the soundness in business management of any financial investment business entity will be significantly undermined by its worsened financial structure because the liabilities of a major shareholder (limited to a company) of the financial investment business entity exceed its assets, or owing to any other cause, as specified further by Presidential Decree, the Financial Services Commission may impose a restriction on the financial investment business entity in connection with any new acquisition of securities issued by the major shareholder and any credit grant under the proviso to paragraph (2). *<Amended by Act No. 8863, Feb. 29, 2008>*

Article 35 (Prohibition on Exercise of Undue Influence of Major Shareholders)

No major shareholder (including his/her specially related persons; hereafter the same shall apply in this Article and [Article 36](#)) of a financial investment business entity shall commit an act under any of the following subparagraphs with an intention to pursue his/her own interest in conflict with the interest of the financial investment business entity:

1. Demanding that the financial investment business entity furnish him/her with any data or information not disclosed to outsiders for the purposes of exercising an undue influence: *Provided*, That the cases that fall within the exercise of a right under [Article 29](#) (3) hereof or [Article 466 of the Commercial Act](#) shall be excluded herefrom;
2. Exercising an undue influence over personnel or the business management of the financial investment business entity under an arrangement made with other shareholders based on a condition to provide any benefit, such as economic interest; and
3. Any other act similar to those under subparagraphs 1 and 2, as specified further by Presidential Decree.

Article 36 (Order of Financial Services Commission to Submit Materials)

The Financial Services Commission may, if it suspects that a major shareholder of any financial investment business entity has violated [Article 35](#), order the financial investment business entity or its major shareholders to submit materials as may be necessary. *<Amended by Act No. 8863, Feb. 29, 2008>*

CHAPTER IV BUSINESS CONDUCT RULES

SECTION 1 Common Rules of Business Conduct

Sub-Section 1 Duty of Good Faith, etc.

Article 37 (Duty of Good Faith, etc.)

- (1) A financial investment business entity shall engage in the financial investment business in a fair manner in compliance with the duty of good faith.
- (2) No financial investment business entity shall, while carrying on the financial investment business, pursue its own self-interest, or help a third party pursue his/her self-interest, by undermining the interests of its investors without justifiable reason.

Article 38 (Trade Names)

- (1) No person, other than a financial investment business entity, may use the word "financial investment" or any word in a foreign language with the same meaning, as specified by Presidential Decree, in his/her trade name. <Newly Inserted by Act No. 9407, Feb. 3, 2009>
- (2) No person, other than a person who engages in investment trading business or investment brokerage business for securities, may use the word "securities" or any word in a foreign language with the same meaning, as specified further by Presidential Decree, in his/her trade name: *Provided*, That a collective securities investment scheme under subparagraph 1 of [Article 229](#) may use the word "securities" or any word in a foreign language with the same meaning, as specified further by Presidential Decree, in accordance with [Article 183](#) (1).
- (3) No person, other than a person who engages in investment trading business or investment brokerage business for exchange-traded derivatives or over-the-counter derivatives, may use the word "derivative" or "futures" or any word in a foreign language with the same meaning, as specified further by Presidential Decree, in his/her trade name. <Amended by Act No. 9407, Feb. 3, 2009>
- (4) No person, other than a collective investment business entity, may use the word "collective investment", "investment trust", or "asset management", or any expression in a foreign language with the same meaning, as specified further by Presidential Decree, in his/her trade name: *Provided*, That an investment trust that is a collective investment scheme may use the word "investment trust" or any word in a foreign language with the same meaning, as specified further by Presidential Decree.
- (5) No person, other than an investment advisory business entity, may use the word "investment advice" or any word in a foreign language with the same meaning, as specified further by Presidential Decree, in his/her trade name: *Provided*, That a real estate consulting company under the [Real Estate Investment Company Act](#) may use the word "investment consulting" or any word in a foreign language with the same meaning, as specified further by Presidential Decree.
- (6) No person, other than a discretionary investment business entity, may use the word "discretionary investment" or any word in a foreign language with the same meaning, as specified further by Presidential Decree, in his/her trade name.
- (7) No person, other than a trust business entity, may use the word "trust" or any word in a foreign language with the same meaning, as specified further by Presidential Decree, in his/her trade name: *Provided*, That a collective investment business entity or a person who engages in business under [Article 7](#) (5) may use the word "trust" or any word in a foreign language with the same meaning, as specified further by Presidential Decree, in its or his/her trade name.

Article 39 (Prohibition on Lending of Names)

No financial investment business entity may allow any other person to run a financial investment business under its name as lent to him/her.

Article 40 (Financial Investment Business Entity Engaging in Other Financial Business)

A financial investment business entity (excluding business entities that run a financial investment business concurrently and other financial investment business entities specified by Presidential Decree; hereafter the same shall apply in this Article) may run any of the following financial businesses, which shall have no possibility of undermining the protection of investors or sound trade practice. In such cases, a financial investment business entity that intends to engage in a business under subparagraphs 2 through 5 shall report its intention to the Financial Services Commission at least seven days before the day on which it plans to commence such business: <Amended by Act No. 8863, Feb. 29, 2008>

1. A business of insurance agency or insurance broker under [Article 91 of the Insurance Business Act](#) or any other financial business specified by Presidential Decree for which this Act or any finance-related Act and subordinate statute specified by Presidential Decree requires permission, authorization, registration, etc.;
2. A financial business specified by this Act or any finance-related Act and subordinate statute specified by Presidential Decree, as one that a financial investment business entity is allowed to engage in, pursuant to the relevant Act and subordinate statute;
3. Vicarious performance of a business of the State or a public organization;
4. Money transfer carried out for an investor using a deposit of the investor (referring to an investor's

deposit under [Article 74](#) (1)); and

5. Any other financial business specified by Presidential Decree as one that has no possibility of undermining the protection of investors or sound trade practice.

Article 41 (Financial Investment Business Entity Engaging in Incidental Business)

- (1) Any financial investment business entity that intends to engage in any business incidental to the financial investment business shall report such intention to the Financial Services Commission at least seven days before the day on which it commences the business. <Amended by Act No. 8863, Feb. 29, 2008>
- (2) If any item in a report on the incidental business under paragraph (1) falls under any of the following subparagraphs, the Financial Services Commission may place a restriction on engagement in the incidental business or issue an order to rectify the item: <Amended by Act No. 8863, Feb. 29, 2008>
 1. If it undermines the soundness in business management of the financial investment business entity;
 2. If it causes any impediment to the protection of investors in connection with the engagement in an authorized or registered financial investment business; and
 3. If it undermines the stability of the financial market.
- (3) An order of restriction or rectification under paragraph (2) shall be provided in writing with specific descriptions of the details and grounds for such order.
- (4) The Financial Services Commission shall provide public notice of the incidental business reported in accordance with paragraph (1) and the order of restriction or rectification given pursuant to paragraph (2) through its Internet homepage, etc. in compliance with the method and procedure prescribed by Presidential Decree. <Amended by Act No. 8863, Feb. 29, 2008>

Article 42 (Entrustment of Affairs of Financial Investment Business Entity)

- (1) A financial investment business entity may entrust a third party with part of the affairs that the financial investment business entity runs in relation to the business under each subparagraph of [Article 40](#) and the incidental business under [Article 41](#) (1): *Provided*, That the affairs specified by Presidential Decree as those that are likely to otherwise undermine the protection of investors or sound trade practice shall not be entrusted to a third party.
- (2) Any financial investment business entity that entrusts a third party with any of its affairs in accordance with the main sentence of paragraph (1) shall make an entrustment agreement that includes the following terms and conditions, and such agreement shall be reported to the Financial Services Commission in compliance with the method and procedure prescribed by Presidential Decree: <Amended by Act No. 8863, Feb. 29, 2008>
 1. Scope of affairs entrusted;
 2. Restrictions on the trustee's activities;
 3. Terms and conditions for maintaining records on the performance of entrusted affairs; and
 4. Other matters specified by Presidential Decree as those necessary for the protection of investors or sound trade practice.
- (3) If any term or condition of the entrustment agreement under paragraph (2) falls under any of the following subparagraphs, the Financial Services Commission may place a restriction on the entrustment of the pertinent affair or issue an order to rectify it: <Amended by Act No. 8863, Feb. 29, 2008>
 1. If it undermines the soundness in business management of the financial investment business entity;
 2. If it causes any impediment on the protection of investors;
 3. If it undermines the stability of the financial market; and
 4. If it disturbs the financial trading order.
- (4) If the affair entrusted in accordance with the main sentence of paragraph (1) is one of essential affairs (referring to the affairs specified by Presidential Decree as essential affairs directly related to the business for which the relevant financial investment business entity obtained authorization or completed a registration; hereafter the same shall apply in this paragraph), the person to whom such essential affair is entrusted shall be the one who holds authorization or completed the registration necessary for carrying out the entrusted affair. In such cases, the person to whom such affair is entrusted shall be deemed to have obtained authorization or completed a registration, if it is a foreign financial investment business entity that satisfies the requirements prescribed by Presidential Decree.
- (5) Any person to whom any affair under paragraph (1) is entrusted shall not entrust the entrusted affair again to a third party: *Provided*, That such affair may be entrusted again to a third party subject to the consent of the entrusting person within the extent that it shall not undermine the protection of investors, if it is necessary to do so for carrying out the financial investment business and if it is based upon a ground specified by Presidential Decree.

- (6) A person who entrusts an affair under paragraph (1) may furnish the person to whom such affair is entrusted with information related to trading of the financial investment instruments of investors and other transactions, and information related to the money and other property deposited by investors in trust within the scope of the entrusted affair, in compliance with the guidelines prescribed by Presidential Decree.
- (7) Each financial investment business entity that intends to entrust its affairs to another in accordance with the main sentence of paragraph (1) shall establish guidelines for management of entrusted affairs concerning the protection of investors' information and management, assessment, etc. of risks.
- (8) Each financial investment business entity shall state the details of the affairs entrusted in accordance with the main sentence of paragraph (1) in the contract documents under [Article 59](#) (1) and the investment prospectus under [Article 123](#) (1), and shall give notice of any change thereof to investors, whenever there is any affair entrusted or any change made in the contents, after making a contract with investors.
- (9) [Article 756 of the Civil Act](#) shall apply *mutatis mutandis* to the damages inflicted on investors by a person to whom any affair under paragraph (1) is entrusted in the course of carrying on the affair.
- (10) [Articles 54](#) and [55](#) hereof and [Article 4 of the Act on Real Name Financial Transactions and Guarantee of Secrecy](#) shall apply *mutatis mutandis* to the case where a person to whom an affair under paragraph (1) is entrusted runs the entrusted affair.
- (11) Other matters concerning the guidelines, method and procedure for entrustment and re-entrustment of affairs as may be necessary for the protection of investors or sound trade practice shall be prescribed by Presidential Decree.

Article 43 (Inspection and Disposition)

- (1) A person to whom an affair is entrusted in accordance with [Article 42](#) (1) shall receive an inspection conducted by the Governor of the Financial Supervisory Service of its business and current status of property in connection with the entrusted affairs. In such cases, [Article 419](#) (5) through (7) and (9) shall apply *mutatis mutandis*.
- (2) If a person to whom any affair is entrusted in accordance with [Article 42](#) (1) falls under any of the following subparagraphs, the Financial Services Commission may order either party to the entrustment contract or both, to cancel or amend the entrustment agreement: <Amended by Act No. 8863, Feb. 29, 2008>
 1. If the person violated any provision of [Articles 54](#) and [55](#) hereof, which shall apply *mutatis mutandis* pursuant to [Article 42](#) (10) hereof, or [Article 4 \(1\), and \(3\) through \(5\) of the Act on Real Name Financial Transactions and Guarantee of Secrecy](#);
 2. If the person rejects, interferes with, or evades an inspection under the former part of paragraph (1);
 3. If the person fails to comply with a demand for a report, etc. under [Article 419](#) (5), which shall apply *mutatis mutandis* pursuant to the latter part of paragraph (1); and
 4. If the person falls under any of the subparagraphs of the attached Table 1 (limited to the grounds related to the entrusted affair).
- (3) The Financial Services Commission shall record the details of the disposition taken pursuant to paragraph (2), and shall keep and maintain such records. <Amended by Act No. 8863, Feb. 29, 2008>
- (4) A financial investment business entity or a person to whom an affair is entrusted in accordance with [Article 42](#) (1) (including a person to whom an affair was entrusted in the past) may make an inquiry to the Financial Services Commission concerning whether any disposition under paragraph (2) has been made against him/her and the details of such disposition, if any. <Amended by Act No. 8863, Feb. 29, 2008>
- (5) The Financial Services Commission shall, upon receiving a request for inquiry under paragraph (4), notify the requesting person of whether a disposition has been made and the details of the disposition, if any, unless there is a justifiable reason otherwise. <Amended by Act No. 8863, Feb. 29, 2008>
- (6) [Article 425](#) shall apply *mutatis mutandis* to an order to cancel or amend an entrustment agreement pursuant to paragraph (2).

Article 44 (Control of Conflicts of Interest)

- (1) A financial investment business entity shall probe and assess the likelihood of conflicts of interest, which may arise between the financial investment business entity and any investor or between a specific investor and other investor in connection with the financial investment business in which it engages, in order to prevent such conflicts of interest, and it shall control such conflicts properly in compliance with the method and procedure prescribed by internal control guidelines.
- (2) A financial investment business entity shall, if it is anticipated as a result of its probe and assessment conducted in accordance with paragraph (1) that there is a likelihood of conflicts of

interest, notify the relevant investors thereof in advance, and shall commence trading or any other transaction, after reducing the likelihood of a conflict of interest in compliance with the method and procedure prescribed by internal control guidelines to the level that it will cause no impediment to the protection of investors.

- (3) No financial investment business entity shall, if it is found difficult to reduce the likelihood of a conflict of interest in compliance with paragraph (2), commence trading or any other transaction.

Article 45 (Cut-off of Exchanges of Information)

- (1) If there is a great possibility of conflicts of interest between financial investment businesses run by a financial investment business entity (including the management of its proprietary property; hereafter the same shall apply in this Article), as prescribed by Presidential Decree, the financial investment business entity shall not commit any of the following acts:
1. Furnishing information related to trading of financial investment instruments or other information specified by Presidential Decree;
 2. Assigning any of its executives (excluding the representative director, an auditor, or a member of the audit committee who is not an outside director) or employees to concurrently run offices;
 3. Using an office space or an electronic computer system in common in a manner specified by Presidential Decree; and
 4. Other acts specified by Presidential Decree as an act likely to cause a conflict of interest.
- (2) If there is a great possibility of conflicts of interest between a financial investment business entity and its affiliated company or any company specified by the company, as prescribed by Presidential Decree, the financial investment business entity shall not commit any of the following acts:
1. Furnishing information related to trading of financial investment instruments or other information specified by Presidential Decree;
 2. Assigning any of its executives (excluding non-standing auditors) or employees to concurrent offices or dispatching him/her to work for the company;
 3. Using an office space or an electronic computer system in common in a manner specified by Presidential Decree; and
 4. Other acts specified by Presidential Decree as an act likely to cause a conflict of interest.

Sub-Section 2 Investment Recommendations, etc.

Article 46 (Principle of Suitability, etc.)

- (1) Each financial investment business entity shall confirm whether an investor is an ordinary investor or a professional investor.
- (2) Each financial investment business entity shall obtain information about the investment purpose, status of property, experience in investment, etc. of an ordinary investor through interviews, inquiries, etc. before recommending him/her to make an investment, and shall require the ordinary investor to make a signature (including a digital signature under subparagraph 2 of [Article 2 of the Digital Signature Act](#); hereinafter the same shall apply), print his/her name and affix his/her seal, record conversations, or have a confirmation in any other manner specified by Presidential Decree, and keep and maintain the confirmation safely, and shall furnish the investor with the confirmed information without delay.
- (3) No financial investment business entity shall recommend an ordinary investor to make an investment, if the investment is deemed unsuitable for the investor in light of the investment purpose, status of property, experience in investment, etc. of the investor.

Article 46-2 (Principle of Adequacy, etc.)

- (1) Each financial investment business entity shall, whenever it intends to sell derivatives and other financial investment instruments prescribed by Presidential Decree (hereinafter referred to as "derivatives, etc.") without recommending to make an investment to an ordinary investor, obtain information about the investment purpose, status of property, experience in investment, etc. of the ordinary investor through interviews, inquiries, etc.
- (2) In cases where a financial investment business entity determines that the relevant derivatives, etc. are not adequate for an ordinary investor taking into consideration the investment purpose, status of property, experience in investment, etc. of the ordinary investor, the financial investment business entity shall notify the ordinary investor of the fact as prescribed by Presidential Decree and shall obtain a confirmation from the ordinary investor by providing his/her signature, printing his/her name and affixing his/her seal, recording conversations, or any other manner prescribed by Presidential Decree.

[This Article Newly Inserted by Act No. 9407, Feb. 3, 2009]

Article 47 (Duty to Explain)

- (1) A financial investment business entity shall, whenever it makes an investment recommendation to an ordinary investor, explain the details of the financial investment instrument, the risks contingent upon the investment, and other matters specified by Presidential Decree with such sufficiency as to allow the ordinary investor to understand them.
- (2) A financial investment business entity shall obtain a confirmation from each ordinary investor, stating that he/she has understood the details as explained pursuant to paragraph (1), in one or more manners, such as providing a signature, printing his/her name and affixing his/her seal, or any other manner prescribed by Presidential Decree.
- (3) No financial investment business entity shall, when it provides an explanation under paragraph (1), provide false or distorted information (referring to an act of providing a conclusive judgment on an uncertain matter, or information that is likely to mislead an investor to believe any uncertain matter to be certain) while explaining material facts that may produce a significant impact on the investor's reasonable judgment or the value of the relevant financial investment instrument (hereinafter referred to as "material facts") or omit an explanation of any of the material facts.
<Amended by Act No. 9407, Feb. 3, 2009>

Article 48 (Liability for Damages)

- (1) A financial investment business entity shall be liable for the damages inflicted upon ordinary investors by its violation of [Article 47](#) (1) or (3).
- (2) The amount calculated by subtracting the total amount (including the amount prescribed by Presidential Decree) of money, etc. recovered or recoverable by an ordinary investor by disposal of a certain financial investment instrument or through any other means from the total amount (excluding the amount prescribed by Presidential Decree) of money, etc. paid or payable by the ordinary investor for acquisition of a financial investment instrument shall be presumed as the damages provided for in paragraph (1).

Article 49 (Prohibition on Undue Recommendation)

No financial investment business entity shall commit any of the following acts in making an investment recommendation:

1. Providing false information;
2. Providing a decisive judgment on an uncertain matter, or information that is likely to mislead, causing an uncertain matter to be believed to be certain;
3. Using a method of real-time conversation, such as a personal visit and telephone call without an investor's request for an investment recommendation: *Provided*, That any of the acts specified by Presidential Decree as those unlikely to undermine the protection of investors, or sound trade practice shall be excluded herefrom;
4. Repeating investment recommendations continuously although the investor to whom an investment was recommended has already manifested his/her intention to reject it: *Provided*, That any of the acts specified by Presidential Decree as those unlikely to undermine the protection of investors or sound trade practice shall be excluded herefrom; and
5. Other acts specified by Presidential Decree as likely to undermine the protection of investors or sound trade practice.

Article 50 (Working Rules on Investment Recommendations)

- (1) A financial investment business entity shall establish specific guidelines and procedures with which its executives or employees shall comply in making investment recommendations (hereinafter referred to as "working rules on investment recommendations"): *Provided*, That the financial investment business entity shall establish working rules for investment recommendations differentiated by level of investors, taking into consideration the investment purpose, status of property, experience in investment, etc. <Amended by Act No. 9407, Feb. 3, 2009>
- (2) A financial investment business entity shall announce its established working rules on investment recommendations to the public through its Internet homepage, etc. The same shall also apply to an amendment to the working rules on investment recommendations.
- (3) The Association may establish standard working rules on investment recommendations which can be enforced by financial investment business entities in common.

Article 51 (Registration of Investment Solicitors, etc.)

- (1) A financial investment business entity may entrust a person (limited to a private individual) who satisfies all the following requirements with investment recommendations (excluding investment recommendations on derivatives, etc.). In such cases, [Article 42](#) shall not apply: <Amended by Act No. 8863, Feb. 29, 2008; Act No. 9407, Feb. 3, 2009>
 1. The person shall not be a person registered with the Financial Services Commission in accordance with paragraph (3);
 2. The person shall have expertise in financial investment instruments and shall also have the qualifications prescribed by Presidential Decree; and
 3. Where the registration under [Article 53](#) (2) has been revoked, at least three years shall have

- passed since such revocation.
- (2) A person to whom investment recommendation is entrusted in accordance with paragraph (1) shall not commence investment recommendation before the registration required under paragraph (3) has been completed.
 - (3) A financial investment business entity that entrusts investment recommendation to a person in accordance with paragraph (1) shall register the entrusted person with the Financial Services Commission. In such cases, the Financial Services Commission may entrust the affairs of registration with the Association as prescribed by Presidential Decree. *<Amended by Act No. 8863, Feb. 29, 2008>*
 - (4) A financial investment business entity that intends to register a person to whom investment recommendation is to be entrusted in accordance with paragraph (3) shall file a registration application with the Financial Services Commission (referring to the Association if the affairs are entrusted with the Association pursuant to the latter part of paragraph (3); hereafter the same shall apply in this Article). *<Amended by Act No. 8863, Feb. 29, 2008>*
 - (5) The Financial Services Commission shall, upon receiving a registration application under paragraph (4), examine the contents thereof, make a decision on whether to approve the registration within two weeks, and notify the applicant of the result and grounds of its decision in writing without delay. In such cases, a supplementary correction may be demanded if there is any deficiency in the registration application. *<Amended by Act No. 8863, Feb. 29, 2008>*
 - (6) The time period specified by Ordinance of the Prime Minister, such as the duration for supplementary correction of deficiency in the registration application, shall not be included in the examination time period, in calculating the period of examination under paragraph (5). *<Amended by Act No. 8863, Feb. 29, 2008>*
 - (7) The Financial Services Commission shall not refuse to approve the registration, when it makes a decision on whether to approve the registration under paragraph (5), unless any of the following grounds exist: *<Amended by Act No. 8863, Feb. 29, 2008>*
 1. If any of the requirements under paragraph (1) are not met;
 2. If the registration application under paragraph (4) contains false information; and
 3. If the financial investment business entity has not complied with the demand for supplementary correction under the latter part of paragraph (5).
 - (8) The Financial Services Commission shall, upon making a decision on whether to approve the registration under paragraph (5), enter the necessary descriptions in the register of investment solicitors, and shall provide public notice of the details of its decision through its Internet homepage, etc. *<Amended by Act No. 8863, Feb. 29, 2008>*
 - (9) A person who is registered pursuant to paragraph (3) (hereinafter referred to as "investment solicitor") shall continue to meet the requirements under paragraph (1) 2 while engaging in the business after registration.
 - (10) Matters concerning the mandatory descriptions, accompanying documents, etc. of the registration application under paragraphs (3) through (8), the method and procedure for examination on registration, and other matters pertaining to registration shall be prescribed by Presidential Decree.

Article 52 (Prohibited Activities, etc. of Investment Solicitor)

- (1) No financial investment business entity shall engage any person other than an investment solicitor to act as an investment solicitor.
- (2) No investment solicitor shall commit any of the following acts:
 1. Making a contract on behalf of the entrusting financial investment business entity;
 2. Receiving money, securities, or any other property from an investor;
 3. Entrusting his/her investment-recommending agency business entrusted by a financial investment business entity again to a third party; and
 4. Other acts specified by Presidential Decree as likely to undermine the protection of investors or sound trade practice.
- (3) An investment solicitor shall post a notification showing that he/she is an investment solicitor or present an identification of his/her status to investors and shall inform investors of the following matters in advance of carrying on investment recommendations vicariously:
 1. The name of the financial investment business entity that has entrusted such investment recommendations to the investment solicitor;
 2. The fact that he/she has no authority to make a contract on behalf of the financial investment business entity that has entrusted him/her with investment recommendations;
 3. The fact that an investment solicitor is prohibited from receiving money, securities, or any other property from investors, and that the financial investment business entity shall collect or receive such directly; and
 4. Other matters prescribed by Presidential Decree as necessary for the protection of investors or sound trade practice.

- (4) A financial investment business entity shall, in entrusting an investment solicitor with the affairs of investment recommendation, observe Acts and subordinate statutes, control the agent in good faith such that he/she shall not undermine sound trade practice, and shall establish guidelines for vicarious investment recommendation.
- (5) [Article 756 of the Civil Act](#) shall apply *mutatis mutandis* to the damages inflicted upon investors by an investment solicitor while carrying on the affairs of investment recommendation vicariously.
- (6) [Articles 46 through 49, 54 and 55](#) hereof and [Article 4 of the Act on Real Name Financial Transactions and Guarantee of Secrecy](#) shall apply *mutatis mutandis* where an investment solicitor runs the affairs of investment recommendation vicariously.

Article 53 (Inspection and Disposition)

- (1) An investment solicitor shall receive inspections conducted by the Governor of the Financial Supervisory Service of his/her business and status of property in connection with his/her vicarious investment recommendation. For this purpose, [Article 419](#) (5) through (7) and (9) shall apply *mutatis mutandis*.
- (2) The Financial Services Commission shall, if an investment solicitor falls under any of the following subparagraphs, revoke the registration of the investment solicitor, or suspend the business of the investment solicitor for six months or less: *<Amended by Act No. 8863, Feb. 29, 2008>*
 1. If he/she breaches the duty to continue to meet the requirements for registration under [Article 51](#) (9);
 2. If he/she violates [Article 52](#) (2), (3), or (6) (limited to cases to which [Article 46, 47, 49, 54, or 55](#) hereof or [Article 4 \(1\), or \(3\) through \(5\) of the Act on Real Name Financial Transactions and Guarantee of Secrecy](#) shall apply *mutatis mutandis*);
 3. If he/she rejects, interferes with, or evades an inspection under the former part of paragraph (1); and
 4. If he/she does not comply with a demand for reporting, etc. under [Article 419](#) (5), which shall apply *mutatis mutandis* pursuant to the latter part of paragraph (1).
- (3) The Financial Services Commission shall, whenever it revokes the registration of an investment solicitor or suspends the business of the investment solicitor pursuant to paragraph (2), make an entry of the details, and shall keep and maintain relevant records. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (4) The Financial Services Commission shall, whenever it revokes the registration of an investment solicitor or suspends the business of the investment solicitor pursuant to paragraph (2), provide public notice thereof through its Internet homepage. etc. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (5) A financial investment business entity or investment solicitor (including a person who acted as an investment solicitor in the past) may make inquiry to the Financial Services Commission regarding whether any disposition has been made against him/her pursuant to paragraph (2), including the details of such disposition. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (6) The Financial Services Commission shall, upon receiving a request for inquiry under paragraph (5), notify the requesting person of whether a disposition has been made, including the details of such disposition, unless there is a justifiable ground otherwise. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (7) [Article 423](#) (excluding subparagraph 2) shall apply *mutatis mutandis* to the revocation of the registration of an investment solicitor, while [Article 425](#) shall apply *mutatis mutandis* to the revocation of an investment solicitor and the suspension of the business of an investment solicitor pursuant to paragraph (2).

Sub-Section 3 Prohibition of Use of Job-related Information, etc.

Article 54 (Prohibition on Use of Job-related Information)

No financial investment business entity shall use information known to it in the course of its business and undisclosed to the public, for its own or a third party's interest without a justifiable ground.

Article 55 (Prohibition on Compensation for Loss, etc.)

No financial investment business entity shall commit any of the following acts, except where losses are compensated for or returns are guaranteed pursuant to [Article 103](#) (3) in connection with the trading of financial investment instruments and other transactions, or where there is no possibility of undermining sound trade practice and there is a justifiable ground. The same shall also apply where any executive or employee of a financial investment business entity commits any of the following acts on his/her own account:

1. Promising in advance to compensate for all or part of losses that an investor may sustain;
2. Compensating for all or part of losses sustained by an investor after the fact;

3. Promising an investor in advance to guarantee a certain amount in returns; and
4. Offering an investor a certain amount in returns after the fact.

Article 56 (Standardized Contract Form)

- (1) A financial investment business entity that intends to establish or amend a standardized contract form in connection with the financial investment business shall report it in advance to the Financial Services Commission: *Provided*, That the standardized contract form newly established or amended shall be reported to the Financial Services Commission and the Association within seven days after such establishment or amendment in any of the following cases: *<Amended by Act No. 8863, Feb. 29, 2008>*
 1. When any term or condition of the standardized contract form, which has nothing to do with investors' rights and obligations, is amended;
 2. When the standard contract form under paragraph (3) is used as is;
 3. When the terms and conditions to be established or amended are identical with those already reported by other financial investment business entities to the Financial Services Commission; and
 4. When a standardized contract form applicable only to professional investors is established or amended.
- (2) A financial investment business entity that has established or amended a standardized contract form shall publish it through its Internet homepage, etc.
- (3) The Association may establish a contract form, which will serve as a standard form in connection with the operation of a financial investment business (hereafter referred to as "standard contract form" in this Article), in order to establish sound trade practice and prevent the wide use of a contract form with unfair terms or conditions.
- (4) The Association shall, whenever it intends to establish or amend the standard contract form, report such intention to the Financial Services Commission in advance: *Provided*, That the standard contract form newly established or amended shall be reported to the Financial Services Commission within seven days after such establishment or amendment, if the form is applicable only to professional investors. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (5) The Financial Services Commission shall, upon receiving a report on or being informed of the contract form under paragraph (1) or the standard contract form under paragraph (4), notify the Fair Trade Commission of the contract form or the standard contract form. In such cases, if a violation of any provision of [Articles 6 through 14 of the Regulation of Standardized Contracts Act](#) is found in the contract form or the standard contract form as notified, the Fair Trade Commission may notify the Financial Services Commission of the violation, request it to take measures as may be necessary for rectification of such violation, and the Financial Services Commission shall, in return, comply with such request, unless there is an extraordinary reason otherwise. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (6) The Financial Services Commission may, if it is deemed that any contract form or standard contract form is likely to violate this Act or any finance-related Act and subordinate statute or impinge on investors' interests, order the financial investment business entity involved or the Association to amend the contract form or the standard contract form in writing, indicating such foreseeable violation or infringement in specific detail. *<Amended by Act No. 8863, Feb. 29, 2008>*

Article 57 (Advertisements Soliciting Investment)

- (1) No person, other than financial investment business entities, shall advertise for any business run by a financial investment business entity or for any financial investment instrument (hereinafter referred to as "advertisement for investment"): *Provided*, That the Association and any financial holding company under the [Financial Holding Companies Act](#) which has a financial investment business entity as its subsidiary company or sub-subsidiary company, may advertise for investment, and an issuer or seller of securities may also advertise for investment in the securities.
- (2) A financial investment business entity (including any person under the proviso to paragraph (1); hereafter the same shall apply in this Article) shall, when it advertises for investment (excluding an advertisement for investment in collective investment securities), include the name of the financial investment business entity, descriptions of the financial investment instruments, the risks contingent upon the investment, and other matters prescribed by Presidential Decree therein.
- (3) A financial investment business entity shall, when it advertises for investment in collective investment securities, include the following statements therein, and shall not contain any statement other than the name of the collective investment scheme, matters concerning the type of the collective investment scheme, matters concerning the investment purpose and operational strategy of the collective investment scheme, and matters prescribed by Presidential Decree, considering the characteristics, etc. of the collective investment securities, in the advertisement

for investment:

1. A statement recommending that the investor read the investment prospectus before acquiring the collective investment securities;
2. A statement indicating the fact that there is a risk of loss of the invested principal in the collective investment scheme depending upon the result of its management and that such loss shall be imputed to investors; and
3. A statement that the past performance of the collective investment scheme does not guarantee a return on investment for the future where the advertisement for investment contains the past performance of the collective investment scheme.
- (4) In advertising for investment, no financial investment business entity shall include any indication that may cause a misunderstanding resulting in a belief that compensation for losses or guarantee for returns shall be provided, except where any loss is compensated for or returns are guaranteed in accordance with [Article 103](#) (3).
- (5) If an advertisement for investment contains any indication or advertisement under [Article 4 \(1\) of the Act on Fair Labeling and Advertising](#), such indication or advertisement shall be governed by the relevant provisions of the said Act.
- (6) Other matters pertaining to the method, procedure, etc. for advertisement for investment shall be prescribed by Presidential Decree.

Article 58 (Fees)

- (1) A financial investment business entity shall determine the matters concerning the guidelines and procedure for imposition of fees upon investors, and shall announce them through its Internet homepage, etc.
- (2) No financial investment business entity shall discriminate against an investor in determining the guidelines for imposition of fees pursuant to paragraph (1) without a justifiable ground.
- (3) A financial investment business entity shall notify the Association of the matters concerning the guidelines and procedure for imposition of fees under paragraph (1).
- (4) The Association shall compare the matters notified by each financial investment business entity in accordance with paragraph (3) and disclose its findings to the public.

Article 59 (Delivery of Contract Documents and Cancellation of Contract)

- (1) A financial investment business entity shall, upon executing a contract with an investor, deliver the contract documents without delay: *Provided*, That the delivery of contract documents may be omitted if there is no possibility of undermining the protection of investors in light of the contents of the contract, etc., as prescribed further by Presidential Decree.
- (2) An investor who has entered into a contract (limited to contracts specified by Presidential Decree, considering the nature of the contract and other circumstances) with a financial investment business entity may cancel the contract within seven days from the day on which the contract documents under paragraph (1) are delivered.
- (3) The cancellation of a contract under paragraph (2) shall become effective when a written notice manifesting the intent to cancel is dispatched to the financial investment business entity.
- (4) When a contract is cancelled in accordance with paragraph (3), the financial investment business entity shall not require an investor to pay damages or penalty, ensuing from the cancellation of the contract in excess of an amount prescribed by Presidential Decree as the fee and remuneration adequate for the period of time preceding cancellation of the contract and other consideration that the investor is obligated to pay in connection with the contract.
- (5) If there is any consideration received in advance from an investor in connection with a contract, the financial investment business entity shall, upon cancellation of a contract under paragraph (3), return such consideration to the investor: *Provided*, That the financial investment business entity is not obligated to return such consideration, if the consideration does not exceed the amount prescribed by Presidential Decree.
- (6) Special terms and conditions in contravention of the provisions of paragraphs (2) through (5) shall be void and null, if they are unfavorable to investors.

Article 60 (Keeping and Maintaining Records)

- (1) A financial investment business entity shall keep and maintain records of data related to the operation of the financial investment business according to the types of data specified by Presidential Decree for the period of time prescribed by Presidential Decree.
- (2) A financial investment business entity shall establish and implement measures appropriate for preventing the data, the records of which shall be kept and maintained in accordance with paragraph (1), from being destroyed, fabricated, or altered.

Article 61 (Deposit of Acquired Securities)

Each financial investment business entity (excluding business entities that run a financial investment business concurrently) shall deposit the securities (including those specified by Presidential Decree) acquired in the course of the management of its proprietary property with the Securities Depository

without delay: *Provided*, That it is not required to deposit foreign currency securities (referring to the foreign currency securities under [Article 3 \(1\) 8 of the Foreign Exchange Transactions Act](#); hereinafter the same shall apply) so acquired and as specified by Presidential Decree.

Article 62 (Public Announcement of Discontinuance of Financial Investment Business, etc.)

- (1) A financial investment business entity that intends to discontinue its financial investment business or the business of a branch office or any other sales office shall announce its intention to the public at least 30 days before the intended discontinuance through two or more daily newspapers circulated nationwide, and shall give an individual notice thereof to each known creditor.
- (2) A financial investment business entity that comes to fall under any of the following subparagraphs shall close trading of financial investment instruments and other transactions run by it. In such cases, such a financial investment business entity shall be deemed a financial investment business entity until trading and other transactions are closed:
 1. When it obtains approval for discontinuance of the financial investment business in accordance with [Article 417 \(1\) 6](#);
 2. When it obtains approval for discontinuance of the financial investment business in accordance with [Article 417 \(1\) 7](#); and
 3. When its authorization or registration for financial investment business is revoked pursuant to [Article 420 \(1\)](#) or [421 \(1\)](#) (including the case where the said paragraph shall apply *mutatis mutandis* pursuant to paragraph (4) of the same Article).

Article 63 (Trading of Financial Investment Instruments by Executives or Employees)

- (1) An executive or an employee of a financial investment business entity (limited to an executive or an employee who executes the affairs of the financial investment business, where such financial investment business entity is specified by Presidential Decree from among the business entities that run a financial investment business concurrently; hereafter the same shall apply in this Article) shall comply with the following subparagraphs in trading financial investment instruments specified by Presidential Decree on his/her own account:
 1. Such trading shall be done in his/her own name;
 2. Trading shall be executed through a single account in a single company chosen from among investment brokers (in the case of an executive or an employee of an investment broker, limited to the investment broker for which he/she works, and he/she may use another investment broker, which shall not deal with the financial investment instruments that he/she intends to trade): *Provided*, That two or more companies or two or more accounts may be used for such trading where it is allowed by Presidential Decree, considering the type of financial investment instruments, the nature of the accounts, etc.;
 3. Details of any such trading shall be notified on a quarterly basis to the financial investment business entity for which he/she works (and it shall be done on a monthly basis in the case of professional advisors for investment recommendation and professional researchers and analysts under [Article 286 \(1\) 3 \(b\)](#), and those for investment management; hereafter the same shall apply in this Article); and
 4. He/she shall comply with other methods and procedures prescribed by Presidential Decree for preventing any unfair conduct or conflicts of interest with investors.
- (2) A financial investment business entity shall establish proper guidelines and procedures with which its executives or employees shall comply in connection with their trading of financial investment instruments on their own accounts in order to prevent any unfair conduct or conflicts of interest with investors.
- (3) A financial investment business entity shall confirm the details of any trading of financial investment instruments by its executives or employees on a quarterly basis in accordance with the guidelines and procedures under paragraph (2).

Article 64 (Liability for Damages)

- (1) A financial investment business entity shall be liable for damages caused by its violation of any Act and subordinate statute, term, or condition of its standardized contract form, collective investment agreement, or investment prospectus (referring to the investment prospectus under [Article 123 \(1\)](#)) or damages sustained by its investors due to its negligence in carrying on its business: *Provided*, That where a financial investment business entity that shall be otherwise liable for such damages violated [Article 37 \(2\)](#), [44](#), [45](#), [71](#), or [85](#) (limited to cases where the violation is related to a conflict of interest arising as a consequence of engaging in an investment trading business or an investment brokerage business and a collective investment business concurrently), but if the business entity proves that it exercised reasonable care, or that the investor involved knew the facts at the time he traded the financial investment instruments or made any other transaction, the financial investment business entity shall not be held liable for such damages.
- (2) Where any financial investment business entity shall be liable for damages under paragraph (1)

and an executive involved in the case is found to be culpable for the cause, the financial investment business entity shall be jointly liable for damages with the executive involved.

Article 65 (Special Cases Concerning Foreign Financial Investment Business Entities)

- (1) In applying this Act to a branch office or any other sales office (hereafter referred to as "local branch office, etc." in this Article) of a foreign financial investment business entity, the operating fund specified by Presidential Decree shall be deemed the capital, and the aggregate of capital, reserves, and carried-over retained earnings shall be deemed equity capital, while the domestic representative shall be deemed an executive of the business entity. *<Amended by Act No. 9407, Feb. 3, 2009>*
- (2) Each local branch office, etc. of any foreign financial investment business entity shall hold its assets, amounting to the aggregate of the operating fund under paragraph (1) and its liabilities within this country in a manner prescribed by Presidential Decree. *<Amended by Act No. 9407, Feb. 3, 2009>*
- (3) In the event that a local branch office, etc. of a foreign financial investment business entity is wound up or becomes bankrupt, its assets within this country shall be appropriated first for the performance of its obligations owed to the persons who have their domicile or abode in this country. *<Amended by Act No. 9407, Feb. 3, 2009>*
- (4) The Financial Services Commission shall appoint a person who temporarily performs duties of a representative of a local branch office, etc. as proxy, meeting all the requirements falling under each of the following subparagraphs (hereafter referred to as an "acting representative" in this paragraph), and the local branch office, etc. shall register the fact in the area where the local branch office, etc. is located. In such cases, the Financial Services Commission may order the local branch office, etc. to pay adequate remuneration to the acting representative: *<Newly Inserted by Act No. 9407, Feb. 3, 2009>*
 1. In cases where a person having interest in the local branch office, etc. requests the Financial Services Commission to appoint an acting representative when the local branch office, etc. does not appoint a new representative or an acting representative even though there is no representative in the local branch office, etc. or a representative has no ability to perform his/her duties;
 2. In cases where the Financial Services Commission requests that the local branch office, etc. appoint or designate a representative or acting representative within ten days in accordance with the requirement under subparagraph 1; and
 3. In cases where the local branch office, etc. which receives the request under subparagraph 2 does not appoint or designate a representative or acting representative within the period prescribed in subparagraph 2.
- (5) In addition to the matters under paragraph (1) through (4), matters pertaining to the operation of a financial investment business by a local branch office, etc., including matters concerning the settlement of accounts and its domestic representative, shall be prescribed by Presidential Decree. *<Amended by Act No. 9407, Feb. 3, 2009>*

SECTION 2 Rules on Business Conduct by Financial Investment Business Entities

Sub-Section 1 Rules on Business Conduct by Investment Traders and Investment Brokers

Article 66 (Explicit Indication of Form of Trading)

An investment trader or investment broker shall disclose its identity in advance, whether it is an investment trader or an investment broker, to an investor, whenever it receives an order for trading a financial investment instrument from the investor.

Article 67 (Prohibition of Self-contracting)

No investment trader or investment broker shall simultaneously act on its own behalf and as the investment broker for another party in a single transaction involving a financial investment instrument.

Article 68 (Duty to Trade in Market)

An investment broker shall ensure that a transaction entrusted by an investor for trading in the securities exchange or the derivatives market is in fact made through the securities exchange or the derivatives market. In such cases, [Article 67](#) shall not apply.

Article 69 (Exceptional Acquisition of One's Own Stocks)

An investment trader may, when it receives an order for selling stocks issued by the investment trader

itself in a quantity less than the unit sellable in the securities exchange, acquire such stocks outside the securities exchange. In such cases, its own stocks so acquired shall be disposed of within a time period prescribed by Presidential Decree.

Article 70 (Prohibition on Discretionary Trading)

No investment trader or investment broker shall trade financial investment instruments with property deposited by an investor in the absence of an order for trading such financial investment instruments from the investor or his/her agent.

Article 71 (Prohibition on Unsound Business Conduct)

No investment trader or investment broker shall commit any of the following acts: *Provided*, That such acts may be allowed if there is no possibility of undermining the protection of investors or sound trade practice, as prescribed by Presidential Decree: <Amended by Act No. 9407, Feb. 3, 2009>

1. Buying or selling any financial investment instrument on its own account, or recommending a third party to buy or sell any financial investment instrument, before closing a trade for an order from an investor for buying or selling such instrument that may produce a significant impact on the price of the instrument, where it has received such order or there is a great possibility of receiving such order;
2. Trading any financial investment instrument included in certain research and analysis data which contain an assertion or a forecast of the value of the financial investment instrument (hereinafter referred to as "research and analysis data") on its own account during the period of time beginning when the contents of such research and analysis data are fixed and ending with the lapse of 24 hours after such research and analysis data are disclosed to the public, where such research and analysis data are disclosed to the public;
3. Paying any contingent remuneration to a person in charge of the preparation of research and analysis data in connection with the corporate financial affairs specified by Presidential Decree;
4. Disclosing to the public, or providing to a specific person, certain research and analysis data on certain securities falling under any of the following items during the time period from the time when a contract is executed in connection with a public offering or sale of the securities to the time specified by Presidential Decree after the securities are listed for the first time in the securities exchange:
 - (a) Stock certificates;
 - (b) Stock-related corporate bonds as specified by Presidential Decree; or
 - (c) Securities depository receipts related to item (a) or (b);
5. Engaging any person other than an investment solicitor or professional investment recommendation advisor to make investment recommendations;
6. Acquiring, disposing of, or managing financial investment instruments separately for each investor with a discretionary power authorized by investors, in whole or in part, for making judgments on whether or not investing in financial investment instruments: *Provided*, That it may be allowed if it is performed as a discretionary investment business and it falls under [Article 7](#) (4); and
7. Other acts specified by Presidential Decree as an act unlikely to undermine the protection of investors or sound trade practice.

Article 72 (Credit Grant)

- (1) An investment trader or investment broker may grant credit to investors by means of lending money or securities: *Provided*, That no investment trader shall lend money or grant credit to an investor with an intention to solicit the investor to buy any securities within three months after it underwrites the securities.
- (2) Matters pertaining to the guidelines and methods for credit granted under paragraph (1) shall be prescribed by Presidential Decree.

Article 73 (Notification of Details of Trading)

An investment trader or investment broker shall, upon closing a trade of financial investment instruments, notify the investor of the details in accordance with the method prescribed by Presidential Decree.

Article 74 (Separate Depositing of Investor's Deposit)

- (1) An investment trader or investment broker shall separate an investor's deposit (referring to money deposited by investors in connection with trading of financial investment instruments and other transactions; hereinafter the same shall apply) from its proprietary property and shall place it in a deposit or trust account with a financial securities company.
- (2) Notwithstanding paragraph (1), any investment trader or investment broker specified by Presidential Decree, from among the business entities that run a financial investment business concurrently, may deposit the investor's deposit in a trust business entity (excluding financial securities companies; hereafter the same shall apply in this Article) instead of placing it in a deposit or trust account under paragraph (1). In such cases, the investment trader or investment

broker may execute a self contract, notwithstanding [Article 2 of the Trust Business Act](#), if it runs a trust business.

- (3) An investment trader or investment broker shall, when it places an investor's deposit in a deposit or trust account with a financial securities company or a trust business entity (hereafter referred to as "deposited institution" in this Article) in accordance with paragraph (1) or (2), make it clear that the investor's deposit is the investor's property.
- (4) No one may set off or seize (including provisional seizure) an investor's deposit placed in a deposit or trust account with a deposit institution in accordance with paragraph (1) or (2), and the investment trader or investment broker who placed the investor's deposit in a deposit or trust account (hereafter referred to as "depositing financial investment business entity" in this Article) may not transfer the investor's deposit placed in a deposit or trust account with a deposit institution or offer it as security, except as prescribed by Presidential Decree.
- (5) A depositing financial investment business entity shall, when it comes to fall under any of the following subparagraphs, withdraw the investor's deposit placed in a deposit or trust account with a deposit institution to be paid to the investor first. In such cases, the depositing financial investment business entity shall provide public notice of such fact, and the matters concerning the time and place of payment of the investor's deposit, and other matters related to the payment of the investor's deposit through two or more daily newspapers, and shall also disclose such matters to the public through its Internet homepage, etc.:
 1. When authorization for its business is revoked;
 2. When a resolution for dissolution is adopted;
 3. When bankruptcy is declared against it;
 4. When the whole transfer of the financial investment business under [Article 6](#) (1) 1 or 2 is approved;
 5. When the whole discontinuance of the financial investment business under [Article 6](#) (1) 1 or 2 is approved;
 6. When an order to suspend the financial investment business, in whole, under [Article 6](#) (1) 1 or 2 is issued; and
 7. When any cause or event similar to the events under subparagraphs 1 through 6 occurs.
- (6) A deposit institution shall, when it comes to fall under any subparagraph of paragraph (5), return to the depositing financial investment business entity the investor's deposit placed in a deposit or trust account in the first place.
- (7) A deposit institution shall manage the investor's deposit in any of the following manners:
 1. Purchasing national bonds or local government bonds;
 2. Purchasing obligation certificates with a guarantee of payment by the State, a local government, or any financial institution specified by Presidential Decree; and
 3. A method prescribed by Presidential Decree as one unlikely to undermine the stable management of the investor's deposit.
- (8) The scope of an investor's deposit which an investment trader or investment broker is obligated to place in a deposit or trust account with a deposit institution in accordance with paragraph (1) or (2), the proportion of the deposit or trust, the withdrawal of the investor's deposit placed in a deposit or trust account, the management of the investor's deposit by a deposit institution, and other matters pertaining to the deposit or trust of investors' deposits shall be prescribed by Presidential Decree. In such cases, the proportion of deposit or trust applicable to each authorized investment trader or investment broker may differ depending upon the financial status of each investment trader or investment broker.

Article 75 (Depositing of Securities Deposited by Investors)

An investment trader or investment broker shall, upon receiving securities (including those specified by Presidential Decree) owned and deposited by investors in connection with trading of financial investment instruments and other transactions, deposit them in the Securities Depository without delay: *Provided*, That it is not required to deposit securities owned and deposited by an investor in the Securities Depository, if they are foreign currency securities specified by Presidential Decree.

Article 76 (Special Cases concerning Sale of Collective Investment Securities, etc.)

- (1) An investment trader or investment broker shall, when it sells collective investment securities, sell them at the base price (referring to the base price under [Article 238](#) (6); hereinafter the same shall apply) calculated first after it pays money, etc. for acquiring the collective investment securities: *Provided*, That they shall be sold at a base price prescribed by Presidential Decree, where there is no possibility of undermining investors' interests, as prescribed by Presidential Decree.
- (2) No investment trader or investment broker shall sell collective investment securities at issue upon receiving notice under [Article 92](#) (1) (including the cases as applicable *mutatis mutandis* in [Article 186](#) (2)): *Provided*, That the sale may be resumed upon receiving notice under [Article 92](#) (2) (including cases to which the same Article shall apply *mutatis mutandis* pursuant to [Article 186](#)

- (2).
- (3) No investment trader or investment broker shall sell collective investment securities or commence advertising for such sale before the collective investment scheme is registered in accordance with [Article 182](#): *Provided*, That advertising for the sale may be commenced where there is no possibility of undermining investors' interests, as prescribed by Presidential Decree.
- (4) Where an investment trader or investment broker receives a sales commission (referring to money received directly from investors as consideration for the conduct of selling collective investment securities; hereinafter the same shall apply) or sales remuneration (referring to money received from a collective investment scheme as consideration for service provided continuously to investors by an investment trader or investment broker who has sold collective investment securities; hereinafter the same shall apply), it shall not receive such sales commission or sales remuneration contingent upon the performance of management of the collective investment scheme. <Amended by Act No. 9407, Feb. 3, 2009>
- (5) Sales commission and sales remuneration under paragraph (4) shall not exceed the ceiling under the following subparagraphs: *Provided*, That a privately placed fund is not subject to the application of the ceiling under the following subparagraphs: <Amended by Act No. 10063, Mar. 12, 2010>
1. Sales commission: Ceiling prescribed by Presidential decree which is not more than 3/100 of the amount of payment or amount of redemption;
 2. Sales remuneration: Ceiling prescribed by Presidential decree which is not more than 15/1,000 of the annual average value of the collective investment property.
- (6) The detailed method of setting a ceiling on sales commission and sales remuneration under paragraph (5), imposing method and other necessary matters concerning sales commission and sales remuneration shall be prescribed by Presidential Decree. <Newly Inserted by Act No. 10063, Mar. 12, 2010>

Article 77 (Special Cases concerning Deposits and Insurance with Investment Risk)

- (1) A bank shall be deemed to have obtained authorization for a financial investment business under [Article 12](#) in regard to an investment trading business, when it signs a contract for a deposit in the nature of an investment. In this regard, [Articles 15, 39 through 45](#), subparagraph 3 of [Article 49](#), [Articles 56, 58, 61 through 65](#), Part II, Chapters II and III, and Chapter IV, Section 2, Sub-Section 1 shall not apply, while Part III, Chapter I shall not apply in cases where a bank signs a contract for a foreign currency deposit in the nature of an investment.
- (2) An insurance company (including an entity under [Article 2 \(8\) through \(10\) of the Insurance Business Act](#)) shall be deemed to have obtained authorization for a financial investment business under [Article 12](#) in regard to an investment trading business or an investment brokerage investment, when it signs an insurance contract with investment risk or acts as a broker or an agent for such contract. In such cases, [Articles 15, 39 through 45](#), subparagraph 3 of [Article 49](#), [Articles 51 through 53, 56, 58, 61 through 65](#), and Part II, Chapters II and III, Chapter IV, Section 2, Sub-Section 1, and Part III, Chapter I shall not apply.

Article 78 (Brokerage of Securities by Electronic Means)

- (1) An electronic investment brokerage business entity (hereinafter referred to as "electronic securities brokerage company") that acts as a broker for trading listed stocks (including securities depository receipts that are related to stock certificates and that are listed on the securities exchange; hereafter the same shall apply in this Article) at trading prices set forth in any item of subparagraph 1 for a multiple number of parties simultaneously through an information telecommunications network or an electronic information processing system (hereinafter referred to as "electronic securities brokerage") shall comply with the guidelines prescribed by Presidential Decree (hereafter referred to as "business guidelines" in this Article) concerning the matters set forth in items of subparagraph 2, in carrying on such business: <Amended by Act No. 8863, Feb. 29, 2008; Act No. 9407, Feb. 3, 2009>
1. Trading prices falling under any of the following items:
 - (a) The latest price of the pertinent listed stocks publicly announced at the securities exchange; and
 - (b) A uniform price determined by a formula prescribed by Ordinance of the Prime Minister; and
 2. The subject matters that may be prescribed by the business guidelines shall be as follows:
 - (a) Matters concerning listed stocks as the subject matter of a trading brokerage;
 - (b) Matters concerning suspension of trading of listed stocks as the subject matter of a trading brokerage and the release of such suspension;
 - (c) Matters concerning the execution of trading contracts and the settlement of payments, including the method, liability, etc. for settlement;
 - (d) Matters concerning trading entrustment, including entrustment guarantee money;
 - (e) Matters concerning reporting and public disclosure by issuers of listed stocks as the subject

- matter of a trading brokerage;
 - (f) Matters concerning public announcements and reporting on trading results;
 - (g) Matters concerning the opening, closing, suspension, and discontinuance of a trading brokerage business; and
 - (h) Other matters as may be necessary in relation to a trading brokerage of listed stocks as the subject matter of the trading brokerage.
- (2) Part II, Chapter II (excluding [Articles 28](#) and [29](#)), [Articles 40](#), [66](#), [67](#), [72](#), [73](#) and [386](#) (2) shall not apply to electronic securities brokerage companies. <Amended by Act No. 9407, Feb. 3, 2009>
- (3) [Article 413](#) shall apply *mutatis mutandis* to electronic securities brokerage companies. <Amended by Act No. 9407, Feb. 3, 2009>

Sub-Section 2 Rules on Business Conduct by Collective Investment Business Entities

Article 79 (Fiduciary Duty of Due Care and Duty of Good Faith)

- (1) A collective investment business entity owes investors the fiduciary duty of due care in managing collective investment property.
- (2) A collective investment business entity shall carry out the business in good faith for the purpose of protecting investors' interests.

Article 80 (Instruction and Execution of Asset Management)

- (1) A collective investment business entity of an investment trust shall, in managing the investment trust property, give the trust business entity instructions necessary for acquisition, disposition, etc. of assets for investment separately for each investment trust property in accordance with the method prescribed by Presidential Decree, and the trust business entity shall, in return, acquire, dispose of, etc. the assets for investment in compliance with the instructions from the collective investment business entity: *Provided*, That if it is unavoidable for the purpose of managing the investment trust property efficiently, as prescribed by Presidential Decree, the collective investment business entity may acquire, dispose of, etc. any asset for investment directly in its name.
- (2) A collective investment business entity of an investment trust (including a trust business entity that keeps in custody and manages the investment trust property; hereafter the same shall apply in this paragraph) shall, when it acquires, disposes of, etc. an asset for investment in accordance with paragraph (1), be liable for the performance within the extent of the investment trust property: *Provided*, That the same shall not apply in cases where the collective investment business entity is liable for damages pursuant to [Article 64](#) (1).
- (3) A collective investment business entity shall, when it carries out the acquisition, disposal, etc. of assets for investment in accordance with the proviso to paragraph (1), distribute the outcome of the acquisition, disposal, etc. in accordance with the asset distribution schedule predetermined for each investment trust property. In such cases, the collective investment business entity shall prepare, maintain, and control the asset distribution schedule and account books and documents for the outcome of acquisition, disposal, etc. and the results of distribution, etc. in accordance with the method prescribed by Ordinance of the Prime Minister. <Amended by Act No. 8863, Feb. 29, 2008>
- (4) Matters pertaining to the asset distribution schedule, etc. under paragraph (3) shall be prescribed by Ordinance of the Prime Minister. <Amended by Act No. 8863, Feb. 29, 2008>
- (5) In managing the collective investment property, a collective investment business entity of any collective investment scheme, other than an investment trust, shall acquire, dispose of, etc. of the assets for investment by each collective investment property (excluding investment trust property) in accordance with a method prescribed by Presidential Decree in the name of the collective investment scheme (referring to the name of the collective investment business entity in the case of an undisclosed investment association), give the trust business entity of the collective investment scheme instructions necessary for safekeeping and management of the asset acquired, disposed of, etc., and the trust business entity shall comply with such instructions from the collective investment business entity. In such cases, the collective investment business entity shall make it clear that it represents the collective investment scheme whenever it acquires, disposes of, etc. the assets for investment. <Amended by Act No. 9407, Feb. 3, 2009>

Article 81 (Restrictions on Asset Management)

- (1) No collective investment business entity shall commit any of the following acts while managing the collective trust property: *Provided*, That the entity may be allowed to undertake such act if there is no possibility of undermining the protection of investors and the stable management of the collective investment property, as prescribed by Presidential Decree:

1. Any act falling under any of the following items, committed while investing the collective investment property in securities (excluding collective investment securities and the other securities specified by Presidential Decree, but including the assets for investment as specified by Presidential Decree; hereafter the same shall apply in this subparagraph) or derivatives:
 - (a) Investing the assets of each collective investment scheme managed by each collective investment business entity in an identical item of securities in excess of the ratio prescribed by Presidential Decree within the limit of 10/100 of the total assets of each collective investment scheme. In such cases, equity securities (including securities depositary receipts that are related to equity securities issued by a corporation, etc.; hereafter the same shall apply in this SubSection) and other securities, excluding any equity securities issued by the identical corporation, etc., shall be deemed identical securities respectively;
 - (b) Investing the total assets of all collective investment schemes managed by each collective investment business entity in equity securities issued by an identical corporation, etc. in excess of 20/100 of the total number of equity securities;
 - (c) Investing the total assets of each collective investment scheme in equity securities issued by an identical corporation, etc. in excess of 10/100 of the total number of equity securities;
 - (d) Trading over-the-counter derivatives with a person who does not meet the qualification requirements prescribed by Presidential Decree;
 - (e) Investing assets in excess of the guidelines prescribed by Presidential Decree for the assessed risks contingent to trading derivatives;
 - (f) Investing the assets of each collective investment scheme to the extent that the assessed risks ensuing from price fluctuation in the securities issued by an identical corporation, etc. (including securities depositary receipts related to the securities issued by the corporation, etc.) out of the underlying assets exceed 10/100 of the total assets of each collective investment scheme; and
 - (g) Investing assets of each collective investment scheme to the extent that the assessed risks of the opposite trading party ensuing from trading over-the-counter derivatives with the same opposite party exceed 10/100 of the total assets of each collective investment scheme;
2. Any act falling under any of the following items, committed while investing the collective investment property in real property;
 - (a) Disposing of real estate within a period of time prescribed by Presidential Decree not exceeding five years after the acquisition of real estate: *Provided*, That in cases where a parcel of land, buildings, etc. developed or constructed by a real estate development project (referring to a project for developing a parcel of land into housing lots, lots for industrial purposes, etc. or constructing or reconstructing a building or any other structure on the tract of land; hereinafter the same shall apply) are sold in lots or in units or where it is otherwise necessary for the protection of investors, as prescribed further by Presidential Decree, such disposal shall be excluded herefrom; and
 - (b) Disposing of a parcel of land without any building or other structure thereon before executing a real estate development project for such a parcel of land: *Provided*, That in cases where the collective investment scheme is merged, terminated, or dissolved or where it is otherwise necessary for the protection of investors, as prescribed further by Presidential Decree, such disposal shall be excluded herefrom;
3. Any act falling under any of the following items, committed while investing the collective investment property in collective investment securities (including foreign collective investment securities under [Article 279](#) (1); hereafter the same shall apply in this subparagraph):
 - (a) Investing the assets of each collective investment scheme in the collective investment securities of a collective investment scheme (including foreign collective investment schemes under [Article 279](#) (1)) managed by the same collective investment business entity (including foreign collective investment business entities under [Article 279](#) (1)), in excess of 50/100 of the total assets of the collective investment scheme;
 - (b) Investing the assets of each collective investment scheme in the collective investment securities of the same collective investment scheme (including foreign collective investment schemes under [Article 279](#) (1)), in excess of 20/100 of the total assets of the collective investment scheme;
 - (c) Investing assets in the collective investment securities of a collective investment scheme (including foreign collective investment schemes under [Article 279](#) (1)), which is allowed to invest in collective investment securities in excess of 40/100 of the total assets;
 - (d) Investing assets in the collective investment securities of a privately placed fund (including foreign privately placed funds corresponding to the privately placed fund hereunder);
 - (e) Investing the collective investment property of each collective investment scheme in the collective investment securities of the same collective investment scheme (including foreign collective investment schemes under [Article 279](#) (1)), in excess of 20/100 of the total number of the collective investment securities. In such cases, the calculation of the ratio shall be based on

- the day on which such investment is made; and
- (f) Investing assets in collective investment securities to the extent that the aggregate of sales commissions or sales remuneration paid to the investment trader or the investment broker, who sells the collective investment securities of a collective investment scheme, and sales commission or sales remuneration paid to the investment trader [including foreign investment traders (referring to the persons who engage in a business corresponding to an investment trading business in a foreign country in accordance with the Acts and subordinate statutes of the foreign country), who sells the collective investment securities of other collective investment schemes (including foreign collective investment schemes under [Article 279](#) (1)) in which the aforesaid collective investment scheme invests in, or the investment broker [including foreign investment brokers (referring to the persons who engage in a business corresponding to an investment brokerage business in a foreign country in accordance with the Acts and subordinate statutes of the foreign country)], exceeds the guidelines prescribed by Presidential Decree; and
4. Any other act specified by Presidential Decree as likely to undermine the protection of investors, the stable management of collective investment property, etc.
- (2) Matters pertaining to the method, etc. of determining the assessed risks under paragraph (1) 1 (e), the assessed risks under paragraph (1) 1 (f), and the assessed risks of the opposite trading party under paragraph (1) 1 (g) shall be determined by the Financial Services Commission and provided by public notice. <Amended by Act No. 8863, Feb. 29, 2008>
- (3) In cases where an investment has exceeded the investment limit under paragraph (1) owing to an unavoidable cause or event specified by Presidential Decree, such as price fluctuation in any investment asset, which belongs to the collective investment property, during the period prescribed by Presidential Decree beginning with the day on which the investment exceeded the prescribed limit, it shall be deemed that such investment was made in compliance with the investment limit.
- (4) Paragraph (1) 1 (a), (e) through (g), 3 (a), 3 (b) and investment ratios under each subparagraph of [Article 229](#) shall not apply to the period of time specified by Presidential Decree, not exceeding six months from the date of the original creation or establishment of the collective investment scheme. <Amended by Act No. 9407, Feb. 3, 2009>

Article 82 (Restriction on Acquisition of One's Own Collective Investment Securities)

No collective investment business entity of an investment trust or an undisclosed investment association shall acquire the collective investment securities of the collective investment scheme, or receive such securities as the subject matter of a pledge right on the collective investment scheme's account: *Provided*, That the entity may acquire the collective investment securities of the collective investment scheme on the collective investment scheme's account in any of the following cases:

1. Where it is necessary for exercising a security right or any other right. In such cases, the collective investment securities so acquired shall be disposed of in accordance with the method prescribed by Presidential Decree; and
2. Where beneficiary certificates are purchased in accordance with [Article 191](#).

Article 83 (Restrictions on Borrowing Money, etc.)

- (1) No collective investment business entity may borrow money on its collective investment scheme's account in managing the collective investment property: *Provided*, That it is allowed to borrow money on its collective investment scheme's account in any of the following cases:
1. When it is difficult to pay a redemption price momentarily because of rush claims for redemption of collective investment securities under [Article 235](#); or
 2. When it is difficult to pay a repurchase price momentarily because of rush claims for repurchasing under [Articles 191](#) and [201](#) (4).
- (2) In cases where money is borrowed on a collective investment scheme's account in accordance with paragraph (1), the total amount of such loans shall not exceed 10/100 of the total amount of the collective investment property at the time of borrowing.
- (3) Matters pertaining to the method of borrowing money in accordance with paragraph (1), restrictions on acquisition of the investment assets before repayment of loans, etc. shall be prescribed by Presidential Decree.
- (4) In managing the collective investment property, no collective investment business entity shall lend money out of the collective investment property (excluding short-term loans to any financial institution specified by Presidential Decree for a period not exceeding 30 days).
- (5) In managing the collective investment property, no collective investment business entity shall guarantee the performance of obligations or offer any security for any person other than the pertinent collective investment scheme with the collective investment property.

Article 84 (Restrictions on Transactions with Interested Parties, etc.)

- (1) In managing the collective investment property, no collective investment business entity shall

conduct any transactional activity with an interested party, as specified by Presidential Decree (hereafter referred to as "interested party" in this Section): *Provided*, That the entity is allowed to make a transaction falling under any of the following subparagraphs, if there is no possibility of a conflict of interest with the collective investment scheme:

1. A transaction under a contract entered into with a person at least six months before the person becomes an interested party;
 2. A transaction through an open market in which a multiple number of unspecified people participate, such as the securities exchange;
 3. A transaction favorable to the collective investment scheme in comparison to the standard terms and conditions of such a transaction; and
 4. Other transactions specified by Presidential Decree.
- (2) A collective investment business entity shall, when a transaction with an interested party is allowed pursuant to the proviso to paragraph (1) or when there is a change of interested parties, notify the details of such event to the trust business entity who keeps in custody and manages the relevant collective investment property without delay.
- (3) In managing the collective investment property, no collective investment business entity shall acquire securities (excluding beneficiary certificates under [Article 189](#)) issued by the collective investment business entity itself on its collective investment scheme's account.
- (4) In managing the collective investment property, no collective investment business entity shall acquire securities (excluding beneficiary certificates under [Article 189](#) and other securities specified by Presidential Decree, but including securities depositary receipts related to equity securities issued by its affiliated company and assets for investment specified by Presidential Decree; hereafter the same shall apply in this Article) issued by an affiliated company of the collective investment business entity in excess of the limit prescribed by Presidential Decree.
- (5) Matters pertaining to the restriction on acquisition of securities issued by an affiliated company under paragraph (4) shall be prescribed by Presidential Decree.

Article 85 (Prohibition on Unsound Business Conduct)

No collective investment business entity shall commit any of the following acts: *Provided*, That such an act is allowed in cases where there is no possibility of undermining the protection of investors or sound trade practice, as prescribed by Presidential Decree:

1. Buying or selling financial investment instruments or any other asset for investment on its own account, or soliciting a third party to buy or sell such instruments or assets, after determining to make a purchase or sale which may produce a significant impact on the price of the financial investment instruments or other assets for investment, but before putting the decision into action, while managing the collective investment property;
2. Buying securities underwritten by itself or a related underwriter, as specified by Presidential Decree (hereafter referred to as "related underwriter" in this Section) for the collective investment property;
3. Buying specific securities, etc. (referring to specific securities, etc. under [Article 172](#) (1); hereafter the same shall apply in this subparagraph) with the collective investment property while intending to create an artificial market value (referring to the market value under [Article 176](#) (2) 1) for the specific securities, etc. of a corporation for which the corporation itself or its related underwriter was in charge of underwriting, as prescribed by Presidential Decree;
4. Undermining a specific collective investment scheme's interest to pursue its own or a third party's interest;
5. Trading a specific collective investment property for the collective investment business entity's proprietary property or other collective investment property, discretionary investment property (referring to the property managed pursuant to the discretionary power authorized by investors for making judgments on investments; hereinafter the same shall apply), or trust property managed by the collective investment business entity;
6. Investing the collective investment property one with another interactively within a specific asset according to an agreement, arrangement, etc. with a third party;
7. Engaging any persons other than fund managers to manage the collective investment property; and
8. Other acts specified by Presidential Decree as likely to undermine the protection of investors or sound trade practice.

Article 86 (Restriction on Contingent Remuneration)

- (1) No collective investment business entity shall receive remuneration that is contingent upon the performance of its collective investment scheme (hereinafter referred to as "contingent remuneration") in accordance with a predetermined calculation formula: *Provided*, That such contingent remuneration may be allowed in any of the following cases:
1. If the collective investment scheme is a privately placed fund; and

2. If there is no possibility of undermining the protection of investors or sound trade practice, as prescribed by Presidential Decree, considering the calculation method used for remuneration of management for any collective investment scheme other than privately placed funds, the composition of investors, etc.
- (2) A collective investment business entity shall, when it intends to receive contingent remuneration in accordance with the proviso to paragraph (1), state the calculation method of the contingent remuneration and other matters prescribed by Presidential Decree in the relevant investment prospectus (referring to the investment prospectus under [Article 123](#) (1)) and the collective investment agreement.

Article 87 (Voting rights, etc.)

- (1) In exercising voting rights for stocks which are part of the collective investment property, a collective investment business entity (limited to collective investment business entities of an investment trust or an undisclosed investment association; hereafter the same shall apply in this Article) shall exercise its voting rights so as not to produce an impact on a resolution made by the number of stocks, as calculated by subtracting the number of the stocks, which are part of the collective investment property from the stocks held by shareholders present at the general meeting of shareholders of the corporation that issued the stocks which are part of the collective investment property, in any of the following subparagraphs: *Provided*, That the same shall not apply in cases where the corporation that issued the stocks which are part of the collective investment property, is merged, its business is transferred, it acquires any transferred business, an executive is appointed or dismissed, its articles of incorporation are amended, or there is any cause or event similar to the aforesaid, and if it is obviously foreseeable that such event or cause will result in any loss to the collective investment property:
 1. When any of the following persons attempts to include the corporation that issued the stocks which are part of the collective investment property, in a group of its affiliated companies:
 - (a) The collective investment business entity or any person who has an interest in the business entity as specified by Presidential Decree; and
 - (b) A person specified by Presidential Decree, who has *de facto* control over the collective investment business entity;
 2. When the corporation that issued the stocks which are part of the collective investment property has any of the following relationships in the collective investment business entity:
 - (a) When it is an affiliated company; and
 - (b) When it has a relationships, prescribed further by Presidential Decree, under which it exercises *de facto* control over the collective investment business; and
 3. When there is a possibility of undermining the protection of investors or the appropriate management of the collective investment property, as prescribed by Presidential Decree.
- (2) The proviso to paragraph (1) shall not apply to any collective investment business entity that belongs to an enterprise group subject to a restriction on mutual investment under [Article 9 \(1\) of the Monopoly Regulation and Fair Trade Act](#) (hereinafter referred to as "enterprise group subject to a restriction on mutual investment"): *Provided*, That in cases where a collective investment business entity that belongs to an enterprise group subject to a restriction on mutual investment holds stocks issued by a stock-listed corporation, which is one of its affiliated companies, and it is obviously foreseeable that the collective investment property will sustain a loss if it exercises its voting rights concerning any of the following matters in accordance with the main sentence of paragraph (1), it may exercise its voting rights in accordance with the proviso to paragraph (1). In such cases, the number of stocks for which it may exercise its voting rights after adding up the number of stocks for which related persons (referring to the specially related persons under [Article 7 \(1\) 5 \(a\) of the Monopoly Regulation and Fair Trade Act](#)) of the corporation may exercise voting rights shall not exceed 15/100 of the total number of outstanding stocks of the corporation:
 1. Merging the corporation with another corporation or transferring the whole or essential part of the corporation's business to another corporation;
 2. Appointing or dismissing an executive of the corporation; and
 3. Amending the articles of incorporation.
- (3) Notwithstanding paragraph (2), any collective investment business entity that belongs to an enterprise group subject to a restriction on mutual investment shall, when it owns stocks issued by a corporation which is one of its affiliated companies, as part of the collective investment property, exercise its voting rights for the stocks acquired in accordance with the proviso to [Article 81](#) (1) in excess of the investment limit under [Article 81](#) (1) 1 (a) so as not to produce any impact on the resolution made by the number of stocks calculated by subtracting the number of stocks held as part of the collective investment property from the number of stocks held by the shareholders who were present at the general meeting of shareholders of the corporation that issued the stocks.
- (4) No collective investment business entity may exercise voting rights for the stocks acquired in

- excess of the investment limit under [Articles 81](#) (1) and [84](#) (4).
- (5) No collective investment business entity shall commit any act to avoid the application of the provisions of paragraphs (1) through (4) by exercising the voting right one with another interactively according to an agreement with a third party.
 - (6) The Financial Services Commission may, when a collective investment business entity exercises voting rights for stocks that belong to the collective investment property in violation of paragraphs (1) through (5), issue an order to dispose of such stocks within a given period of time, not exceeding six months. *<Amended by Act No. 8863, Feb. 29, 2008>*
 - (7) A collective investment business entity shall keep and maintain records of whether the voting rights of the corporation that issued the stocks held in excess of the ratio or amount prescribed by Presidential Decree (hereafter referred to as "corporation subject to public disclosure of voting rights" in this Article) as part of the collective investment property have been exercised, including the details of such exercise (or the reason why it has not been exercised, if that is the case) in accordance with the manner prescribed by Presidential Decree.
 - (8) A collective investment business entity shall make a public disclosure of the details of the exercised voting rights for the stocks prescribed by Presidential Decree (in cases of stock-listed corporations under [Article 9](#) (15) 3 (b), including securities depository receipts related to the stocks), from among stocks that belong to the collective investment property, etc., according to each of the following categories. In this regard, matters pertaining to the method of public disclosure, etc. shall be prescribed by Presidential Decree: *<Amended by Act No. 9407, Feb. 3, 2009>*
 1. When the voting rights were exercised in accordance with the provisions of paragraphs (1) through (3) in relation to the matters concerning the change of business control, such as corporate merger, transfer of business, appointment or dismissal of an executive, and amendment to the articles of incorporation: Specific details of how the voting rights were exercised;
 2. When the voting rights were exercised over a corporation subject to public disclosure of voting rights: Specific details of how the voting rights were exercised in accordance with paragraph (7); and
 3. When the voting rights were not exercised over a corporation subject to public disclosure of voting rights: Specific reason why the voting rights were not exercised in accordance with paragraph (7).
 - (9) A collective investment business entity shall, when it discloses to the public the matters concerning whether voting rights were exercised in accordance with paragraph (8), also disclose the data specified by Presidential Decree as those necessary for investors to grasp whether the exercise or non-exercise of voting rights was proper, etc.

Article 88 (Delivery of Report on Asset Management)

- (1) A collective investment business entity shall prepare a report on asset management at least once every three months and shall deliver the report to investors of the relevant collective investment scheme after obtaining confirmation from the trust business entity that keeps in custody and manages the relevant collective investment property: *Provided*, That delivering such a report on asset management to investors may be omitted in cases where investors are changed from time to time or there is no possibility of undermining investors' interests, as prescribed further by Presidential Decree. *<Amended by Act No. 9407, Feb. 3, 2009>*
- (2) A collective investment business entity shall state the following matters in the report on asset management under paragraph (1):
 1. Assets and liabilities of the collective investment scheme and the base price of the collective investment securities as of any of the following days (hereinafter referred to as "reference date"):
 - (a) The date on which three months has elapsed from the commencement date of the fiscal term;
 - (b) The last day of the fiscal term;
 - (c) The last day of the contract term or the expiry date of the existence term; and
 - (d) The date of termination or dissolution;
 2. A summary of management progress during the time period from the immediately preceding reference date (referring to the date of original creation or formation of the relevant collective investment scheme, if there is no immediately preceding reference date available) to the pertinent reference date (hereafter referred to as "pertinent management period" in this Article) and the matters concerning profit and loss during the pertinent management period;
 3. The ratio of the assessed value of each type of asset that belongs to the collective investment property to the total value of the collective investment property as of the reference date;
 4. The total number of stocks traded, total trading amount, and turnover rate prescribed by Presidential Decree during the pertinent management period; and
 5. Other matters prescribed by Presidential Decree.
- (3) Matters pertaining to the time and method of delivering the report on asset management under

paragraph (1), liability for expenses, etc. shall be prescribed by Presidential Decree. <Amended by Act No. 9407, Feb. 3, 2009>

Article 89 (Ad Hoc Public Disclosure)

- (1) A collective investment business entity of an investment trust or an undisclosed investment association shall, when any of the following events or causes occurs, disclose such event or cause to the public: <Amended by Act No. 9407, Feb. 3, 2009>
 1. Any change in fund managers;
 2. Decisions on deferment or resumption of redemption and the reason therefor;
 3. Details of non-performing assets, if any, specified by Presidential Decree, and the depreciation rate thereof;
 4. Details of resolutions of the general meeting of collective investors; and
 5. Other matters prescribed by Presidential Decree as those necessary for the protection of investors.
- (2) Ad hoc public disclosure shall be made in a manner falling under each of the following subparagraphs: <Newly Inserted by Act No. 9407, Feb. 3, 2009>
 1. Disclosing to the public through the Internet homepage of a collective investment business entity, an investment trader or broker that sold the relevant collective investment securities, and the Association;
 2. Informing investors through electronic mail by a investment trader or investment broker that sold the relevant collective investment securities; and
 3. Posting a public notice at the head office, branch offices, and other sales offices of a collective investment business entity, an investment trader or investment broker that sold the relevant collective investment securities.

Article 90 (Reporting on Collective Investment Property, etc.)

- (1) A collective investment business entity (limited to the collective investment business entities of an investment trust or an undisclosed investment association; hereafter the same shall apply in this Article) shall prepare a business report for each quarter concerning the collective investment property in accordance with the manner prescribed by Presidential Decree, and shall submit it to the Financial Services Commission and the Association no later than two months after the end of each quarter. <Amended by Act No. 8863, Feb. 29, 2008; Act No. 9407, Feb. 3, 2009>
- (2) A collective investment business entity shall, when any of the following causes or events occur, submit documents of settlement of accounts under [Article 239](#) to the Financial Services Commission and the Association within two months from the day on which such cause or event occurs: <Amended by Act No. 8863, Feb. 29, 2008>
 1. The end of the fiscal term of a collective investment scheme;
 2. The end of the contract term or existence term of a collective investment scheme; and
 3. Termination or dissolution of a collective investment scheme.
- (3) The Financial Services Commission and the Association shall disclose the documents submitted in accordance with paragraphs (1) and (2) to the public through its Internet homepage, etc. <Amended by Act No. 8863, Feb. 29, 2008>
- (4) The Association shall compare management performance of each collective investment property including the details of change in net asset value of each collective investment property in accordance with the manner prescribed by Presidential Decree, and shall disclose the result thereof to the public through its Internet homepage, etc.

Article 91 (Inspection, Public Disclosure, etc. of Account Books and Documents)

- (1) An investor may request a collective investment business entity (limited to the collective investment business entities of an investment trust or an undisclosed investment association, but including the investment trader and the investment broker who sold the relevant collective investment securities; hereafter the same shall apply in this Article), in writing with the reasons contained therein, to allow him/her to inspect account books and documents related to the collective investment property in which he/she has an interest during business hours or issue a certified copy or abstract of such account books and documents. In such cases, the collective investment business entity shall not reject such request, unless there is a justifiable ground as prescribed by Presidential Decree.
- (2) Matters pertaining to the extent of the account books and documents subject to the request for inspection or issuance of a certified copy or abstract thereof under paragraph (1) shall be prescribed by Presidential Decree.
- (3) An investment business entity shall publicly disclose its collective investment agreement through its Internet homepage, etc.

Article 92 (Notice of Deferment of Redemption, etc.)

- (1) A collective investment business entity (limited to collective investment business entities of an investment trust or an undisclosed investment association; hereafter the same shall apply in this

Article) shall, when any of the following events occur, notify the investment trader or the investment broker who sold the relevant collective investment securities thereof without delay:

1. When the redemption of the collective investment securities is deferred in accordance with [Article 237](#) (1); and
 2. When the accounting auditor's audit opinion on the collective investment scheme under [Article 240](#) (3) is not an unqualified one.
- (2) A collective investment business entity shall, when the event under paragraph (1) terminates, notify the investment trader or the investment broker who sold the relevant collective investment securities thereof without delay.

Article 93 (Special Cases Concerning Management of Derivatives)

- (1) When the collective investment property of a collective investment scheme, which is allowed to invest its property in derivatives to the extent that the assessed risks contingent to the trading of derivatives (referring to the assessed risks under [Article 81](#) (1) 1 (e); hereafter the same shall apply in this Article) exceed the guidelines prescribed by Presidential Decree, is invested in derivatives, the collective investment business entity shall publicly disclose the contract amount and other indexes related to risks, as prescribed by Presidential Decree, through its Internet homepage, etc. In such cases, the investment prospectus (referring to the investment prospectus under [Article 123](#) (1)) of the collective investment scheme shall contain a statement that the summary of indexes related to contingent risks and the indexes related to such risks shall be publicly disclosed.
- (2) When the collective investment property of a collective investment scheme, which is allowed to invest its property in over-the-counter derivatives to the extent that the assessed risks contingent to the trading of over-the-counter derivatives exceed the guidelines prescribed by Presidential Decree, is invested in such over-the-counter derivatives, the collective investment business entity shall prepare a risk management scheme for management of over-the-counter derivatives, and shall report it the Financial Services Commission subject to a prior confirmation of the trust business entity that keeps in custody and manages the collective investment property. <Amended by Act No. 8863, Feb. 29, 2008>

Article 94 (Special Cases Concerning Management of Real Property)

- (1) A collective investment business entity may, when it acquires real estate as part of the collective investment property, borrow money on the collective investment scheme's account in accordance with the manner prescribed by Presidential Decree, notwithstanding the main sentence of [Article 83](#) (1).
- (2) A collective investment business entity may lend money to a corporation which runs a real estate development project (including real estate trust business entities and other persons specified further by Presidential Decree) out of the collective investment property in accordance with the manner prescribed by Presidential Decree, notwithstanding [Article 83](#) (4).
- (3) A collective investment business entity shall, whenever it acquires or disposes of real estate for the collective investment property, prepare and keep a due-diligence report, which shall contain the current status of the real estate, its trading price, and other matters prescribed by Presidential Decree.
- (4) A collective investment business entity shall, whenever it intends to invest the collective investment property in a real estate development project, prepare a business plan, which shall contain the timetable and method for promotion, and other matters prescribed by Presidential Decree, subject to confirmation from an appraiser under the [Public Notice of Values and Appraisal of Real Estate Act](#) on whether the business plan is feasible, and shall publicly disclose it through its Internet homepage, etc.
- (5) When real estate is acquired as part of the collective investment property, the description of beneficiaries may be omitted in the written statement that shall be attached to an application for the registration of trust, in applying [Article 123 of the Registration of Real Estate Act](#).
- (6) Matters pertaining to the limits of borrowing and lending money under paragraphs (1) and (2), the restriction on management of borrowed money, etc. shall be prescribed by Presidential Decree.

Article 95 (Liquidation)

- (1) The Financial Services Commission shall supervise the affairs related to liquidation of a financial investment business entity that has engaged in a collective investment business. <Amended by Act No. 8863, Feb. 29, 2008>
- (2) The Financial Services Commission may inspect the status of liquidation affairs and property or issue an order to deposit the property in securities depository or any other order as may be necessary for the supervision of liquidation. <Amended by Act No. 8863, Feb. 29, 2008>
- (3) The Financial Services Commission shall, when a financial investment business entity that has engaged in a collective investment business is dissolved due to the revocation of its authorization for its financial investment business, appoint a liquidator *ex officio*. <Amended by Act No. 8863,

Feb. 29, 2008>

- (4) The Financial Services Commission shall, if a financial investment business entity that has engaged in a collective investment business is dissolved by an order or a judgment of a court or if there is no liquidator, appoint a liquidator *ex officio* or upon request of an interested party. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (5) The Financial Services Commission may, when it appoints a liquidator, require a financial investment business entity that has engaged in a collective investment business to pay remuneration to the liquidator. In such cases, the Financial Services Commission shall determine the amount of remuneration and provide public notice of such. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (6) If a liquidator is significantly unfit for executing such affairs or commits a serious violation of any Act and subordinate statute, the Financial Services Commission may remove the liquidator *ex officio* or upon request of an interested party. *<Amended by Act No. 8863, Feb. 29, 2008>*

Sub-Section 3 Rules on Business Conduct by Investment Advisory Business Entities and Discretionary Investment Business Entities

Article 96 (Fiduciary Duty of Due Care and Duty of Good Faith)

- (1) An investment advisory business entity owes the fiduciary duty of due care to investors in providing advice for investment, and a discretionary investment business entity owes the fiduciary duty of due care to investors in managing the discretionary investment property.
- (2) An investment advisory business entity and discretionary investment business entity shall execute its business affairs in good faith to protect investors' interests.

Article 97 (Execution of Contract)

- (1) An investment advisory business entity or discretionary investment business entity shall, when it intends to execute an investment advisory contract or a discretionary investment contract with an ordinary investor, deliver written materials containing the following matters in advance to the ordinary investor:
 1. The scope of advising for investment, the method of providing such service, the scope of discretionary investment, and the financial investment instruments advisable for investment;
 2. General guidelines and procedure established by the investment advisory business entity or discretionary investment business entity, in connection with the execution of the investment advisory business or discretionary investment business;
 3. Names and major professional experience of executives or employees who actually run the investment advisory business or discretionary investment business;
 4. Guidelines and procedure established by the investment advisory business entity or discretionary investment business entity in order to prevent conflict of interests with investors;
 5. The fact that the results of investment shall be imputed to each investor in relation to the investment advisory contract or discretionary investment contract and matters concerning the liability of each investor;
 6. Matters concerning fees;
 7. The method of notifying investors of the evaluation of performance of investments and the outcomes of investments (limited to a discretionary investment contract); and
 8. Other matters prescribed by Presidential Decree as those that serve as important guidelines for investors' judgment when they determine whether to sign a contract.
- (2) An investment advisory business entity or discretionary investment business entity shall, whenever it executes an investment advisory contract or a discretionary investment contract with an ordinary investor, state the following matters in the contract documents delivered to the ordinary investor in accordance with [Article 59](#) (1). In such cases, the descriptions therein shall not differ from those contained in the written materials delivered in accordance with paragraph (1):
 1. Matters under the subparagraphs of paragraph (1);
 2. Matters concerning contractual parties;
 3. Contract term and contract date;
 4. Matters concerning amendment to and termination of the contract; and
 5. The investment trader or investment broker in which the discretionary investment property is deposited, and names of other financial institutions and their sales offices.

Article 98 (Prohibition on Unsound Business Conduct)

- (1) No invest advisory business entity or discretionary investment business entity shall commit any of the following acts: *Provided*, That such acts may be allowed if there is no possibility of undermining the protection of investors or sound trade practice, as prescribed by Presidential Decree:

1. Receiving money, securities, or any other property from an investor for keeping in custody or deposit;
 2. Lending money, securities, or any other property to an investor, or acting as a broker, making an arrangement, or acting as an agent of a third party for lending a third party's money, securities, or any other property to an investor;
 3. Engaging any person other than a professional advisor for investment recommendation or professional manager to run the investment advisory business or discretionary investment business; and
 4. Receiving any consideration in addition to the fees stipulated in the agreement.
- (2) In managing the discretionary investment property, no discretionary investment business entity shall commit any of the following acts: *Provided*, That such acts may be allowed if there is no possibility of undermining the protection of investors or sound trade practice, as prescribed by Presidential Decree:
1. Buying or selling on its own account, or soliciting a third party to buy or sell, a financial investment instrument or any other asset for investment, after determining to make a purchase or sale, which may produce a significant impact on the price of the financial investment instrument or other asset for investment, while managing the discretionary investment property, but before putting the determination into action;
 2. Buying securities underwritten by itself or a related underwriter for the discretionary investment property;
 3. Buying specific securities, etc. (referring to specific securities, etc. under [Article 172](#) (1); hereafter the same shall apply in this subparagraph), using the discretionary investment property with an intention to create an artificial market value (referring to the market value under [Article 176](#) (2) 1) for the specific securities, etc. of a corporation for which the corporation itself or its related underwriter was in charge of the underwriting affairs as prescribed by Presidential Decree;
 4. Undermining a specific investor's interest to pursue its own or a third party's interest;
 5. Trading the discretionary investment property for another discretionary investment property, collective investment property, or trust property managed by itself;
 6. Trading the discretionary investment property for the proprietary property of the discretionary investment business entity or its interested party;
 7. Investing the discretionary investment property in securities issued by the discretionary investment business entity or its interested party without the investor's consent;
 8. Managing several investors' assets collectively instead of managing the discretionary investment property separately for each investor;
 9. Obtaining authorization for any of the following acts from an investor:
 - (a) Designating or changing the investment trader, investment broker, or any other financial institution for depositing the discretionary investment property;
 - (b) Depositing or withdrawing the discretionary investment property; and
 - (c) Exercising voting rights or any other rights in securities that belong to the discretionary investment property; and
 10. Other act specified by Presidential Decree as an act likely to undermine the protection of investors or sound trade practice.

Article 99 (Delivery of Discretionary Investment Report)

- (1) A discretionary investment business entity shall prepare a report on the following matters (hereafter referred to as "discretionary investment report" in this Article) at least once every three months, and shall deliver it to each ordinary investor who signed the discretionary investment contract: *<Amended by Act No. 9407, Feb. 3, 2009>*
 1. Current status of management of the discretionary investment property; and
 2. Time and outcome of trading in a specific asset out of the discretionary investment property for the proprietary property of the discretionary investment business entity and the balance thereof, if there was such transaction.
- (2) Matters pertaining to the mandatory descriptions of the discretionary investment report, the delivery method thereof, etc. shall be prescribed by Presidential Decree.

Article 100 (Special Cases Concerning Offshore Investment Advisory Business Entity, etc.)

- (1) [Articles 22 through 36](#), [38](#), [40](#), [41](#), [44](#), [45](#), [50 through 52](#), [56](#), and [61 through 63](#) shall not apply to foreign investment advisory business entities (hereinafter referred to as "offshore investment advisory business entities") or foreign discretionary investment business entities (hereinafter referred to as "offshore discretionary investment business entities") who engage in the investment advisory business or discretionary investment business under the proviso to [Article 18](#) (2) 1.
- (2) An offshore investment advisory business entity or offshore discretionary investment business entity shall have a person in charge of liaison, who shall meet the requirements prescribed by Ordinance of the Prime Minister, within this country for protection of investors. *<Amended by Act*

No. 8863, Feb. 29, 2008>

- (3) An offshore investment advisory business entity or offshore discretionary investment business entity shall include in the contents of an investment advisory contract or a discretionary investment contract made with a domestic resident, conditions stating that the contract shall be governed by the laws of the Republic of Korea and that the courts of the Republic of Korea shall have jurisdiction over lawsuits arising from the contract.
- (4) An offshore investment advisory business entity or offshore discretionary investment business entity shall prepare the proper guidelines and procedures with which its executives or employees shall comply in performing their duties in order to monitor whether the matters provided for in [Article 98](#) are complied with, and shall monitor the actual status of its operation on a regular basis.
- (5) An offshore investment advisory business entity or offshore discretionary investment business entity shall prepare a business report in accordance with the manner prescribed by Presidential Decree, and shall submit it to the Financial Services Commission. <Amended by Act No. 8863, Feb. 29, 2008>
- (6) No offshore discretionary investment business entity shall engage in the discretionary investment business with an aim to soliciting for investment any person other than those specified by Presidential Decree from among professional investors.
- (7) An offshore discretionary investment business entity shall keep foreign currency securities acquired as the discretionary investment property in a foreign depository institution specified by Presidential Decree.
- (8) Other matters pertaining to the business method, procedure, etc. for offshore investment advisory business entities or offshore discretionary investment business entities shall be prescribed by Presidential Decree.

Article 101 (Reporting on Quasi-investment Advisory Business)

- (1) A person who intends to engage in a business for providing advice concerning judgments on investment in financial investment instruments or the value of financial investment instruments, as prescribed further by Presidential Decree, through a periodical published for a multiple number of unspecified people, by electronic mail, etc. (hereafter referred to as "quasi-investment advisory business" in this Article) shall file a report with the Financial Services Commission in the form determined by the Financial Services Commission, and provided by public notice. <Amended by Act No. 8863, Feb. 29, 2008>
- (2) A person who engages in a quasi-investment advisory business shall, if any of the following events occur, report such event to the Financial Services Commission within two weeks: <Amended by Act No. 8863, Feb. 29, 2008>
 1. When the quasi-investment advisory business is closed down;
 2. When its name or domicile is changed; and
 3. When its representative is changed.
- (3) The Financial Services Commission may, if deemed necessary for maintaining order in the quasi-investment advisory industry, protecting customers, etc., demand that a person who engages in a quasi-investment advisory business submit materials concerning the details of its business, the business method, etc. <Amended by Act No. 8863, Feb. 29, 2008>
- (4) [Article 98](#) (1) (excluding subparagraph 3 thereof) shall apply *mutatis mutandis* to any person who is obligated to file a report in accordance with paragraph (1).

Sub-Section 4 Rules on Business Conduct by Trust Business Entities

Article 102 (Fiduciary Duty of Due Care and Duty of Good Faith)

- (1) A trust business entity owes the fiduciary duty of due care to beneficiaries in managing the trust property.
- (2) A trust business entity shall execute its business affairs in good faith to protect beneficiaries' interests.

Article 103 (Restrictions on Trust Property, etc.)

- (1) No trust business entity shall accept for trust any property other than those set forth in the following subparagraphs:
 1. Money;
 2. Securities;
 3. Monetary claims;
 4. Chattels;
 5. Real property; and
 6. Superficies, a right to lease on a deposit basis, a right to lease a real estate, a claim for registration of transfer of ownership of a real estate, and other rights related to real property; and

7. Intangible property rights (including intellectual property rights).
- (2) Any trust business entity may be entrusted with two or more assets comprehensively among the assets under the subparagraphs of paragraph (1) by a trustor under a single trust contract.
- (3) Matters pertaining to the entrustment of assets under subparagraphs of paragraph (1), the kinds of trust in connection with acceptance of a comprehensive property trust under paragraph (2), compensation for losses, guarantee for returns, and other terms and conditions of trust transactions shall be prescribed by Presidential Decree.
- (4) A trust business entity may, when it executes a trust contract for the purpose of real estate development projects, be entrusted with an asset under paragraph (1) 1 for each real estate development project under such trust contract within the limit of 15/100 of the project cost prescribed by Presidential Decree.

Article 104 (Separation of Trust Property from Proprietary Property)

- (1) The proviso to [Article 31 \(1\) of the Trust Business Act](#) shall not apply to any trust business entity.
- (2) A trust business entity may acquire a trust asset as part of its proprietary property in accordance with the terms and conditions of a trust contract in any of the following cases:
 1. Where it is necessary for performing the obligation that it owes to beneficiaries as a consequence of its trust activities [limited to cases where the asset acquired in the course of a management of monetary trust asset has a market value (referring to the market value under [Article 176 \(2\) 1](#)) in the securities exchange, the derivatives market, or an overseas market similar to any of the aforesaid markets]; and
 2. Where it is unavoidable in order to terminate the trust contract or to protect beneficiaries for any other reason, as prescribed by Presidential Decree (limited to a trust contract under which losses shall be compensated or returns shall be guaranteed, in accordance with [Article 103 \(3\)](#)).

Article 105 (Restrictions on Management of Trust Property, etc.)

- (1) A trust business entity shall manage the money within the trust property in accordance with the following methods:
 1. Purchasing securities (limited to the securities specified by Presidential Decree);
 2. Purchasing exchange-traded or over-the-counter derivatives;
 3. Depositing the money in a financial institution, as specified by Presidential Decree;
 4. Purchasing monetary claims;
 5. Making loans;
 6. Purchasing bills;
 7. Purchasing commodities;
 8. Purchasing intangible property rights;
 9. Purchasing or developing real estate; or
 10. The methods specified by Presidential Decree, considering the safety, profitability, etc. of the trust property.
- (2) No trust business entity shall borrow money for the proprietary property of the trust business entity on the trust's account, except where it is entrusted with only the assets under [Article 103 \(1\) 5 and 6](#) or where there exists any ground prescribed otherwise by Presidential Decree.
- (3) Matters pertaining to the specific extent, conditions, limitations of management of trust property under paragraphs (1) and (2), and other methods of, and restrictions on, management of trust property shall be prescribed by Presidential Decree.

Article 106 (Management of Surplus Fund)

A trust business entity shall, when it is entrusted with only the assets under [Article 103 \(1\) 5 and 6](#), manage the surplus fund raised in the course of management of such trust property in accordance with the following methods:

1. Depositing the money in a financial institution specified by Presidential Decree;
2. Purchasing national bonds, local government bonds, or special bonds;
3. Purchasing securities for which the payment is guaranteed by the Government or a financial institution specified by Presidential Decree; or
4. Other methods specified by Presidential Decree as those that will not undermine the safety, profitability, etc. of trust property under [Article 103 \(1\) 5 and 6](#).

Article 107 Deleted. <by Act No. 9407, Feb. 3, 2009>

Article 108 (Prohibition on Unsound Business Conduct)

No trust business entity shall commit any of the following acts: *Provided*, That such acts may be allowed if there is no possibility of undermining the protection of beneficiaries or sound trade practice, as prescribed further by Presidential Decree:

1. Buying or selling financial investment instruments or any other asset for investment on its own account or soliciting a third party to buy or sell such instruments or assets after determining to make a purchase or sale, which may produce a significant impact on the price of the financial

- investment instruments or other assets for investment, but before putting the decision into action, while managing the trust property;
2. Buying securities underwritten by itself or a related underwriter for the trust property;
 3. Buying specific securities, etc. (referring to specific securities, etc. under [Article 172](#) (1); hereafter the same shall apply in this subparagraph), using the trust property with an intention to create an artificial market value (referring to the market value under [Article 176](#) (2) 1) for the specific securities, etc. of a corporation for which it itself or its related underwriter was in charge of the underwriting affairs prescribed by Presidential Decree;
 4. Undermining a specific trust property's interest to pursue its own or a third party's interest;
 5. Trading the trust property for any other trust property, collective investment property, or discretionary investment property managed by the trust business entity;
 6. Trading the trust property for the proprietary property of the trust business entity or its interested party;
 7. Investing the trust property in securities issued by the trust business entity or its interested party without consent of beneficiaries;
 8. Engaging any person other than fund managers to manage the trust property; and
 9. Other acts specified by Presidential Decree as an act likely to undermine the protection of beneficiaries or sound trade practice.

Article 109 (Trust Contract)

A trust business entity shall, whenever it executes a trust contract with a trustor, state the following matters in the contract documents delivered to the trustor in accordance with [Article 59](#) (1):

1. Name or designation of the trustor, the beneficiaries, and the trust business entity;
2. Matters concerning designation and change of beneficiaries;
3. Kinds, quantity and value of the trust property;
4. Purpose of trust;
5. Contract term;
6. Details of specific assets, if there are assets specified for acquisition in the course of management of the trust property;
7. Matters concerning the rate of compensation or guarantee, if losses shall be compensated for or returns shall be guaranteed;
8. Matters concerning remuneration to which the trust business entity shall be entitled;
9. Matters concerning termination of the trust contract; and
10. Other matters prescribed by Presidential Decree as necessary for the protection of beneficiaries or sound trade practice.

Article 110 (Beneficiary Certificate)

- (1) A trust business entity may issue beneficiary certificates that represent the beneficial interest under a monetary trust contract.
- (2) A trust business entity shall, whenever it intends to issue beneficiary certificates under paragraph (1), file a report with the Financial Services Commission along with the accompanying documents specified by Presidential Decree. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (3) Beneficiary certificates shall be in bearer form: *Provided*, That they may be issued in registered form if there is such request from beneficiaries.
- (4) Registered beneficiary certificates may be changed to bearer certificates upon such request of beneficiaries.
- (5) Each beneficiary certificate shall contain the following descriptions and shall bear the printed name, and an affixed seal, or it shall be signed by the representative of the trust business entity:
 1. Trade name of the trust business entity;
 2. Name or designation of beneficiary if it is in registered form;
 3. Par value;
 4. Details of the management method agreed upon, if any;
 5. Details of compensation or guarantee, if there is a condition to compensate for losses or guarantee of returns in accordance with [Article 103](#) (3) in the contract;
 6. Trust contract term;
 7. Time period and place for repayment of principal of the trust and distribution of earnings;
 8. Calculation method of remuneration for trust; and
 9. Other matters prescribed by Presidential Decree.
- (6) In cases where beneficiary certificates have been issued, the beneficial interest under the relevant trust contract shall be transferred or exercised along with the beneficiary certificates: *Provided*, That the beneficial interest may be transferred or exercised without the beneficiary certificates if they are registered beneficiary certificates.

Article 111 (Repurchasing Beneficiary Certificates)

A trust business entity may repurchase beneficiary certificates for its proprietary property in

accordance with the manner prescribed by Presidential Decree. In such cases, [Article 29 of the Trust Business Act](#) shall not apply.

Article 112 (Voting Rights, etc.)

- (1) The rights for stocks acquired for the trust property shall be exercised by the trust business entity.
- (2) In exercising voting rights for stocks that are part of the trust property, a trust business entity shall exercise the voting rights so as not to produce an impact on a resolution made by the number of stocks calculated by subtracting the number of the stocks that are part of the trust property from the stocks held by shareholders who were present at the general meeting of shareholders of the corporation that issued the stocks that are part of the trust property, notwithstanding paragraph (1), in any of the following cases: *Provided*, That the same shall not apply in cases where the corporation that issued the stocks that are part of the trust property is merged, its business is transferred, it acquires any business transferred, an executive is appointed or dismissed, or there is any other cause or event similar to the aforesaid, and if it is obviously foreseeable that such event or cause will result in any loss to the trust property:
 1. When any of the following persons attempts to include the corporation that issued the stocks that are part of the trust property, in a group of its affiliated companies:
 - (a) The trust business entity or any person who has a special relationship as specified by Presidential Decree with the business entity; and
 - (b) A person who has *de facto* control over the trust business entity, as specified by Presidential Decree;
 2. When the corporation that issued the stocks that are part of the trust property has any of the following relationships with the trust business entity:
 - (a) When it is an affiliated company; and
 - (b) When it has a relationship as prescribed further by Presidential Decree under which it exercises *de facto* control over the trust business entity; and
 3. When there is a possibility of undermining the protection of beneficiaries or appropriate management of the trust property, as prescribed by Presidential Decree.
- (3) No trust business entity may exercise the voting rights for the stocks that belong to the trust property, if they fall under any of the following subparagraphs:
 1. Excess stocks, in cases where such stocks have been acquired in excess of 15/100 of the total number of the stocks issued by an identical corporation; and
 2. Stocks of a corporation that issued stocks that belong to the trust property, if the corporation engages the trust property to acquire them under the trust contract with an intention to secure treasury stocks.
- (4) No trust business entity shall commit any act to avoid the application of the provisions of paragraphs (2) through (3) by exercising the voting rights one with another interactively under an agreement with a third party.
- (5) The proviso to paragraph (2) shall not apply to any trust business entity that belongs to an enterprise group subject to a restriction on mutual investment.
- (6) The Financial Services Commission may, when any trust business entity exercises the voting rights for stocks that belong to the trust property in violation of paragraphs (2) through (5), issue an order to dispose of such stocks within a given period of time not exceeding six months. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (7) A trust business entity shall, when it exercises voting rights in accordance with paragraph (2) in relation to a matter concerning a change in business control, such as merger, transfer of business, or appointment of an executive, make a public disclosure of the details of the exercised voting rights in accordance with the manner prescribed by Presidential Decree through its Internet homepage, etc.

Article 113 (Inspection, Public Disclosure, etc. of Account Books and Documents)

- (1) A beneficiary may request a trust business entity, in writing with the reasons contained therein, to allow him/her to inspect account books and documents related to the trust property, in which he/she has an interest, during business hours, or to issue a certified copy or abstract of such account books and documents. In such cases, the trust business entity shall not reject such request, unless a justifiable ground exists as prescribed by Presidential Decree.
- (2) Matters pertaining to the extent of the account books and documents subject to the request for inspection or issuance of a certified copy or abstract thereof under paragraph (1) shall be prescribed by Presidential Decree.

Article 114 (Accounting of Trust Property, etc.)

- (1) In accounting the trust property, a trust business entity shall follow the general accounting principles that the Financial Services Commission prescribes and publicly notifies after going through deliberation of the Securities and Futures Commission. *<Amended by Act No. 8863, Feb. 29, 2008>*

- (2) The Financial Services Commission may entrust the establishment or amendment of the general accounting principles under paragraph (1) to a non-governmental corporation or organization with expertise, as prescribed by Presidential Decree. In such cases, such non-governmental corporation or organization shall, upon establishing or amending the general accounting principles, report such principles to the Financial Services Commission without delay. <Amended by Act No. 8863, Feb. 29, 2008>
- (3) A trust business entity shall receive an accounting audit conducted by an auditor under [Article 3 \(1\) of the Act on External Audit of Stock Companies](#) (hereinafter referred to as "accounting auditor") for the trust property within two months after the end of every fiscal year of the trust business entity: *Provided*, That the accounting audit may be omitted if there is no possibility of undermining beneficiaries' interests, as prescribed by Presidential Decree.
- (4) A trust business entity shall, when it appoints or replaces the accounting auditor for the trust property, report such to the Financial Services Commission within one week after such appointment or replacement. <Amended by Act No. 8863, Feb. 29, 2008>
- (5) The accounting auditor shall conduct an audit as to whether related Acts and subordinate statutes have been complied with in auditing the work related to calculation of the base price of beneficiary certificates made by the trust business entity and accounting of the trust property, and shall notify the auditor of the trust business entity (referring to the audit committee, if an audit committee is established therein) of the results thereof.
- (6) The accounting auditor shall comply with the guidelines for audit under paragraph (9) and the guidelines for accounting audit under [Article 5 of the Act on External Audit of Stock Companies](#) in conducting an accounting audit. <Amended by Act No. 9407, Feb. 3, 2009>
- (7) The accounting auditor may request the trust business entity to allow him/her to inspect and copy relevant materials, including account books of the trust property, or demand that it submit materials as may be necessary for the accounting audit. In such cases, the trust business entity shall comply with the request or demand without delay.
- (8) [Article 9 of the Act on External Audit of Stock Companies](#) shall apply *mutatis mutandis* to the accounting audit of the trust property under paragraph (3).
- (9) Matters pertaining to the guidelines for appointment of an accounting auditor, guidelines for audit, authority of the accounting auditor, and the submission, publication, etc. of the accounting audit report shall be prescribed by Presidential Decree. <Amended by Act No. 9407, Feb. 3, 2009>

Article 115 (Accounting Auditor's Liability for Damages)

- (1) An accounting auditor shall be liable for damages sustained by beneficiaries, if he/she has caused such damages to beneficiaries who have relied on any false statement or indication concerning an important matter or any omission of an important matter, in the accounting audit report prepared by him/her as a result of the accounting audit under [Article 114](#) (3). If the accounting auditor was in the form of an audit team under [Article 3 \(1\) 3 of the Act on External Audit of Stock Companies](#), the persons who participated in the audit of the trust property shall be jointly liable for such damages.
- (2) When an accounting auditor is liable for damages sustained by beneficiaries and a director or an auditor of the trust business entity (referring to a member of the audit committee, if an audit committee is established therein; hereafter the same shall apply in this paragraph) is culpable for such damages, the accounting auditor and the director or auditor of the trust business entity shall be jointly liable for such damages.
- (3) [Article 17 \(5\) through \(7\) of the Act on External Audit of Stock Companies](#) shall apply *mutatis mutandis* to the cases under paragraphs (1) and (2).

Article 116 (Merger, etc.)

- (1) In cases where trust business entities are merged, the trust business entity surviving the merger or thereby newly established shall succeed to the rights and obligations related to the trust of ceased trust business entity.
- (2) In cases where any beneficiary raises an objection to a merger of trust business entities, [Articles 11 and 17 \(1\) and \(3\) of the Trust Act](#) shall apply to the termination of the mission of the trust business entity, the appointment of a new trust business entity, etc.
- (3) In cases where a trust business entity continues its business after changing its purpose of business to engage in another business, the Financial Services Commission may order the entity to place its property in deposit until its obligations related to the trust are fully performed, or issue any other order as may be necessary. The same shall apply in cases where any company other than a trust business entity carries out business affairs necessary for termination of the mission of a trust business entity in the course of its merger. <Amended by Act No. 8863, Feb. 29, 2008>

Article 117 (Liquidation)

Article 95 shall apply *mutatis mutandis* to the liquidation of a financial investment business entity that engages in a trust business.

PART III ISSUANCE AND CIRCULATION OF SECURITIES

CHAPTER I REGISTRATION STATEMENT

Article 118 (Scope of Application)

No provision of this Chapter shall apply to national bonds, local government bonds, bonds issued by a corporation established directly pursuant to an Act specified by Presidential Decree, or other securities deemed to be those in which investors are properly protected through sufficient public disclosure in compliance with other Acts or in any other way, as specified by Presidential Decree.

Article 119 (Registration of Public Offering and Sale)

- (1) No securities shall be publicly offered or sold, unless and until a registration statement filed by the issuer in connection with the public offering or sale of the securities with the Financial Services Commission is accepted by the Commission (limited to cases where the total amount of securities publicly offered or sold, as calculated in accordance with a formula prescribed by Presidential Decree, reaches or exceeds the amount prescribed by Presidential Decree). *<Amended by Act No. 8863, Feb. 29, 2008>*
- (2) When a registration statement for a total amount of securities to be publicly offered en bloc over a certain period of time (hereinafter referred to as "universal shelf registration statement") in accordance with the guidelines and methods prescribed by Presidential Decree, considering the type of securities, scheduled issue period, frequency of issuance, requirements for the issuer, etc., is submitted to and accepted accordingly by the Financial Services Commission, such securities may be publicly offered or sold without necessarily submitting a registration statement each time such securities are publicly offered or sold during the period of time stated therein, notwithstanding paragraph (1). In such cases, the documents related to the universal shelf registration statement (hereinafter referred to as "supplements to universal shelf registration statement"), as prescribed by Presidential Decree, shall be submitted each time such securities (excluding collective investment securities, specified by Presidential Decree) are publicly offered or sold. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (3) An issuer may make a statement or representation of the following matters (hereinafter referred to as "forecast information") concerning the forecast or prospects for the financial status of the issuer (referring to an investment trust or an undisclosed investment association, in cases where the beneficiary certificates of an investment trust or the equity securities of an undisclosed investment association are involved; hereafter the same shall apply in this paragraph), its business performance in the future, etc. in the registration statement under paragraph (1) and the universal shelf registration statement under paragraph (2) (hereinafter referred to as "registration statement"). In such cases, such forecast information shall be stated or indicated in accordance with the method set forth in [Article 125](#) (2) 1, 2, and 4:
 1. Matters concerning forecast and prospects for the issuer's sales performance, including sales volume, size of income, and other business performance;
 2. Matters concerning forecast and prospects for the issuer's financial status, including size of capital and cash flow;
 3. Matters concerning the issuer's business performance in connection with the occurrence of a specific event or the establishment of a specific plan, or the targeted level at a certain point in time; and
 4. Other matters prescribed by Presidential Decree as those concerning forecast and prospects for the issuer's future.
- (4) If any part of the descriptions required in a registration statement or in any supplement attached thereto is the same as the part in the one already submitted, when filing a registration statement, such description may be replaced by a written statement that indicates and makes reference to the part.
- (5) In filing a registration statement, the representative director of the issuer and the director responsible for filing the registration (referring to a person in a similar position, if there is no representative director or director responsible for filing the registration) shall review and confirm the matters prescribed by Presidential Decree, such as the fact that there is no false statement or representation of a material fact, nor omission of a material fact in the descriptions of the registration statement, and each of them shall sign the statement.
- (6) Matters pertaining to the mandatory descriptions of a registration statement and its accompanying documents under paragraphs (1) through (4) shall be prescribed by Presidential Decree.

Article 120 (Effective Date of Registration Statement, etc.)

- (1) The registration of securities under [Article 119](#) (1) and (2) (hereinafter referred to as "securities

- registration") shall be effective on the day after the expiration of the time period prescribed by Ordinance of the Prime Minister, considering the type of securities or the characteristics of the transaction, etc., which shall begin on the day on which the registration statement is submitted and accepted by the Financial Services Commission. <Amended by Act No. 8863, Feb. 29, 2008>
- (2) The Financial Services Commission shall not refuse to approve a registration statement, unless it is not prepared in conformity with the prescribed form of the registration statement, there is any false description or representation in the registration statement concerning a material fact, or any description or representation of a material fact is omitted. <Amended by Act No. 8863, Feb. 29, 2008>
 - (3) The effectiveness under paragraph (1) shall not include any effect of acknowledging that the descriptions of the relevant registration statement are true or correct, or the Government's assurance or approval of the value of the securities.
 - (4) An issuer of securities shall, when it intends to withdraw its securities registration, file a withdrawal statement with the Financial Services Commission no later than the day before the date set for offering to acquire or purchase the securities stated in the relevant registration statement. <Amended by Act No. 8863, Feb. 29, 2008>

Article 121 (Restrictions on Trading)

- (1) If there is an offer to acquire or purchase securities before the registration under [Article 120](#) becomes effective, the issuer, seller, or its agent of the securities shall not accept such offer.
- (2) If it is required to submit supplements to a universal shelf registration statement in accordance with [Article 119](#) (2), the issuer, seller, or its agent shall not accept an offer to acquire or purchase the securities, unless and until such supplements to the universal shelf registration statement are submitted.

Article 122 (Corrective Registration Statement)

- (1) If a registration statement submitted has not been prepared in conformity with the prescribed form for the statement, there is any false description or representation of a material fact in the registration statement, there is any omission of a material fact, or there is any uncertain description or representation of a material fact in the registration statement which might undermine reasonable investment decision of investors or significantly mislead investors, the Financial Services Commission may demand that the person present the reasons therefor and submit a corrective registration statement (hereafter referred to as "corrective registration statement" in this Chapter) with correct contents of the registration statement no later than the day before the date set for offering to acquire or purchase the securities stated in the registration statement. <Amended by Act No. 8863, Feb. 29, 2008; Act No. 9407, Feb. 3, 2009>
- (2) If there is a demand under paragraph (1), it shall be deemed, from the day on which such demand is made, that the relevant registration statement is not accepted.
- (3) A person who filed a registration statement may, if it intends to correct any description of the registration statement, file a corrective registration statement no later than the day before the date set for offering to acquire or purchase the securities stated in the registration statement. In such cases, if the person intends to correct any material fact, as specified by Presidential Decree, or if it is necessary to correct any description of the registration statement for protecting investors, as prescribed by Presidential Decree, the person is obligated to file a corrective registration statement.
- (4) Notwithstanding paragraph (3), a person who filed a universal shelf registration statement may file a corrective registration statement before the expiration of the scheduled issue period: *Provided*, That the predetermined issue amount that is reduced below the limit prescribed by Presidential Decree may be corrected within the scope of 20/100 of the predetermined issue amount. <Amended by Act No. 9407, Feb. 3, 2009>
- (5) In cases where a corrective registration statement has been filed in accordance with paragraph (1), (3), or (4), it shall be deemed that the relevant registration statement has been accepted.

Article 123 (Preparation and Disclosure of Investment Prospectus)

- (1) When an issuer publicly offers or sells securities in accordance with [Article 119](#), the issuer shall file an investment prospectus (hereinafter referred to as "investment prospectus"), prepared in accordance with the manner prescribed by Presidential Decree, with the Financial Services Commission on the day on which the relevant registration statement becomes effective (or the day on which the supplements to a universal shelf registration statement are filed, in cases where the supplements to the universal shelf registration statement shall be filed in accordance with [Article 119](#) (2)) and keep it at a place specified by Ordinance of the Prime Minister to make it available to the public for inspection. <Amended by Act No. 8863, Feb. 29, 2008>
- (2) No investment prospectus shall contain any description different from the one described in the relevant registration statement (including any supplements to a universal shelf registration statement under [Article 119](#) (2); hereafter the same shall apply in this Chapter) or omit any description stated therein: *Provided*, That a description may be omitted, if it is necessary to omit the description in consideration of the balance between confidentiality in corporate management, etc.

and protection of investors, etc., as prescribed further by Presidential Decree.

- (3) An issuer of the collective investment securities specified by Presidential Decree shall file an additional investment prospectus separately from the one under paragraph (1) in accordance with the following subparagraphs, with the Financial Services Commission, and shall keep it at a place specified by Ordinance of the Prime Minister to make it available to the public for inspection: *Provided*, That such filing, keeping, and disclosure may be omitted, if offering or selling such collective investment securities is discontinued: <Amended by Act No. 8863, Feb. 29, 2008>
1. A revised investment prospectus shall be filed at least once after the investment prospectus under paragraph (1) is filed within an interval prescribed by Ordinance of the Prime Minister; and
 2. In cases where an amendment to registration is filed in accordance with [Article 182](#) (8), an investment prospectus in which such amendment is reflected shall be filed within five days after a notice of amended registration is delivered.

Article 124 (Fair Use of Investment Prospectus)

- (1) No one shall allow any other person to acquire securities or sell securities to any other person, unless an investment prospectus prepared in conformity with [Article 123](#) is delivered to the person (excluding professional investors and those specified by Presidential Decree) who intends to acquire the securities after the relevant registration statement becomes effective. In such cases, it shall be deemed that the investment prospectus is delivered at the time the following requirements are fully satisfied, if the investment prospectus is delivered by means of an electronic document under [Article 436](#):
1. The person to whom the electronic document is addressed (hereinafter referred to as "addressee of the electronic document") shall consent to the delivery of the investment prospectus by means of an electronic document;
 2. The addressee of the electronic document shall designate the kind of an electronic transmission medium and place for receiving the electronic document;
 3. The addressee of the electronic document shall confirm his/her receipt of the electronic document; and
 4. The contents of the electronic document shall be identical with those of the investment prospectus in writing.
- (2) A person who intends to solicit, etc. an offer for public offering or sale of securities subject to securities registration or any other transaction thereof shall do so in any of the following manners:
1. Using the investment prospectus after the registration statement becomes effective in accordance with [Article 120](#) (1);
 2. Using the preliminary investment prospectus (referring to an investment prospectus with an additional statement that the relevant registration statement has not become effective yet; hereinafter the same shall apply) prepared by the issuer in a manner prescribed by Presidential Decree, after the registration statement was accepted pursuant to [Article 120](#) (1), but before the registration statement has not become effective yet; and
 3. Using a short-form investment prospectus (referring to a document, an electronic document, or any other similar description or representation, by omitting a part of the mandatory descriptions of the investment prospectus or making an abstract of important descriptions thereof; hereinafter the same shall apply) prepared by the issuer in a manner prescribed by Presidential Decree, through an advertisement, a notice, or a leaflet via newspapers, broadcasting, magazines, or an electronic transmission medium, after the relevant registration statement is accepted pursuant to [Article 120](#) (1).

Article 125 (Liabilities for Damages Caused by False Statements, etc.)

- (1) The following persons shall be liable for damages inflicted upon any person as a result of acquiring securities by including a false description or representation of any material fact in a registration statement (including a corrective registration statement and supplements thereto; hereafter the same shall apply in this Article) and an investment prospectus (including a preliminary investment prospectus and a short-form investment prospectus; hereafter the same shall apply in this Article) or omitting a material fact therefrom: *Provided*, That such person shall not be liable if he/she proves that he/she was unable to discover such inclusion or omission even if he/she exercised reasonable care or that the person who acquired the securities knew the fact at the time when he/she made an offer to acquire them: <Amended by Act No. 9407, Feb. 3, 2009>
1. The registrant of the relevant registration statement and directors of the issuer at the time of filing the registration (referring to persons in a similar position if there is no director, or promoters if the registration statement was filed before the corporation was incorporated);
 2. A person who falls under any of subparagraphs of [Article 401-2 \(1\) of the Commercial Act](#) and who instructed or executed the preparation of the registration statement;
 3. A certified public accountant, a certified appraiser, or a specialist in credit rating, who certified with his/her signature that the descriptions of the registration statement or the supplements thereto are true and correct (including an organization to which each of them belongs), as specified further by

Presidential Decree;

4. A person who consented to include his/her statement of evaluation, analysis, or verification in the descriptions of the registration statement or the supplements thereto and confirmed such statement therein;
 5. A person who executed a contract for underwriting the securities (referring to a person specified by Presidential Decree, if there are two or more persons who signed such underwriting contract);
 6. A person who prepared or delivered the investment prospectus; and
 7. The holder of the securities for sale at the time the registration statement for sale was filed, if the case involved a sale of securities.
- (2) If the forecast information is described or indicated in accordance with the following subparagraphs, the persons listed in the subparagraphs of paragraph (1) shall not be liable for any damage incurred therefrom: *Provided*, That such persons shall be liable, if the person who acquired the securities involved proves that he/she did not know that there was any false description or representation of a material fact in the forecast information or any omission of description or representation of a material fact therein and that there was an intentional or grossly negligent act on the part of the persons listed in the subparagraphs of paragraph (1) in connection with such description or representation:
1. It was clearly stated that the description or representation at issue was a forecast information;
 2. The grounds for supposition or judgement related to the forecast or prospect were clearly stated;
 3. The description or representation at issue was made in good faith on the basis of a reasonable ground or supposition; and
 4. It included a warning clause that the description or representation at issue may differ from other estimates or actual outcomes.
- (3) Paragraph (2) shall not apply in cases where a registration statement is filed in order for an unlisted corporation to make an initial public offering or sale of stocks.

Article 126 (Amount of Damages)

- (1) The amount of damages for which a person shall be held liable in accordance with [Article 125](#) shall be the amount estimated by subtracting an amount under any of the following subparagraphs from the amount actually paid by the claimant for acquiring the securities at issue:
1. The market price of the securities at the time of closing the proceedings of the lawsuit filed for the claim of damages in accordance with [Article 125](#) (referring to an estimate disposal price if there is no market price available); and
 2. The disposal price if the securities are disposed of before the closing of the proceedings under subparagraph 1.
- (2) Notwithstanding paragraph (1), a person who shall be otherwise liable in accordance with [Article 125](#) shall not be held liable for partial damages, if he/she proves that all or part of the damages sustained by the claimant were not caused by a false description or representation of any material fact, or by an omission of a description or representation of such material fact.

Article 127 (Cease of Claims)

The liability for damages under [Article 125](#) ceases, if a claimant fails to exercise the right to make a claim within one year from the day on which he/she knew of such fact, or within three years after a registration statement related to the relevant securities became effective.

Article 128 (Post-issuance Report)

An issuer of securities issued under an effective registration statement shall file a report on the results of issuance of such securities (hereinafter referred to as "post-issuance report") with the Financial Services Commission in accordance with the manner determined by the Financial Services Commission, and provided by public notice. *<Amended by Act No. 8863, Feb. 29, 2008>*

Article 129 (Disclosure of Registration Statement and Post-issuance Report)

The Financial Services Commission shall make the following documents available to the public for inspection at a certain place for three years, and shall disclose them to the public through its Internet homepage, etc. In such cases, the descriptions specified by Presidential Decree may be excluded from such availability and public disclosure in consideration of the balance between confidentiality in corporate management, etc. and protection of investors, etc.: *<Amended by Act No. 8863, Feb. 29, 2008>*

1. The registration statement and the corrective registration statement;
2. The investment prospectus; and
3. The post-issuance report.

Article 130 (Public Offering or Sale without Filing Registration Statement)

An issuer who makes a public offering or sale of securities without filing a registration statement in accordance with [Article 119](#) (1) shall disclose the matters concerning its financial status and take measures prescribed by Presidential Decree for protecting investors.

Article 131 (Reporting and Inspection)

- (1) The Financial Services Commission may, if necessary for protection of investors, order the registrant of a registration statement, an issuer, a seller, an underwriter, or any other related person of securities to submit a report or materials for reference, or may engage the Governor of the Financial Supervisory Service to inspect its account books, documents, and other materials.
<Amended by Act No. 8863, Feb. 29, 2008>
- (2) A person who conducts an inspection pursuant to paragraph (1) shall carry with him/her an identification showing his/her authority and shall present it to any person concerned.

Article 132 (Measures by Financial Services Commission)

The Financial Services Commission may, in any of the following cases, order the registrant of a registration statement, an issuer, a seller, or an underwriter of securities, to disclose to the public relevant facts, along with the reasons therefor and make a correction therefor, or suspend or prohibit the issuance, public offering or sale, or any other transaction of such securities, or take any of measures prescribed by Presidential Decree, if necessary. In such cases, the procedures and guidelines necessary for taking such measures shall be prescribed by Ordinance of the Prime Minister:
<Amended by Act No. 8863, Feb. 29, 2008; Act No. 9407, Feb. 3, 2009>

1. When the registration statement, the corrective registration statement, or the post-issuance report has not been filed;
2. When there exists a false description or representation of a material fact or an omission of a description or representation of a material fact in the registration statement, the corrective registration statement, or the post-issuance report;
3. When the acceptance of an offer to acquire or purchase securities violates [Article 121](#);
4. When there is a violation of [Article 123](#) or [124](#) in relation to the investment prospectus;
5. When there is a violation of [Article 124](#) (2) in connection with the public offering or sale or any other transaction of securities under a preliminary investment prospectus or a short-form investment prospectus; and
6. When the measures under [Article 130](#) have not been taken.

CHAPTER II SYSTEMS RELATED TO CORPORATE ACQUISITIONS AND MERGERS

SECTION 1 Public Tender Offer

Article 133 (Subject Matters of Public Tender Offer) LEGISLATION

- (1) The term "public tender offer" in this Section means to make an offer to a multiple number of unspecified people to purchase (including an exchange with other securities; hereafter the same shall apply in this Section) voting stocks or any other securities specified by Presidential Decree (hereinafter referred to as "stocks, etc.") or to invite them to sell (including an exchange with other securities; hereafter the same shall apply in this Section) such stocks, etc. and purchase them outside the securities exchange (including a market in a foreign country similar to it; hereafter the same shall apply in this Section).
- (2) The term "tender offer agent" means a person who handles the affairs related to safekeeping of stocks, etc. subject to purchasing, exchanging, bidding, or otherwise acquiring for consideration (hereafter referred to as "purchase, etc." in this Section) payment or delivery of the fund necessary for public tender offer or the securities for exchanging, and other affairs related to public tender offer on behalf of the person who intends to make a public tender offer.
- (3) A person who intends to make a purchase, etc. of stocks, etc. from a number of persons, equivalent to or more than the number of those prescribed by Presidential Decree, outside the securities exchange shall make a public tender offer, if the aggregate of the number of stocks, etc. held (including those owned and similarly possessed, as prescribed further by Presidential Decree; hereafter the same shall apply in this Section and Section 2) by him/herself and his/her specially related persons (referring to those who have a special relationship as determined by Presidential Decree; hereafter the same shall apply) reaches or exceeds 5/100 of the total number of the stocks, etc. (including cases in which a person whose aggregate of the number of stocks, etc. held by the person and his/her specially related persons reaches or exceeds 5/100 of the total number of stocks, etc. makes a public tender offer for purchase, etc. of such stocks, etc.): *Provided*, That stocks, etc. may be purchased by any means other than public tender offer, in the case of purchasing, etc. prescribed by Presidential Decree, considering the purpose and form of purchasing, etc., and the possibility of causing a detriment to other shareholder's interests.
- (4) In applying paragraph (3), purchasing of stocks, etc., by any means other than competitive trading in the securities exchange, as prescribed by Presidential Decree, shall be deemed to have been made outside the securities exchange.

- (5) The number and total number of stocks, etc. under paragraph (3) shall be the numbers calculated by a formula prescribed by Ordinance of the Prime Minister. <Amended by Act No. 8863, Feb. 29, 2008>

Article 134 (Public Notice of Tender Offer and Submission of Tender Offer Statement)

- (1) A person who intends to make a tender offer shall provide public notice of the following matters (hereinafter referred to as "public notice of tender offer") in a manner prescribed by Presidential Decree:
1. The person who intends to make a tender offer;
 2. The issuer (referring to the person specified by Presidential Decree, in the case of securities depository receipts related to such stocks, etc. or any other stocks, etc. specified by Presidential Decree) of the stocks, etc. subject to the tender offer;
 3. The purpose of the tender offer;
 4. The class and number of stocks, etc. subject to the tender offer;
 5. The terms and conditions of the tender offer, including the period, price, and payment date of the tender offer; and
 6. The details of the purchasing fund and other matters prescribed by Presidential Decree as necessary for the protection of investors.
- (2) A person who has provided public notice of tender offer (hereinafter referred to as "tender offeror") shall file a statement with descriptions of the following matters (hereinafter referred to as "public tender statement") with the Financial Services Commission and the Korea Exchange on the day on which such public notice of tender offer is provided (hereinafter referred to as "public notice date of tender offer") in a manner prescribed by Presidential Decree: *Provided*, That if the public notice date of the tender offer falls on a holiday (including the Workers' Day under the [Designation of Workers' Day Act](#) and Saturdays) or any other day specified by the Financial Services Commission and provided by public notice, it may be filed on the day immediately following such holiday: <Amended by Act No. 8863, Feb. 29, 2008>
1. Matters concerning the tender offeror and his/her specially related persons;
 2. The issuer of the stocks, etc. subject to the tender offer;
 3. The purpose of the tender offer;
 4. The class and number of the stocks, etc. subject to the tender offer;
 5. The terms and conditions of the tender offer, including the period, price, and payment date of the tender offer;
 6. The contents of a contract for purchase, etc. of stocks, etc. without tender offer after the public notice date of tender offer, if there is such contract; and
 7. The details of the purchasing fund and other matters prescribed by Presidential Decree as necessary for the protection of investors.
- (3) The tender offer period under paragraphs (1) and (2) shall not exceed the period set by Presidential Decree.
- (4) A tender offeror may describe or indicate the issuer's forecast information about the stocks, etc. involved in the tender offer statement. In this regard, such description or representation of forecast information shall be made in a manner set forth in [Article 125](#) (2) 1, 2, and 4.
- (5) Supplements to the tender offer statement and other matters pertaining to the tender offer statement shall be prescribed by Presidential Decree.

Article 135 (Submission of Copied Tender Offer Statement)

A tender offeror shall, upon filing a tender offer statement, send a copy thereof to each of the issuers of stocks, etc. subject to the tender offer without delay.

Article 136 (Corrective Statement and Public Notice thereof, etc.)

- (1) The Financial Services Commission may demand the filing of a corrective statement with the reasons therefor and the corrected contents of the relevant tender offer statement therein (hereafter referred to as "corrective statement" in this Section) no later than the end of the tender offer period, if the tender offer statement filed has not been prepared in conformity with the prescribed form, or if there is any false description or representation of a material fact, or any omitted description or representation of a material fact, in the tender offer statement. <Amended by Act No. 8863, Feb. 29, 2008>
- (2) If there is a demand under paragraph (1), it shall be deemed from the day on which such demand is made that the relevant tender offer statement is not submitted.
- (3) A tender offeror shall file a corrective statement with the Financial Services Commission and the Korea Exchange no later than the expiry of the tender offer period, if he/she intends to correct terms and conditions of the tender offer, or any other description of the tender offer statement, or if it is necessary to correct the contents of the tender offer statement for the purpose of protecting investors, as prescribed by Ordinance of the Prime Minister: *Provided*, That a decrease in purchasing price, a reduction of the proposed number of stocks, etc. for the tender offer, an

extension of the payment term of the purchasing price (excluding cases under paragraph (4) 1), and other terms and conditions specified by Presidential Decree may not be modified. <Amended by Act No. 8863, Feb. 29, 2008>

- (4) In cases where a tender offeror files a corrective statement in relation to a tender offer statement in accordance with paragraph (1) or (3), the tender offer period shall expire on the following dates:
1. The date on which ten days has elapsed since the filing of such corrective statement, in cases where the day on which the corrective statement was filed falls within ten days prior to the expiration of the tender offer period provided by public notice in accordance with [Article 134](#) (1) 5; or
 2. The date on which the tender offer period expires, in cases where the day on which the corrective statement was filed does not fall within ten days prior to the expiration of the tender offer period provided by public notice in accordance with [Article 134](#) (1) 5.
- (5) A tender offeror shall, upon filing a corrective statement in accordance with paragraph (1) or (3), disclose the fact and the corrected contents (limited to the contents included in the relevant public notice of tender offer) without delay. In this regard, the public notice shall be made in a manner set forth in [Article 134](#) (1).
- (6) A tender offeror shall, upon filing a corrective statement concerning a tender offer statement, forward a copy thereof to the issuer of the stocks, etc. subject to the tender offer without delay.

Article 137 (Preparation and Use of Prospectus for Tender Offer)

- (1) A tender offeror (including a tender offer agent; hereafter the same shall apply in this Article) shall, when he/she intends to purchase securities through tender offer, prepare a prospectus for such tender offer (hereinafter referred to as "prospectus for tender offer") in a manner prescribed by Presidential Decree, submit it to the Financial Services Commission and the Korea Exchange on the public notice date of tender offer, and keep it at a place designated by Ordinance of the Prime Minister in order to make it available to the public for inspection. In this regard, the proviso to [Article 134](#) (2) shall apply *mutatis mutandis*. <Amended by Act No. 8863, Feb. 29, 2008>
- (2) No prospectus for tender offer shall contain a description different from the one stated in the relevant tender offer statement or omit any description therein.
- (3) No tender offeror shall purchase stocks, etc., before and unless he/she delivers a prospectus for tender offer in conformity with paragraph (1) to a person who intends to sell such stocks, etc. subject to tender offer. In this regard, the prospectus for tender offer shall be deemed delivered when it satisfies all the following requirements, if it is to be delivered by means of electronic document under Article 436:
1. The addressee of the electronic document shall consent to receive the prospectus for tender offer by means of electronic document;
 2. The addressee of the electronic document shall designate the kind of electronic transmission medium and the place for receiving the electronic document;
 3. The addressee of the electronic document shall confirm his/her receipt of the electronic document; and
 4. The contents of the electronic document shall be identical with those of the relevant prospectus for tender offer.

Article 138 (Manifestation of Opinion on Tender Offer)

- (1) An issuer of stocks, etc. for which a tender offer statement has been filed may manifest its opinion on the tender offer in a manner prescribed by Presidential Decree.
- (2) An issuer shall, upon manifesting its opinion in accordance with paragraph (1), submit a document with the opinion contained therein to the Financial Services Commission and the Korea Exchange without delay. <Amended by Act No. 8863, Feb. 29, 2008>

Article 139 (Revocation, etc. of Tender Offer)

- (1) No tender offeror may revoke his/her tender offer after the tender offer is publicly notified: *Provided*, That it may be revoked on or before the end of the tender offer period, if there is a counter tender offer (referring to another tender offer made against the tender offer during the tender offer period), if the tender offeror is dead, dissolved, or bankrupt, or if there is no possibility of undermining the protection of investors, as prescribed further by Presidential Decree.
- (2) A tender offeror shall, when he/she intends to revoke his/her tender offer in accordance with paragraph (1), file a revocation statement with the Financial Services Commission and the Korea Exchange, and shall provide a public notice thereof. In this regard, such public notice shall be provided in accordance with [Article 134](#) (1). <Amended by Act No. 8863, Feb. 29, 2008>
- (3) A tender offeror shall, upon filing a revocation statement concerning a tender offer, forward a copy thereof without delay to the issuer of the stocks, etc. for which the tender offer is to be revoked.
- (4) A person who accepted an offer to purchase or made an offer to sell (hereinafter referred to as "tender") the stocks, etc. subject to a tender offer (hereinafter referred to as "tendering

shareholder") may revoke his/her tender at any time during the tender offer period. In this regard, the tender offeror may not claim against the tendering shareholder for compensation for damages incurred by the revocation of the tender or to pay a penalty.

Article 140 (Prohibition of Purchasing, etc. in Deviation from Tender Offer)

No tender offeror (including his/her specially related persons and tender offer agent) shall purchase the relevant stocks, etc. in deviation from the tender offer from the public notice date of tender offer until the end of the tender offer period: *Provided*, That such purchase, etc. may be allowed, if there is no possibility of undermining other shareholder's interests, as prescribed by Presidential Decree, even if the relevant stocks, etc. are purchased in deviation from the tender offer.

Article 141 (Terms, Conditions and Manner of Tender Offer)

- (1)A (1)A tender offeror shall purchase without delay all the stocks, etc. tendered according to the purchasing terms, conditions and manners stated in the tender offer statement on and after the day following the expiry date of the tender offer period: *Provided*, That if any of the following conditions included in the public notice of tender offer and the tender offer registration exist, he/she may decline to purchase all or part of the stocks, etc. tendered in accordance with the said conditions:
1. A condition that he/she will not purchase all tendered stocks, etc., if the total number of tendered stocks, etc. does not reach the contemplated purchasing number of stocks, etc.; and
 2. A condition that if the total number of tendered stocks, etc. exceeds the proposed number of stocks, etc. for the tender offer, he/she will buy the stocks pro rata within the limit of the proposed number of stocks, etc. for tender offer and will not purchase all or part of the excess stocks, etc.
- (2) The purchasing prices at the time when a tender offeror purchases stocks, etc. under a tender offer in accordance with paragraph (1) shall be uniform.

Article 142 (Tender Offeror's Liability for Damages)

- (1)The (1)The following persons shall be liable for damages sustained by tendering shareholders resulting from the inclusion of a false description or representation of a material fact in a tender offer statement (including supplements thereto; hereafter the same shall apply in this Article) and the public notice thereof, a corrective statement (including supplements thereto; hereafter the same shall apply in this Article) and the public notice thereof, or a prospectus for tender offer, or omitting a description or representation of a material fact: *Provided*, That a person who shall otherwise be held liable for damages shall not be liable if he/she proves that he was unable to know such fact though he/she exercised reasonable care, or that the tendering shareholder knew the fact at the time when he/she made the tender:
1. The registrant of the tender offer statement and its corrective statement (including the registrant's specially related persons, and directors if the registrant is a corporation) and his/her agent; and
 2. The person who prepared the prospectus for tender offer and his/her agent.
- (2) If forecast information is described or indicated pursuant to the following subparagraphs, the persons under subparagraphs of paragraph (1) shall not be liable for damages caused by such information, notwithstanding paragraph (1): *Provided*, That the persons under subparagraphs of paragraph (1) shall be liable for such damages, if the tendering shareholders did not know that there was a false description or representation of a material fact in the forecast information, or an omission of a description or representation of a material fact at the time they tendered their stocks, etc., and if they prove that there was an intentional or grossly negligent act on the part of the persons under the subparagraphs of paragraph (1) in connection with such description or representation:
1. It was clearly stated that the description or representation at issue was a forecast information;
 2. The grounds for supposition or judgement related to the forecast or prospect were clearly stated;
 3. The description or representation at issue was made in good faith on the basis of a reasonable ground or supposition; and
 4. The forecast information included a warning clause that the description or representation at issue may differ from an estimated or actual outcome.
- (3) The amount of damages for which a person shall be held liable in accordance with paragraphs (1) and (2) shall be the amount estimated by subtracting an amount actually received as the price for the tender from the market price (referring to an estimated disposal price if there is no market price available) of the stocks, etc. at the time of closing the proceedings of the lawsuit filed for the claim of such damages.
- (4) Notwithstanding paragraph (3), a person who shall be liable in accordance with Article paragraphs (1) and (2) shall not be held liable for partial damages, if he/she proves that all or part of the damages sustained by the tendering shareholders were not caused by a false description or representation of any material fact, or by an omission of a description or representation of such material fact.
- (5) The liability for damages under paragraphs (1) and (2) ceases, if a tendering shareholder fails to

exercise his/her right to claim within one year from the day on which he/she knew of the fact, or within three years after the public notice of the relevant tender offer was provided.

Article 143 (Post Tender Offer Report)

A tender offeror shall file a report on the results of the tender offer (hereinafter referred to as "post tender offer report") with the Financial Services Commission and the Korea Exchange in a manner determined by the Financial Services Commission, and provided by public notice. <Amended by Act No. 8863, Feb. 29, 2008>

Article 144 (Disclosure of Statements, etc.)

The Financial Services Commission and the Korea Exchange shall make the following documents available to the public for inspection for three years from the receipt date, and shall also disclose them to the public through its Internet homepage, etc.: <Amended by Act No. 8863, Feb. 29, 2008>

1. The tender offer statement and the corrective statement thereof;
2. The prospectus for tender offer;
3. Documents under [Article 138](#);
4. The revocation statement under [Article 139](#) (2); and
5. The post tender offer report.

Article 145 (Limitations on Voting Rights, etc.)

A person who violates [Article 133](#) (3) or [134](#) (1) or (2) in purchasing stocks, etc., may not exercise voting rights for the stocks (including the stocks acquired by exercising any right related to the stocks, etc.) from the day of such violation, and the Financial Services Commission may issue an order to dispose of such stocks, etc. (including the stocks, etc. acquired by exercising any right related to the stocks, etc.) within a given period of time, not exceeding six months. <Amended by Act No. 8863, Feb. 29, 2008>

Article 146 (Inspection and Disposition)

- (1) The Financial Services Commission may, if necessary for the protection of investors, order a tender offeror, his/her specially related persons or tender offer agent, and other related persons, to submit a report or materials for reference, or may engage the Governor of the Financial Supervisory Service to inspect their account books, documents, and other materials. In this regard, [Article 131](#) (2) shall apply *mutatis mutandis*. <Amended by Act No. 8863, Feb. 29, 2008>
- (2) The Financial Services Commission may, in any of the following cases, order a tender offeror, his/her specially related person or tender offer agent to disclose relevant facts, along with the reasons therefor, to the public and make a correction therefor, and may suspend or prohibit purchasing through the tender offer, or take any of the measures prescribed by Presidential Decree, if necessary. In such cases, the procedures and guidelines necessary for taking such measures shall be prescribed by Ordinance of the Prime Minister: <Amended by Act No. 8863, Feb. 29, 2008; Act No. 9407, Feb. 3, 2009>
 1. When the public notice of tender offer or the public notice under [Article 136](#) (5) has not been provided;
 2. When the tender offer statement, corrective statement, or post tender offer report has not been filed;
 3. When there exists a false description or representation of a material fact, or an omission of a description or representation of a material fact in the public notice of tender offer, the public tender statement, the corrective statement, the public notice under [Article 136](#) (5), or the post tender offer report;
 4. When a copy of the tender offer statement, the corrective statement, or the revocation statement has not been forwarded to the issuer in violation of [Article 135](#), [136](#) (6) or [139](#) (3);
 5. When the contents differ from the contents of a statement or an omission of contents in the copy of the statement forwarded in accordance with [Article 135](#), [136](#) (6) or [139](#) (3);
 6. When there is a violation of [Article 137](#) in connection with the prospectus for tender offer;
 7. When the tender offer has been revoked in violation of [Article 139](#) (1) or (2);
 8. When purchasing, etc. has been done in deviation from the tender offer in violation of [Article 140](#);
 9. When there is a violation of [Article 141](#) in purchasing through the tender offer; and
 10. When there is a violation of [Article 145](#) in exercising voting rights or a violation of a dispositive order under the same Act.

SECTION 2 Report on Stocks, etc. Held in Bulk

Article 147 (Report on Stocks, etc. Held in Bulk)

- (1) A person who holds stocks, etc. of any stock-listed corporation in bulk (referring to a case where the aggregate of the number of stocks, etc. held by a person and his/her specially related persons reaches or exceeds 5/100 of the total number of stocks, etc.) shall report the status of stocks in

hand, the purpose of holding (referring to whether he/she has any intention to exercise an influence on the issuer's business control), the essential details of the contract related to the stocks, etc. in hand, and other matters prescribed by Presidential Decree, to the Financial Services Commission and the Korea Exchange in a manner prescribed by Presidential Decree within five days from the date on which the person becomes a holder of the stocks in such a quantity (excluding the days specified by Presidential Decree; hereafter the same shall apply in this Section), and shall also report the details of a change, when there is a change in the aggregate of the number of stocks, etc. in hand to the extent of 1/100 of the total number of stocks, etc. or more (excluding cases where there is no change in the number of stocks, etc. in hand or other case prescribed by Presidential Decree), to the Financial Services Commission and the Korea Exchange within five days from the date on which such change occurs in a manner prescribed by Presidential Decree. In this regard, the details, timing, etc. of the report may be varied by Presidential Decree, in cases where the purpose of holding the stocks is not to exercise an influence over the issuer's business control (referring to appointment and dismissal of executives, or suspension of their duties, amendment of the articles of incorporation in connection with the organs of the company such as the board of directors, as prescribed further by Presidential Decree) and in cases where a professional investor specified by Presidential Decree is involved.

<Amended by Act No. 8863, Feb. 29, 2008>

- (2) The number of stocks, etc. and the total number of stocks, etc. under paragraph (1) shall be those calculated by formula prescribed by Ordinance of the Prime Minister. <Amended by Act No. 8863, Feb. 29, 2008>
- (3) When an event occurs before the date on which the status of stocks, etc. held in bulk, the purpose of such holding, or the details of a change shall be reported in accordance with paragraph (1) to trigger a duty to report a new change, the details of such a new change shall be reported together at the time the original status of stocks, etc. held in bulk, the purpose of such holding, or the details of a change is reported.
- (4) A person who has filed a report in accordance with paragraph (1) shall, whenever there is a change in a material fact, as specified by Presidential Decree, such as a change in an essential term or condition of the contract related to the purpose of such holding or the stocks, etc. held in hand, report it to the Financial Services Commission and the Korea Exchange. <Amended by Act No. 8863, Feb. 29, 2008>

Article 148 (Dispatching of Report on Stocks Held in Bulk, etc. to Issuer)

A person who has filed a report in accordance with [Article 147](#) (1) or (4) shall dispatch a copy of the report to the issuer (referring to a person specified by Presidential Decree, in the case of stocks, etc. specified by Presidential Decree) of the relevant stocks, etc. without delay.

Article 149 (Disclosure of Reports, etc.)

The Financial Services Commission and the Korea Exchange shall keep the reports filed in accordance with [147](#) (1) and (4) for three years, and shall also disclose them through their Internet homepages, etc. <Amended by Act No. 8863, Feb. 29, 2008>

Article 150 (Restrictions, etc. on Exercise of Voting Rights for Stocks, etc. Held in Violation)

- (1) A person who fails to make a report (including a corrective report) in accordance with [Article 147](#) (1), (3), or (4), or any person who files a false report of a material fact specified by Presidential Decree or who omits a description of a material fact specified by Presidential Decree shall not exercise voting rights for the stocks held in violation among the stocks held in excess of 5/100 of the total number of outstanding voting stocks during the time period prescribed by Presidential Decree, and the Financial Services Commission may issue an order to dispose of the portion held in violation within a given period of time, not exceeding six months. <Amended by Act No. 8863, Feb. 29, 2008>
- (2) A person who has filed a report in accordance with [Article 147](#) (1), (3), or (4), stating that his/her purpose of holding stocks, etc. is to exercise an influence on the issuer's business control, shall not acquire the issuer's stocks, etc. additionally nor exercise voting rights for the stocks, etc. held in hand for the period of time from the date on which there occurred an event that triggered the duty to file such report to five days after the date on which such report was filed.
- (3) A person who acquired stocks, etc. additionally in violation of paragraph (2) shall not exercise voting rights for the portion additionally acquired, and the Financial Services Commission may issue an order to dispose of the portion acquired additionally with a given period of time, not exceeding six months. <Amended by Act No. 8863, Feb. 29, 2008>

Article 151 (Inspection, Demand for Correction, etc.)

- (1) The Financial Services Commission may, if necessary for the protection of investors, order a person who has filed a report in accordance with [Article 147](#) (1) or (4), or any other related person, to submit a report or materials for reference, or get the Governor of the Financial Supervisory Service to inspect account books, documents and other materials. In this regard, [Article 131](#) (2)

shall apply *mutatis mutandis*. <Amended by Act No. 8863, Feb. 29, 2008>

- (2) The Financial Services Commission may, if a report filed in accordance with [Article 147](#) (1) or (4) has not been prepared in conformity with the prescribed report form, or if there is a false description or representation of a material fact or an omission of a description or representation of a material fact in the report, order a correction of the report showing the reasons therefor, and suspend or prohibit transactions or take any of the measures prescribed by Presidential Decree, if necessary. <Amended by Act No. 8863, Feb. 29, 2008>

SECTION 3 Restriction on Solicitation to Exercise Voting Right by Proxy

Article 152 (Solicitation to Exercise Voting Rights by Proxy)

- (1) A person who intends to solicit a person to exercise voting rights by proxy (hereinafter referred to as "proxy solicitor") for listed stocks (including securities depository receipts related to the listed stocks; hereafter the same shall apply in this Section) shall deliver the proxy form and reference documents to the other person (hereinafter referred to as "solicited voting right holder") for such solicitation in accordance with the manner prescribed by Presidential Decree.
- (2) The term "solicitation to exercise voting rights by proxy" in paragraph (1) means any of the following acts performed by the proxy solicitor: *Provided*, That such acts shall not be deemed an act of solicitation to exercise voting rights by proxy in any case prescribed by Presidential Decree, considering the number of solicited voting right holders, etc.:
1. Soliciting for the permission of him/herself or a third party to exercise voting right by proxy;
 2. Demanding the exercise or non-exercise of voting rights, or demanding the revocation of delegation of voting rights; and
 3. Sending a proxy form to a shareholder for the purpose of securing a voting right, persuading to revoke delegation of a voting right, etc. or presenting an opinion in any other way.
- (3) In cases where a listed corporation specified by Presidential Decree among corporations that engage in an industry essential to the national economy, such as a national key industry (hereinafter referred to as "public purpose corporation"), is involved, only the public purpose corporation may solicit for the exercise of voting rights by proxy of its stocks.
- (4) The proxy form under paragraph (1) shall be prepared in such a manner as to allow each solicited voting right holder to express whether he/she approves or disapproves each item on the agenda to be raised at the general meeting of shareholders.
- (5) No proxy solicitor may exercise a voting right in contravention of the solicited voting right holder's intention expressed on the proxy form.
- (6) Matters pertaining to the descriptions included in the proxy form, reference documents, etc. shall be prescribed by Presidential Decree.

Article 153 (Keeping and Inspection on Proxy Form and Reference Documents)

A proxy solicitor shall file a proxy form and reference documents with the Financial Services Commission and the Korea Exchange at least five days (excluding any days specified by Presidential Decree) before the day on which such form and documents are provided to solicited voting right holders under [Article 152](#), and shall keep them at a place designated by Ordinance of the Prime Minister to make them available to the general public for inspection. <Amended by Act No. 8863, Feb. 29, 2008>

Article 154 (Fair Use of Proxy Form, etc.)

No proxy solicitor shall include a false description or representation in relation to a matter that may produce a significant impact on solicited voting right holders' judgment regarding delegation of voting rights (hereafter referred to as "material fact related to the delegation of voting rights" in this Section) in the proxy form and reference documents or omit a description or indication of a material fact related to the delegation of voting rights therein.

Article 155 (Manifestation of Opinion)

An issuer of listed stocks subjected to a solicitation to exercise voting rights by proxy shall, when it manifests its opinion concerning the solicitation to exercise voting rights by proxy, submit without delay a written statement with such contents therein to the Financial Services Commission and the Korea Exchange. <Amended by Act No. 8863, Feb. 29, 2008>

Article 156 (Demand for Correction, etc.)

- (1) If the proxy form or its reference documents have not been prepared in conformity with the prescribed form, or if there is any false description or representation concerning a material fact related to the delegation of voting rights in the proxy form or its reference documents, or any omission of a description or indication of a material fact related to the delegation of voting rights therein, the Financial Services Commission may demand a correction of the proxy form and its reference documents, showing the reasons therefor. <Amended by Act No. 8863, Feb. 29, 2008>

- (2) If there is a demand under paragraph (1), it shall be deemed that the proxy form and its reference documents originally submitted have not been submitted.
- (3) A proxy solicitor may, if he/she intends to correct any description in the proxy form or reference documents, correct and submit it no later than seven days (excluding any days specified by Presidential Decree) before the opening date of the general meeting of shareholders to be held in relation to the solicitation. In this regard, if he/she intends to correct a material fact specified by Presidential Decree, or if it is necessary to correct any description on the proxy form or reference documents, as prescribed further by Presidential Decree, he/she is obligated to make such corrections before submission.

Article 157 (Disclosure of Proxy Forms, etc.)

The Financial Services Commission and the Korea Exchange shall keep the proxy forms and reference documents under [Article 152](#), the written statement under [Article 155](#), and the corrected contents under [Article 156](#) for three years from the filing date, and shall disclose them to the general public through their Internet homepages, etc. <Amended by Act No. 8863, Feb. 29, 2008>

Article 158 (Inspection and Disposition)

- (1) If necessary for the protection of investors, the Financial Services Commission may order a proxy solicitor or his/her related person to submit a report or materials for reference, or may get the Governor of the Financial Supervisory Service to inspect account books, documents, and other materials. In this regard, [Article 131](#) (2) shall apply *mutatis mutandis*. <Amended by Act No. 8863, Feb. 29, 2008>
- (2) The Financial Services Commission may, in any of the following cases, provide a public notice of the relevant facts and order a proxy solicitor to take corrective measures, after showing the reasons therefor, and may also suspend or prohibit solicitation to exercise voting rights by proxy or take measures prescribed by Presidential Decree, if necessary. In such cases, the procedures and guidelines necessary for taking such measures shall be prescribed by Ordinance of the Prime Minister: <Amended by Act No. 8863, Feb. 29, 2008; Act No. 9407, Feb. 3, 2009>
 1. When the proxy form and reference documents have not been delivered to the solicited voting right holder in violation of [Article 152](#) (1);
 2. When any person other than a public purpose corporation solicits to exercise voting rights by proxy in violation of [Article 152](#) (3);
 3. When there is a violation of [Article 153](#) or [154](#) in relation to the proxy form or reference documents;
 4. When there exists a false description or representation of a material fact related to the delegation of voting rights in the proxy form or reference documents submitted in accordance with [Article 153](#) or [156](#) (1) or (3), or there has been an omission of a description or representation of a material fact related to the delegation of voting rights therein; and
 5. When a corrected document has not been submitted in violation of the latter part of [Article 156](#) (3).

CHAPTER III LISTED CORPORATION'S BUSINESS REPORT, ETC.

Article 159 (Submission of Business Report, etc.)

- (1) A stock-listed corporation and other corporations specified by Presidential Decree (hereinafter referred to as "corporations obligated to submit a business report") shall submit their business reports to the Financial Services Commission and the Korea Exchange within ninety days of the closing of the business year: *Provided*, That the duty to submit a business report may be excused if it is impossible in fact or impractical to submit the report, due to bankruptcy or any other reason prescribed by Presidential Decree. <Amended by Act No. 8863, Feb. 29, 2008>
- (2) A corporation obligated to submit a business report shall describe the purpose, trade name, and details of its business, the remuneration of executives (including stock options under the [Commercial Act](#) and other Acts, but limited to those specified by Presidential Decree), the matters concerning finance, and other matters prescribed by Presidential Decree in the business report under paragraph (1), and shall attach the documents specified by Presidential Decree thereto.
- (3) A corporation obligated to submit a business report for the first time in accordance with paragraph (1) shall submit a business report for the immediately preceding business year to the Financial Services Commission and the Korea Exchange within five days from the date when the corporation becomes obligated to submit a business report (or within the time period for submission of the business report under paragraph (1), if the corporation becomes obligated to submit a business report during the time period): *Provided*, That the corporation shall not be obligated to submit a business report for the immediately preceding business year, if it has already disclosed a business report for the immediately preceding year through its registration statement, etc. <Amended by Act No. 8863, Feb. 29, 2008; Act No. 9407, Feb. 3, 2009>

- (4) A corporation obligated to submit a business report shall, in preparing the business report under paragraph (1), follow the description method and form determined by the Financial Services Commission, and provided by public notice. <Amended by Act No. 8863, Feb. 29, 2008; Act No. 9407, Feb. 3, 2009>>
- (5) A corporation obligated to submit a business report shall, if it belongs to an enterprise group obligated to prepare combined financial statements for the enterprise group in accordance with [Article 1-3 of the Act on External Audit of Stock Companies](#), submit such combined financial statements for the enterprise group under subparagraph 3 of [Article 1-2](#) of the said Act to the Financial Services Commission and the Korea Exchange within six months of the closing of each business year. <Amended by Act No. 8863, Feb. 29, 2008>
- (6) A corporation obligated to submit a business report may describe or indicate forecast information about the corporation in the business report. In this regard, such forecast information shall be described or indicated in a manner set forth in [Article 125](#) (2) 1, 2, and 4.
- (7) In submitting a business report, the representative director of the corporation and the director responsible for the affairs related to such submission shall verify and examine the matters prescribed by Presidential Decree, including whether there exists any false description or representation concerning a material fact in the descriptions of the business report or any omission of a description or representation of a material fact therein, and shall sign it respectively.

Article 160 (Submission of Half-yearly and Quarterly Reports)

A corporation obligated to submit a business report shall submit a business report for six months beginning on the commencement date of the pertinent business year (hereinafter referred to as "half-yearly report") and business reports for three months and nine months beginning on the commencement date of the pertinent business year respectively (hereinafter referred to as "quarterly report") to the Financial Services Commission and the Korea Exchange within 45 days of the closing of each term, but if a corporation obligated to submit a business report submits half-yearly and quarterly reports prepared based on the consolidated financial statements to the Financial Services Commission and the Korea Exchange by indicating the matters on finance, the accompanying statements and the matters determined by the Financial Services Commission and provided by public notice, the corporation may submit the business report within 60 days after the expiration of such period only for the first business year and the next business year. In this regard, [Article 159](#) (2), (4), (6), and (7) shall apply *mutatis mutandis*. <Amended by Act No. 8863, Feb. 29, 2008; Act No. 9407, Feb. 3, 2009>

Article 161 (Submission of Report on Material Facts)

- (1) A corporation obligated to submit a business report shall, when any of the following events occur, submit a report on the details of such event (hereinafter referred to as "material fact report") to the Financial Services Commission by the day immediately following the day on which such event occurs. In this regard, [Article 159](#) (6) and (7) shall apply *mutatis mutandis*: <Amended by Act No. 8863, Feb. 29, 2008>
 1. When a bill or check issued by the corporation is returned or its check account transactions in a bank are suspended or banned;
 2. When its business activities are completely or partially suspended;
 3. When there is an application filed for commencement of proceedings for rehabilitation under the [Debtor Rehabilitation and Bankruptcy Act](#);
 4. When there occurs a cause or event that triggers the corporation's dissolution under this Act, the [Commercial Act](#), or any other Act;
 5. When the corporation's board of directors adopts a resolution to increase or reduce its capital;
 6. When there occurs a cause or event set forth in [Article 360-2](#), [360-15](#), [522](#), or [530-2 of the Commercial Act](#);
 7. When a resolution to transfer an essential business or asset, as specified by Presidential Decree, or to have such business or asset transferred, is adopted;
 8. When a resolution to acquire (including execution of a trust contract for acquisition of treasury stocks), or to dispose of treasury stocks (including termination of a trust contract for acquisition of treasury stocks), is adopted; and
 9. When there occurs any other cause or event that may produce a significant impact on the management, assets, etc. of the corporation, as specified further by Presidential Decree.
- (2) A corporation obligated to submit a business report shall, when it submits a material fact report in accordance with paragraph (1), attach the documents thereto as specified by Presidential Decree separately for each case under the subparagraphs of paragraph (1).
- (3) A corporation obligated to submit a business report shall, in preparing a material fact report, follow the description method and form determined by the Financial Services Commission, and provided by public notice. <Amended by Act No. 8863, Feb. 29, 2008>
- (4) If it is necessary to promptly make the contents of a submitted material fact report known to the public because such fact report presents the possibility of producing a significant impact on investors' investment judgement, the Financial Services Commission may request administrative

agencies and other related institutions to furnish or exchange information as necessary. In this regard, the requested agencies and institutions shall cooperate in this matter, unless there is an extraordinary reason otherwise. <Amended by Act No. 8863, Feb. 29, 2008>

- (5) The Financial Services Commission shall, upon receiving a material fact report submitted in accordance with paragraph (1), forward it to the Korea Exchange without delay. <Amended by Act No. 8863, Feb. 29, 2008>

Article 162 (Liability for Damages Caused by False Description, etc.)

- (1) The following persons shall be liable for damages sustained by a person who acquired or disposed of securities (including securities depositary receipts related to such securities and other securities specified by Presidential Decree; hereafter the same shall apply in this Article) issued by a corporation obligated to submit a business report due to a false description or representation of a material fact in such business report, half-yearly report, quarterly report, or material fact report under [Article 159](#) (1) (hereinafter referred to as "business report, etc.") or a document attached thereto (excluding audit reports prepared by an accounting auditor), or due to an omission of a description or representation of a material fact therein: *Provided*, That a person held liable for such damages shall not be liable if he/she proves that he/she was unable to know such fact although he/she exercised reasonable care, or that the person who acquired or disposed of such securities knew the fact at the time he/she acquired or disposed of the securities: <Amended by Act No. 9407, Feb. 3, 2009>
1. A person who submitted the business report, etc. and the directors of the corporation obligated to submit the business report at the time of its submission;
 2. A person falling under any subparagraph of [Article 401-2 \(1\) of the Commercial Act](#), who gave direction on, or carried out, preparation of the business report, etc.;
 3. A certified public accountant, an appraiser, a specialist in credit rating, etc. (including the organization to which he/she belongs) who certified and with his/her signature thereon that the descriptions of the business report, etc., and the documents attached thereto, were true and correct, as specified further by Presidential Decree; and
 4. A person who consented to include his/her opinion regarding evaluations, analyses, or confirmations in the descriptions of the business report, etc. and the document attached thereto, and confirmed the contents as described therein.
- (2) If forecast information is described or indicated in the following manners, the persons under subparagraphs of paragraph (1) shall not be liable for damages caused by such information, notwithstanding paragraph (1): *Provided*, That the persons under subparagraphs of paragraph (1) shall be liable for such damages, if the person who acquired or disposed of the relevant securities was not aware of the existence of a false description or representation of a material fact, or an omission of a description or representation of a material fact, in the forecast information, at the time he/she acquired or disposed of the securities, and if the person proves that there was an intentional or grossly negligent act on the part of the persons under subparagraphs of paragraph (1) in connection with such descriptions or representations:
1. The description or representation at issue was clearly identified as forecast information;
 2. The grounds for supposition or judgement related to the forecast or prospect were clearly stated;
 3. The description or representation at issue was made in good faith on the basis of a reasonable ground or supposition; and
 4. The forecast information included a warning clause that the description or representation at issue may differ from an estimated or actual outcome.
- (3) The amount of damages for which a person shall be held liable in accordance with paragraphs (1) and (2) shall be estimated by calculating the difference between the amount actually paid or received by the claimant as the price for acquisition or disposition of the securities and any of the following amounts (in a case of disposition, only subparagraph 1 shall apply):
1. The market price (referring to an estimated disposal price if there is no market price available) of the securities at the time of closing the proceedings of the lawsuit filed for the claim of such damages in accordance with paragraphs (1) and (2); and
 2. The disposal price if the securities were disposed of before the closing of proceedings under subparagraph 1.
- (4) Notwithstanding paragraph (3), a person who shall be liable under paragraphs (1) and (2) shall not be held liable for partial damages, if he/she proves that all or part of the damages sustained by the claimant were not caused by a false description or representation of any material fact, or an omission of a description or representation of such material fact.
- (5) The liability for damages under paragraphs (1) and (2) ceases, if the claimant fails to exercise the right to claim within one year from the day on which he/she knew of the fact, or within three years after the relevant submission date.

Article 163 (Disclosure of Business Report, etc.)

The Financial Services Commission and the Korea Exchange shall keep business reports, etc. for three

years, and shall also disclose them to the public through its Internet homepage, etc. In this regard, the matters specified by Presidential Decree may be excluded from such availability and disclosure in consideration of the balance between confidentiality in corporate management, etc. and the protection of investors, etc. <Amended by Act No. 8863, Feb. 29, 2008>

Article 164 (Inspection and Disposition)

- (1) The Financial Services Commission may, if necessary for the protection of investors, order a corporation obligated to submit a business report or other related person, to submit a report or materials for reference, or may get the Governor of the Financial Supervisory Service to inspect account books, documents, and other materials. In this regard, [Article 131](#) (2) shall apply *mutatis mutandis*. <Amended by Act No. 8863, Feb. 29, 2008>
- (2) The Financial Services Commission may, in any of the following cases, order a corporation obligated to submit a business report to disclose relevant facts to the public, after showing the reasons therefor, and make a correction, and it may suspend or prohibit issuance of securities or any other transaction, or take any of measures prescribed by Presidential Decree, if necessary. In such cases, the procedures and guidelines necessary for taking such measures shall be prescribed by Ordinance of the Prime Minister: <Amended by Act No. 8863, Feb. 29, 2008; Act No. 9407, Feb. 3, 2009>
 1. When a business report, etc. has not been submitted;
 2. When there exists a false description or representation of a material fact, or an omission of a description or representation of a material fact, in a business report, etc.

Article 165 (Special Treatment of Foreign Corporations, etc.)

Notwithstanding the provisions of [Articles 159 through 161](#), foreign corporations, etc. may be differently treated in application of the provisions in accordance with the guidelines and methods prescribed by Presidential Decree, including exemption from the duty of submission and a different time limit for submission.

CHAPTER III-2 SPECIAL CASES CONCERNING STOCK-LISTED CORPORATIONS

Article 165-2 (Special Cases Concerning Acquisition of One's Own Stocks)

- (1) A stock-listed corporation (excluding foreign corporations or similar; hereafter the same shall apply in this Chapter, except for [Articles 165-16](#) and [165-18](#)) may acquire its own stocks under its name and for its own account, except as otherwise provided for in other Acts.
- (2) A stock-listed corporation shall, when it acquires its own stocks pursuant to paragraph (1), follow the methods under each of the following subparagraphs. In such cases, the amount of acquisition shall be within the limit for paying dividends under [Article 462 \(1\) of the Commercial Act](#):
 1. Acquiring stocks on the securities exchange;
 2. Acquiring stocks through public tender offer under [Article 133](#) (1); and
 3. Receiving stocks from a trust business entity which acquired stocks of the corporation in accordance with the trust contract under paragraph (3) when the trust contract is terminated or expires: *Provided*, That the same shall apply only to cases where the trust business entity acquired stocks of the corporation pursuant to subparagraph 1 or 2.
- (3) Where a stock-listed corporation has a trust business entity acquire its own stocks in accordance with a money trust contract, the amount of the trust contract shall be deemed the amount of acquisition under the latter part other than the subparagraphs of paragraph (2).
- (4) A stock-listed corporation shall, when it acquires (including the conclusion of a trust contract; hereafter the same shall apply in this Article) or dispose of (including the termination of a trust contract; hereafter the same shall apply in this Article) its own stocks pursuant to paragraphs (1) through (3), follow the guidelines for requirements, methods, etc. prescribed by Presidential Decree.
- (5) A stock-listed corporation shall, when it acquires its own stocks in excess of the scope under the latter part of paragraph (2) due to the reduction of limit, etc. for paying dividends, dispose of the excessive portion within the period prescribed by Presidential Decree from the date when the excessive portion occurs.
- (6) The provisions of [Articles 341-2 \(1\) through 341-2 \(3\) of the Commercial Act](#) shall not apply to cases where a stock-listed corporation acquires its own stocks pursuant to paragraphs (1) and (2).
[This Article Newly Inserted by Act No. 9407, Feb. 3, 2009]

Article 165-3 (Special Cases Concerning Retirement of Stocks)

- (1) A stock-listed corporation may retire stocks under the resolution of the board of directors where the effect that the stock-listed corporation may retire stocks using profits to be distributed to shareholders is prescribed by its articles of incorporation as the resolution under [Article 434 of the Commercial Act](#), except as otherwise provided for in other Acts.
- (2) In cases of retiring stocks pursuant to paragraph (1), the board of directors shall resolve on the

matters falling under each of the following subparagraphs. In such cases, stocks to be retired shall be limited to the stocks acquired after the resolution of the board of directors is made:

1. Type and total number of stocks to be retired;
 2. Total amount of the value of stocks to be acquired for retirement; and
 3. Period for acquiring stocks. In such cases, the period shall precede the date of the first general meeting of shareholders held after the resolution of the board of directors is made.
- (3) A stock-listed corporation shall, when it acquires its own stocks for the purpose of retiring stocks pursuant to paragraph (1), comply with the guidelines falling under each of the following subparagraphs:
1. The stock-listed corporation shall follow the method under [Article 165-2](#) (2) 1 or 2. In such cases, when the corporation follows the method under subparagraph 1 of the same paragraph, the period and methods of acquisition shall meet the guidelines prescribed by Presidential Decree; and
 2. The amount of its own stocks to be acquired for retirement shall be not more than the amount prescribed by Presidential Decree within the limit for paying dividends under [Article 462 \(1\) of the Commercial Act](#) at the end of the relevant business year.
- (4) A stock-listed corporation shall, when it retires stocks pursuant to paragraph (1), report the fact and the matters under each subparagraph of paragraph (2) to the first general meeting of shareholders held after the resolution on the retirement is passed.
- (5) Where a stock-listed corporation acquires stocks and then retires them, in violation of the limit under paragraph (3) 2, directors who supported the resolution of the retirement shall be jointly liable for the amount acquired in excess of the limit for the corporation: *Provided*, That if the directors prove that the amount exceeded the limit although they took reasonable care, they shall not be liable for such excessive amount.

[This Article Newly Inserted by Act No. 9407, Feb. 3, 2009]

Article 165-4 (Special Cases concerning Merger, etc.)

A stock-listed corporation shall comply with the guidelines, such as requirements, methods, etc. prescribed by Presidential Decree when it conducts any activity falling under any of the following subparagraphs:

1. Merger with another corporation;
2. Acquisition or transfer of material business or asset prescribed by Presidential Decree;
3. All-inclusive swap or transfer of stocks; or
4. Split-off, or split and merger.

[This Article Newly Inserted by Act No. 9407, Feb. 3, 2009]

Article 165-5 (Special Cases concerning Appraisal Rights of Shareholders)

- (1) A shareholder (including shareholders without voting rights under [Article 370 \(1\) of the Commercial Act](#); hereafter the same shall apply in this Article) who opposed the resolution of the board of directors with respect to the matters for resolution specified by a stock-listed corporation under [Articles 360-3, 360-9, 360-16, 374, 522, 527-2](#) and [530-3](#) (limited to split and merger under [Article 530-2 of the same Act](#)) of the [Commercial Act](#) may request the corporation to purchase the stocks he/she owns (limited to stocks proven by shareholders who reported his/her opposition that such stocks had been acquired prior to public notice of the resolution of the board of directors pursuant to [Article 391](#) and the stocks proven that such stocks fall under the cases prescribed by Presidential Decree even though they have been acquired after the public notice of the resolution of the board of directors) within 20 days from the date when the resolution of the general meeting of shareholder is made (in cases of the shareholders of the company becoming a complete subsidiary under [Article 360-9 of the Commercial Act](#) and shareholders of a company to be extinguished under [Article 527-2](#) of the same Act, the date on which two weeks lapse from the date when the public notice or notification under [Articles 360-9](#) (2) and [527-2](#) (2) of the same Act is made), in writing by indicating the type and number of stocks, only when the shareholder has informed the corporation of his/her intention to oppose the resolution in writing prior to the general meeting of shareholder (in cases of shareholders of the company becoming a complete subsidiary under [Article 360-9 of the Commercial Act](#) and shareholders of a company to be extinguished under [Article 527-2](#) of the same Act, within two weeks from the date when the public notice or notification under [Articles 360-9](#) (2) and [527-2](#) (2) of the same Act is made).
- (2) The relevant corporation which receives the request under paragraph (1) shall purchase the stocks within one month from the expiration of the period for exercising appraisal rights.
- (3) The purchase price of stocks under paragraph (2) shall be determined by the consultation between shareholders and the relevant corporation: *Provided*, That if the consultation is not made, the purchase price shall be the amount calculated in a manner prescribed by Presidential Decree based on the transaction price of the stocks traded on the securities market prior to the date when the resolution of the board of directors is made, and if the corporation or shareholders who requested for the purchase opposes such purchase price, the determination of a purchase price may be filed with a court.

- (4) A stock-listed corporation shall dispose of the stocks purchased pursuant to paragraph (1) within the period prescribed by Presidential Decree: *Provided*, That where the stock-listed corporation intends to retire stocks using the profits to be distributed to shareholders, it shall comply with [Article 165-3](#) (excluding the latter part other than the subparagraphs of paragraph (2) of the same Article and paragraph (3) 1 of the same Article), and in applying paragraph (2) 2 of the same Article, "total amount of the value of stocks to be acquired for retirement" shall be deemed "total amount of the value of stocks for retirement", and in applying paragraph (2) 3 of the same Article, "period for acquiring stocks. In such cases, the period" shall be deemed "date for retiring stocks. In such cases, the date", and in applying paragraph (3) 2 of the same Article, "the amount of its own stocks to be acquired for retirement" shall be deemed "the total amount of the value of its own stocks for retirement".
- (5) Where a stock-listed corporation makes a notification or public notice on the convocation of a general meeting of shareholders with respect to the matters specified under [Article 360-3](#), [360-16](#), [374](#), [522](#) and [530-3](#) (limited to split and merger under [Article 530-2 of the Commercial Act](#)) of the same Act pursuant to [Article 363](#) of the same Act, or makes a notification or public notice pursuant to [Articles 360-9](#) (2) and [527-2](#) (2) of the same Act, the stock-listed corporation shall indicate the details of, and methods of exercising, appraisal rights of shareholders under paragraph (1). In such cases, the corporation shall make such notification or public notice to shareholders without voting rights under [Article 370](#) (1) of the same Act.

[This Article Newly Inserted by Act No. 9407, Feb. 3, 2009]

Article 165-6 (Capital Increase by Public Offering)

- (1) Notwithstanding [Article 418 \(1\) of the Commercial Act](#) and the proviso to paragraph (2) of the same Article, a stock-listed corporation may issue new stocks by public offering prescribed by Presidential Decree by a resolution of the board of directors as prescribed by its articles of incorporation.
- (2) Where new stocks are issued by going through public offering pursuant to paragraph (1), the price of such new stocks shall be not less than the price calculated by the methods prescribed by Presidential Decree.

[This Article Newly Inserted by Act No. 9407, Feb. 3, 2009]

Article 165-7 (Preferential Allocation to Members of Employee Stock Ownership Associations)

- (1) Where a stock-listed corporation (excluding corporations whose stocks are listed on the KOSDAQ market) or a corporation intending to list stock certificates on the securities exchange intends to publicly offer or sell stocks, members of an employee stock ownership association (referring to members of an employee stock ownership association under the [Framework Act on Workers' Welfare](#); hereinafter the same shall apply) of the relevant corporation may have rights to be allocated with stocks preferentially within the scope of 20/100 of the total number of stocks subject to the public offering or public sale: *Provided*, That the same shall not apply to cases falling under any of the following subparagraphs:
1. Where a corporation prescribed by Presidential Decree, from among foreign-invested companies under the [Foreign Investment Promotion Act](#), issues stocks; or
 2. Other cases prescribed by Presidential Decree as having difficulty in allocating stocks preferentially to members of an employee stock ownership association.
- (2) Where the number of stocks held by members of an employee stock ownership association exceeds 20/100 of the total number of stocks that have already been issued and are newly issued, paragraph (1) shall not apply.
- (3) The Financial Services Commission may determine guidelines necessary for the allocation of stocks to members of an employee stock ownership association under paragraph (1), the disposal thereof, etc. and provide them by public notice.

[This Article Newly Inserted by Act No. 9407, Feb. 3, 2009]

Article 165-8 (Special Cases Concerning Issuance Less Than Par Value)

- (1) Notwithstanding [Article 417 of the Commercial Act](#), a stock-listed corporation may issue stocks at a price less than their par value only with the resolution of the general meeting of shareholders under [Article 434](#) of the same Act without the authorization of a court: *Provided*, That if the corporation fails to complete the amortization under [Article 455](#) (2) of the same Act, the corporation shall not issue stocks at a price less than their par value.
- (2) The resolution of the general meeting of shareholders under paragraph (1) shall determine the minimum issue value of stocks. In such cases, the minimum issue value shall be not less than the price calculated by the methods prescribed by Presidential Decree.
- (3) A stock-listed corporation shall issue stocks under paragraph (1) within one month from the date when the resolution of a general meeting of shareholders is made, except as otherwise determined by the general meeting of shareholders.

[This Article Newly Inserted by Act No. 9407, Feb. 3, 2009]

Article 165-9 (Special Cases Concerning Inspection on Contribution in Kind)

Where a stock-listed corporation contributes stocks to another stock-listed corporation in kind by exchanging its own stocks or new stocks with the stocks of such another stock-listed corporation and evaluates the price of such invested stocks under the conditions prescribed by Presidential Decree, it shall be deemed that the investigation by an inspector or the appraisal by a certified appraiser under [Article 422 \(1\) of the Commercial Act](#) has been completed. In such cases, [Article 422](#) (2) and (3) of the same Act shall not apply.

[This Article Newly Inserted by Act No. 9407, Feb. 3, 2009]

Article 165-10 (Special Cases Concerning Issuance of Bonds)

The issue amount of convertible bonds or bonds with warrants issued by a stock-listed corporation shall not be added to the total amount of corporate bonds under [Article 470 of the Commercial Act](#).

[This Article Newly Inserted by Act No. 9407, Feb. 3, 2009]

Article 165-11 (Issuance of New Types of Bonds)

- (1) A stock-listed corporation may issue new types of bonds which are different from convertible bonds and bonds with warrants, such as bonds entitled to participate in dividend, bonds with rights to demand an exchange with stocks or other securities, or others prescribed by Presidential Decree.
- (2) Other necessary matters, including the details of bonds to be issued pursuant to paragraph (1) and methods of issuance thereof, shall be prescribed by Presidential Decree.

[This Article Newly Inserted by Act No. 9407, Feb. 3, 2009]

Article 165-12 (Special Cases Concerning Dividends)

- (1) A stock-listed corporation which has a period for the settlement of accounts once a year may pay dividends (hereinafter referred to as "quarterly dividends") by money to shareholders as of the last days of the third month, sixth month and ninth month, respectively, from the date of commencement of a business year during such business year in accordance with the resolution of the board of directors as prescribed by its articles of incorporation.
- (2) The resolution of the board of directors under paragraph (1) shall be made within 45 days from the last days under paragraph (1).
- (3) The quarterly dividends under paragraph (1) shall be paid within 20 days from the date when the resolution of the board of directors is made: *Provided*, That if the articles of incorporation prescribes a period for the payment of dividends otherwise, such period shall apply.
- (4) Quarterly dividends shall be limited to the amount calculated by deducting the amount falling under each of the following subparagraphs from the net assets on the balance sheet of the preceding period for the settlement of accounts:
 1. The amount of capital of the preceding period for the settlement of accounts;
 2. The total amount of capital reserve and earned surplus reserve accumulated until the preceding period for the settlement of accounts;
 3. The amount determined for dividends at the general meeting of shareholders of the preceding period for the settlement of accounts; and
 4. The total amount of earned reserves to be accumulated in the relevant period for the settlement of accounts according to quarterly dividends.
- (5) Where it is likely that the net assets on the balance sheet of the relevant period for the settlement of accounts fall short of the total amount of the matters falling under each of the subparagraphs of [Article 462 \(1\) of the Commercial Act](#), quarterly dividends shall not be paid.
- (6) Where any director supports the resolution of the board of directors for paying dividends although the net assets on the balance sheet of the relevant period for the settlement of accounts fall short of the sum of the amounts falling under each of the subparagraphs of [Article 462 \(1\) of the Commercial Act](#), the director shall be jointly liable for the difference (in cases where the sum of quarterly dividends is less than the difference, the sum of quarterly dividends) to the corporation: *Provided*, That if the director proves that he/she could not know there is a concern under paragraph (5) in spite of his/her exercise of due diligence, the director shall not be liable for such difference.
- (7) In applying [Articles 340](#) (1), [344](#) (1), [350](#) (3) (including the cases as applicable *mutatis mutandis* in [Article 423](#) (1), [516](#) (2), and [516-9](#) of the same Act; hereafter the same shall apply in this paragraph), [354](#) (1), [370](#) (1), [457](#) (2), [458](#), [464](#) and subparagraph 3 of [Article 625 of the Commercial Act](#), quarterly dividends shall be deemed dividends under [Article 462](#) (1) of the same Act; in applying [Article 350](#) (3) of the same Act, the last day under paragraph (1) shall be deemed the end of the business year; and in applying [Article 635 \(1\) 22-2 of the Commercial Act](#), the period under paragraph (3) shall be deemed the period under [Article 464-2 \(1\) of the Commercial Act](#).
- (8) The provisions of [Articles 399](#) (3) and [400 of the Commercial Act](#) shall apply *mutatis mutandis* to cases where a director has joint liabilities pursuant to paragraph (6), and [Articles 462 \(2\) and \(3\) of the Commercial Act](#) shall apply *mutatis mutandis* to dividends paid in violation of paragraph (4).

[This Article Newly Inserted by Act No. 9407, Feb. 3, 2009]

Article 165-13 (Special Cases Concerning Stock Dividends)

- (1) Notwithstanding the proviso to [Article 462-2 \(1\) of the Commercial Act](#), a stock-listed corporation

may pay dividends using newly issued stocks up to the limit of the amount equivalent to the total amount of dividends: *Provided*, That if the market price of concerned stock falls short of its par value, the proviso to [Article 462-2 \(1\) of the Commercial Act](#) shall apply.

- (2) The methods of calculating a market price of a stock under the proviso to paragraph (1) shall be prescribed by Presidential Decree.

[This Article Newly Inserted by Act No. 9407, Feb. 3, 2009]

Article 165-14 (Special Cases Concerning Dividends of Public Purpose Corporations, etc.)

- (1) A public purpose corporation may, when it distributes profits or interests, pay all or part of dividends to be paid to the Government to a person falling under any of the following subparagraphs from among shareholders of the corporation under the conditions prescribed by Presidential Decree, notwithstanding [Article 464 of the Commercial Act](#):

1. Members of an employee stock ownership association of the corporation that has issued the relevant stocks; or
2. A person who meets the standards prescribed by Presidential Decree, taking into consideration annual income level and amount of property owned.

- (2) Notwithstanding [Article 461 \(2\) of the Commercial Act](#), a public purpose corporation may, when it capitalizes all or part of reserve, issue all or part of stocks to be issued to the Government to shareholders who have held stocks issued by the public purpose corporation for a certain period under the guidelines and methods prescribed by Presidential Decree.

[This Article Newly Inserted by Act No. 9407, Feb. 3, 2009]

Article 165-15 (Special Cases Concerning Non-Voting Stocks)

- (1) In applying the limit on the total number of non-voting stocks under [Article 370 \(2\) of the Commercial Act](#), non-voting stocks issued by a stock-listed corporation (including a corporation which publicly offers or sell stocks for the purpose of listing them initially; hereinafter in this Article, the same shall apply) shall not be added to the calculation of such limit in cases falling under any of the following subparagraphs:

1. Where a stock-listed corporation issues stocks in a foreign country under the conditions prescribed by Presidential Decree or issues stocks as a result of exercising its rights of convertible bonds, bonds with warrants, and other securities related to stocks; or
2. Where stocks are issued by a corporation meeting standards prescribed by Presidential Decree, which is recognized by the Financial Services Commission as necessary to issue non-voting stocks from among corporations that engage in an industry essential to the national economy, such as a national key industry.

- (2) The total number of non-voting stocks falling under any of the subparagraphs of paragraph (1) and non-voting stocks under [Article 370 \(2\) of the Commercial Act](#) shall not exceed 1/2 of the total number of issued and outstanding stocks.

- (3) A stock-listed corporation of which total number of non-voting stocks exceeds 1/4 of the total number of issued and outstanding stocks may issue non-voting stocks in a manner of exercising preemptive right, capitalization of reserve or stock dividends, etc. under the conditions prescribed by Presidential Decree within the ratio under paragraph (2).

[This Article Newly Inserted by Act No. 9407, Feb. 3, 2009]

Article 165-16 (Standards for Financial Management of Stock-listed Corporations)

- (1) The Financial Services Commission may, in order to protect investors and establish fair trade order, establish standards for financial management for stock-listed corporations with respect to the matters falling under each of the following subparagraphs and provide them by public notice, and make necessary recommendation: *Provided*, That the Commission may set different standards for financial management for corporations under [Article 9 \(15\) 3 \(b\)](#):

1. Matters concerning requirements for paid-in capital increase;
2. Matters concerning dividends;
3. Matters concerning the issuance of overseas securities prescribed by Presidential Decree; and
4. Other matters prescribed by Presidential Decree as necessary for the sound management of finance.

- (2) A stock-listed corporation shall comply with guidelines for financial management under paragraph (1).

[This Article Newly Inserted by Act No. 9407, Feb. 3, 2009]

Article 165-17 (Report on Granting Stock Options, etc.)

- (1) A stock-listed corporation which has granted stock options under [Article 340-2 \(1\) of the Commercial Act](#) shall, when a general meeting of shareholders or the board of directors resolves on granting stock options, report the fact to the Financial Services Commission and the Korea Exchange under the conditions prescribed by Presidential Decree, and the Financial Services Commission and the Korea Exchange shall keep such record of the fact to make it available for public inspection through the Internet homepage, etc. during the period from the date of report to

the end of duration of stock options.

- (2) A non-standing director or outside director of a stock-listed corporation who has been appointed in accordance with the [Act on the Improvement of Managerial Structure and Privatization of Public Enterprises](#), the [Banking Act](#) and other Acts shall be deemed an outside director who has been appointed pursuant to requirements, procedures, etc. under the [Commercial Act](#).
- (3) A stock-listed corporation shall, when it appoints or dismisses an outside director or an outside director resigns due to a reason other than the expiry of his/her term of office, report the fact to the Financial Services Commission and the Korea Exchange by date immediately following the date when such appointment, dismissal or resignation occurs.

[This Article Newly Inserted by Act No. 9407, Feb. 3, 2009]

Article 165-18 (Measures against Stock-listed Corporations)

The Financial Services Commission may, in any of the following cases, order a stock-listed corporation to disclose to the public relevant facts along with the reasons therefor and make a correction thereof and, if necessary, recommend a general meeting of shareholders to dismiss an executive, restrict the issuance of securities for a certain period or take any of measures prescribed by Presidential Decree. In such cases, procedures and guidelines necessary for taking such measures shall be prescribed by Ordinance of the Prime Minister:

1. Where its own stocks are acquired in violation of [Article 165-2](#) (2);
2. Where its own stocks are acquired (including the conclusion of trust contracts) or disposed of (including the termination of trust contracts) in violation of [Article 165-2](#) (4);
3. Where the excessive portion of its own stocks is not disposed of within the period under [Article 165-2](#) (5) in violation of the same paragraph;
4. Where stocks are retired without the resolution of the board of directors in violation of [Article 165-3](#) (1) or (2);
5. Where its own stocks are acquired in violation of [Article 165-3](#) (3);
6. Where the fact that stocks have been retired and the matters under each subparagraph of [Article 165-3](#) (2) are not reported to the general meeting of shareholders in violation of [Article 165-3](#) (4);
7. Where an act falling under any of the subparagraphs of [Article 165-4](#) is conducted in violation of the same Article;
8. Where the relevant stocks are not purchased within one month from the expiry of the period for exercising appraisal rights in violation of [Article 165-5](#) (2);
9. Where stocks are not disposed of within the period prescribed by Presidential Decree in violation of the main sentence of [Article 165-5](#) (4) or stocks are retired in violation of the proviso to the same paragraph;
10. Where any notification or public notice is made in violation of the procedures under [Article 165-5](#) (5), or any notification or public notice under the same paragraph is not made;
11. Where issue price is calculated in violation of [Article 165-6](#) (2);
12. Where stocks are allocated preferentially to members of an employee stock ownership association in violation of [Article 165-7](#);
13. Where stocks are issued at a price less than their par value in violation of the proviso to [Article 165-8](#) (1);
14. Where the minimum issue price is not determined in violation of [Article 165-8](#) (2) or the price is not calculated by the methods under the latter part of the same paragraph;
15. Where stocks are not issued within one month from the date when the resolution of the general meeting of shareholders is made in violation of [Article 165-8](#) (3);
16. Where new types of corporate bonds are issued in violation of [Article 165-11](#) (2);
17. Where quarterly dividends are distributed without going through the resolution of the board of directors in violation of [Articles 165-12](#) (1) and (2);
18. Where quarterly dividends are not paid in violation of [Article 165-12](#) (3);
19. Where stock dividends are distributed in violation of [Article 165-13](#) (1);
20. Where the market price of stocks is calculated in violation of [Article 165-13](#) (2);
21. Where non-voting stocks are issued in violation of [Article 165-15](#) (2);
22. Where standards for financial management are not complied with in violation of [Article 165-16](#) (2);
23. Where report on granting stock options is not made by the methods under [Article 165-17](#) (1) in violation of the same paragraph; or
24. Where any appointment, dismissal or resignation of outside directors is not reported in violation of [Article 165-17](#) (3).

[This Article Newly Inserted by Act No. 9407, Feb. 3, 2009]

CHAPTER IV OVER-THE-COUNTER TRADING, ETC.

Article 166 (Over-the-Counter Trading)

Matters pertaining to the methods related to trading and other transactions, the payment method therefor, etc., in cases where financial investment instruments are otherwise traded or transacted outside the securities exchange and the derivatives market shall be prescribed by Presidential Decree. <Amended by Act No. 9407, Feb. 3, 2009>

Article 166-2 (Trading, etc. of Over-the-Counter Derivatives)

- (1) An investment trader or investment broker shall comply with guidelines falling under each of the following subparagraphs when carrying on investment trading business or investment brokerage business subject to over-the-counter derivatives: <Amended by Act No. 10063, Mar. 12, 2010>
1. Where an ordinary investor is a counter-party of trading over-the-counter derivatives, intermediating or arranging transactions or acting by proxy for that purpose, such trading shall be limited to cases where the ordinary investor makes transactions for the purpose of avoiding risk prescribed by Presidential Decree. In such cases, an investment trader or investment broker shall confirm the type and amount of risk that the ordinary investor intends to avoid through trading of over-the-counter derivatives and shall keep relevant materials;
 2. The amount of risk (referring to the amount of risk prescribed by the Financial Services Commission and provided by public notice) incurred from trading over-the-counter derivatives shall not exceed the limit determined by the Financial Services Commission and provided by public notice;
 3. Where the net operating capital falls short of twice the gross risks (in cases of concurrently-run financial investment business entities, referring to cases prescribed by the Financial Services Commission and provided by public notice), trading of new over-the-counter derivatives shall be suspended to the date when such shortage is resolved and only business related to concluding outstanding transactions or avoiding risks shall be carried on;
 4. Approval from a person in charge of derivatives business under [Article 28-2](#) shall be obtained whenever over-the-counter derivatives are traded: *Provided*, That the same shall not apply to cases where over-the-counter derivatives are traded under the conditions predetermined between counter-parties as a contract which meets the guidelines prescribed by the Financial Services Commission and provided by public notice;
 5. Details of the trading of over-the-counter derivatives (including derivatives-combined securities), intermediary or arrangement thereof, or act by proxy for that purpose shall be reported to the Financial Services Commission on a monthly basis by the tenth day of the next month;
 6. Prior deliberation by the Association is required when newly dealing with an over-the-counter derivative falling under any of the following items: *Provided*, That the same shall not apply to cases prescribed by Presidential Decree: «Date of Expiration: December 31, 2011»
 - (a) An over-the-counter derivative, the underlying assets of which fall under [Article 4](#) (10) 4 or 5;
 - (b) An over-the-counter derivative for ordinary investors.
- (2) Management of risks generated by the transactions of over-the-counter derivatives and other matters necessary for the protection of investors shall be determined by the Financial Services Commission and provided by public notice.
- (3) The Governor of the Financial Supervisory Service shall supervise the compliance with the guidelines under each subparagraph of paragraph (1) with respect to the transactions, etc. of over-the-counter derivatives by an investment trader or investment broker.

[This Article Newly Inserted by Act No. 9407, Feb. 3, 2009]

Article 167 (Limitations on Ownership of Stocks Issued by Public Purpose Corporations)

- (1) No one may own stocks issued by a public purpose corporation in whosever name on his/her account in excess of the following guidelines. In this regard, non-voting stocks shall not be included in the total number of outstanding stocks, and the stocks owned in his/her specially related person's name shall be deemed to have been acquired on his/her account:
1. The ratio of owned stocks, in the case of a shareholder who owns 10/100 of the total number of outstanding stocks or more at the time the stocks are listed; and
 2. The ratio provided for in the articles of incorporation, limited to 3/100 of the total number of outstanding stocks, in the case of any person other than the shareholder under subparagraph 1.
- (2) Notwithstanding paragraph (1), in cases where a person obtains approval of the Financial Services Commission for a specific limit of the ratio of owned stocks, a person may own stocks issued by a public purpose corporation to the limit approved. <Amended by Act No. 8863, Feb. 29, 2008>
- (3) A person who in fact owns stocks in excess of the guidelines set forth in paragraphs (1) and (2) may not exercise voting rights for the excess portion, and the Financial Services Commission may order the person who in fact owns stocks in excess of the guidelines to take corrective measures to meet the guidelines within a given period of time, not exceeding six months. <Amended by Act No. 8863, Feb. 29, 2008>

Article 168 (Restrictions on Foreigners' Trading of Securities and Exchange-traded Derivatives)

- (1) With respect to trading and other transactions involving securities or exchange-traded derivatives by foreigners (referring to individuals with no address or residence for at least six months in this

- country; hereafter the same shall apply in this Article), foreign corporations, etc., a restriction may be placed on the limit of acquisition, etc. in accordance with the guidelines and methods prescribed by Presidential Decree. <Amended by Act No. 9407, Feb. 3, 2009>
- (2) With respect to the acquisition of stocks of a public purpose corporation by foreigners, foreign corporations, etc., a separate restriction may be set in accordance with the articles of incorporation of the public purpose corporation in addition to the restriction under paragraph (1).
 - (3) No person who acquired stocks in violation of paragraph (1) or (2) may not exercise voting rights for such stocks, and the Financial Services Commission may order a person who has traded securities or exchangetraded derivatives in violation of paragraph (1) or (2) to take corrective measures within a given period of time, not exceeding six months. <Amended by Act No. 8863, Feb. 29, 2008>
 - (4) Other matters pertaining to the protection of investors or sound trade practice in connection with trading and other transactions of securities or exchange-traded derivatives by foreigners, foreign corporations, etc. shall be prescribed by Presidential Decree.

Article 169 (Audit Certification by Accounting Auditor)

- (1) A person specified by Presidential Decree among the persons who submit finance-related documents to the Financial Services Commission and the Korea Exchange pursuant to this Part shall receive an accounting audit under the [Act on External Audit of Stock Companies](#): *Provided*, That the matters specified by Presidential Decree may be exempted from the accounting audit in consideration of the balance between confidentiality of corporate management, the burden to the corporation, etc. and the protection of investors, etc. <Amended by Act No. 8863, Feb. 29, 2008>
- (2) The Financial Services Commission may, if deemed necessary for the protection of investors, order an accounting auditor who conducted an accounting audit in accordance with paragraph (1) or the corporation that received such accounting audit, to submit materials or a report, or to take any other measures as may be necessary. <Amended by Act No. 8863, Feb. 29, 2008>
- (3) Foreign corporations, etc. that received an accounting audit in accordance with the Acts and subordinate statutes related to financial investment businesses of the foreign country shall be deemed to have received an account audit in accordance with the main sentence of paragraph (1), if they satisfy the guidelines prescribed by Presidential Decree. In this regard, paragraph (2) shall apply *mutatis mutandis* to the accounting auditors who conducted the accounting audit in accordance with the Acts and subordinate statutes related to financial investment businesses of the foreign country (hereinafter referred to as "foreign accounting auditors") or to the foreign corporations, etc. that received such accounting audit.

Article 170 (Accounting Auditor's Liability for Damages)

- (1) Where *bona fide* investors have sustained any damage by relying on audit reports of an accounting auditor (including foreign accounting auditors; hereafter the same shall apply in this Article) attached to business reports, etc., the provisions of [Article 17 \(2\) through \(7\) of the Act on External Audit of Stock Companies](#) shall apply *mutatis mutandis* to the accounting auditor's liability for damages. <Amended by Act No. 9407, Feb. 3, 2009>
- (2) The amount of damages for which a person shall be held liable in accordance with paragraph (1) shall be estimated by calculating the difference between the amount actually paid or received by the claimant as the price for acquisition or disposition of the securities (including securities depository receipts related to such securities and other securities specified by Presidential Decree; hereafter the same shall apply in this Article) and any of the following amounts (in a case of disposition, only subparagraph 1 shall apply):
 1. The market price (referring to an estimated disposal price if there is no market price available) of the securities at the time of closing the pleading of the lawsuit filed for the claim of such damages under paragraph (1); and
 2. The disposal price if the securities were disposed of before the closing of pleading under subparagraph 1.
- (3) Notwithstanding paragraph (2), a person who shall be liable in accordance with Article paragraph (1) shall not be held liable for partial damages, if he/she proves that all or part of the damages sustained by the claimant were not caused by a false description or representation of any material fact, or by an omission of a description or representation of such material fact.

Article 171 (Alternative Payment for Guarantee Money, etc.)

- (1) Any guarantee money or deposit money specified by Presidential Decree from among the guarantee money and deposit money payable to the State, a local government, or a public agency under the Act on the Management of Public Agencies (hereafter referred to as "public agency" in this Article) may be paid alternatively by listed securities.
- (2) The State, a local government, or a public agency shall not refuse to accept the alternative payment by listed securities in accordance with paragraph (1).
- (3) The guidelines for evaluation of the listed stocks allowable for alternative payment to the State, a local government, or a public agency in accordance with paragraph (1) and the value of such listed stocks shall be prescribed by Presidential Decree.

- (4) If the listed stocks paid alternatively in accordance with paragraph (1) are depository receipts, etc. under [Article 309](#) (3) 2, the listed securities may be substituted with a deposit certificate issued by the Securities Depository (hereafter referred to as "deposit certificate" in this Article) in a manner prescribed by Presidential Decree.
- (5) The Securities Depository and a depositor (referring to a depositor under [Article 309](#) (2)) shall, when a deposit certificate is issued in accordance with paragraph (4), enter a note in the depositor account book or the investor account book, stating that the disposition of the listed stocks is restricted from the issue date of the deposit certificate until the deposit certificate is returned.

PART IV REGULATION OF UNFAIR TRADING

CHAPTER I INSIDER TRADING, ETC.

Article 172 (Return of Insider's Short-swing Profit)

- (1) If an executive (including the persons under subparagraphs of [Article 401-2 \(1\) of the Commercial Act](#); hereafter the same shall apply in this Chapter), employee (limited to the person who is in a position to acquire material nonpublic information as defined in [Article 174](#) (1), as specified by Presidential Decree; hereafter the same shall apply in this Article), or a significant shareholder of a stock-listed corporation derives profit by purchasing (including the sale of specific securities, etc., through which he/she becomes an opposite party of a person who exercises a right, and acquires the status of a purchaser; hereafter the same shall apply in this Article) financial investment instruments falling under any of the following subparagraphs (hereinafter referred to as "specific securities, etc.") and then selling (including the purchase of specific securities, etc., in which he/she is able to exercise a right and acquire the status of a seller; hereafter the same shall apply in this Article) them within six months or by selling specific securities, etc. and then purchasing them within six months, the corporation may require the executive, employee, or significant shareholder to return the profit (hereinafter referred to as "short-swing profit") to the corporation. In this regard, matters pertaining to guidelines for the computation of such profit, the procedure for returning, etc. shall be prescribed by Presidential Decree:
 1. Securities issued by the corporation (excluding securities specified by Presidential Decree);
 2. Securities depository receipts related to the securities under subparagraph 1;
 3. Exchangeable bonds issued by any person other than the corporation, which are exchangeable with the securities under subparagraph 1 or 2; and
 4. Financial investment instruments based on an underlying asset composed only of the securities under subparagraphs 1 through 3.
- (2) A shareholder (including owners of any equity securities or securities depository receipts other than stocks; hereafter the same shall apply in this Article) of the relevant corporation may demand that the corporation make a claim against a person who has derived a short-swing profit as set forth in paragraph (1) to return such profit, and the shareholder may also make such claim on behalf of the corporation, if the corporation does not make such claim within two months after receiving such demand.
- (3) The Securities and Futures Commission shall, when it discovers an accrual of short-swing profits under paragraph (1), notify the relevant corporation thereof. In this regard, the corporation shall disclose the contents of such notice to the general public through its Internet homepage, etc. in a manner prescribed by Presidential Decree.
- (4) If the shareholder who files a lawsuit for the claim under paragraph (1) wins the lawsuit, the shareholder may claim legal expenses from the corporation and all other expenses incurred from the lawsuit.
- (5) The rights under paragraphs (1) and (2) cease, if they are not exercised within two years after the profit is acquired.
- (6) Paragraph (1) shall not apply to cases prescribed by Presidential Decree, taking into account the nature of the sale or purchase by an executive, employee, or a significant shareholder, other circumstances, etc., and the cases where the significant shareholder involved was not a shareholder at the time of either purchase or sale.
- (7) Paragraphs (1) and (2) shall apply *mutatis mutandis* to the investment trader who underwrote specific securities, etc. publicly offered, privately placed, or sold by a stock-listed corporation during a period of time prescribed by Presidential Decree.

Article 173 (Report on Status of Specific Securities, etc. Owned by Executives, etc.)

- (1) An executive or significant shareholder of a stock-listed corporation shall report the status of specific securities, etc. owned on his/her own account, in whosever name, within five days

(excluding the days specified by Presidential Decree; hereafter the same shall apply in this Article) from the day on which he/she became an executive or a significant shareholder, or within five days from the day on which any change occurred in the status of specific securities, etc. owned by him/her, to the Securities and Futures Commission and the Korea Exchange respectively in a manner prescribed by Presidential Decree.

- (2) The Securities and Futures Commission and the Korea Exchange shall keep such report under paragraph (1) for public inspection for three years, and shall also disclose it through their Internet homepages, etc. <Amended by Act No. 9407, Feb. 3, 2009>

Article 173-2 (Report on Exchange-traded Derivatives, etc. Held in Bulk)

- (1) A person who holds (referring to a case where he/she owns exchange-traded derivatives for his/her own account regardless of the title thereof; hereafter the same shall apply in this paragraph) exchange-traded derivatives (limited to those using the ordinary commodities under [Article 4](#) (10) 3 as the underlying asset; hereafter the same shall apply in this Article) of the same item in excess of the quantity determined by the Financial Services Commission and provided by public notice shall report the status of such holding and other matters prescribed by Presidential Decree to the Financial Services Commission and the Korea Exchange in a manner prescribed by Presidential Decree within five days (excluding days specified by Presidential Decree; hereafter the same shall apply in this Article) from the date on which the person becomes a holder of the stocks in such a quantity, and shall, when the holding quantity is changed in excess of a quantity determined by the Financial Services Commission and provided by public notice, report such a change to the Financial Services Commission and the Korea Exchange in a manner prescribed by Presidential Decree within five days from the date on which such a change occurs.
- (2) A person falling under any of the following subparagraphs who becomes aware of information which might exert influence over market prices in the derivatives market in the course of performing his/her duties and other persons who receive such information from the person shall neither disclose the information or use it for the trading of exchange-traded derivatives and their underlying assets or other transactions, nor allow any other person to use it:
1. A person who draws up, establishes, or implements policies that might exert influence over market prices of exchange-trade derivatives;
 2. A person who creates and manages information that might exert influence over market prices of exchange-traded derivatives; and
 3. A person who engages in the business of intermediating, distributing, or inspecting underlying assets of exchange-traded derivatives.

[This Article Newly Inserted by Act No. 9407, Feb. 3, 2009]

Article 174 (Prohibition on Use of Material Nonpublic Information)

- (1) No person who falls under any of the following subparagraphs (including a person in whose case one year has not passed since he/she no longer fell under any of subparagraphs 1 through 5) shall use any material nonpublic information (referring to any information that may produce a significant impact on investors' investment judgment, and that has not been disclosed yet to a multiple number of unspecified people in a manner prescribed by Presidential Decree; hereafter the same shall apply in this paragraph) related to the business of a listed-corporation (including a corporation which will be listed within six months) in trading or any other transaction involving specific securities, etc. or allow another person to use it: <Amended by Act No. 9407, Feb. 3, 2009>
1. The corporation (including its affiliated companies; hereafter the same shall apply in this subparagraph and subparagraph 2) or its executive, employee, or agent, who becomes aware of the material nonpublic information in the course of performance of the business;
 2. A significant shareholder of the corporation, who becomes aware of the material nonpublic information in the course of exercising his/her rights;
 3. A person, having authority to grant permission or authorization, give an instruction, or supervise the corporation or any other power pursuant to a relevant Act and subordinate statute, who becomes aware of the material nonpublic information in the course of exercising such authority or power;
 4. A person who has entered into a contract with the corporation or is under contract negotiation with the corporation, and who becomes aware of the material nonpublic information in the course of entering into, negotiating, or performing such contract;
 5. An agent of a person falling under any of subparagraphs 2 through 4 (including executives, employees, and agents if the principal falling hereunder is a corporation), or a servant or employee of such person (or an executive, employee, or agent of a corporation if the person falling under any of subparagraphs 2 through 4 is the corporation), who becomes aware of the material nonpublic information in connection with his/her job; and
 6. A person who received the material nonpublic information from a person falling under any of subparagraphs 1 through 5 (including a person in whose case one year has not passed since the day on which he/she no longer fell under any of subparagraphs 1 through 5).
- (2) No person falling under any of the following subparagraphs (including a person in whose case one

year has not passed since the day on which he/she no longer fell under any of subparagraphs 1 through 5) shall use material nonpublic information (referring to information not yet disclosed to a multiple number of unspecified people in a manner prescribed by Presidential Decree; hereafter the same shall apply in this paragraph) regarding the initiation or discontinuance of a tender offer (referring to the tender offer under [Article 133](#) (1); hereafter the same shall apply in this paragraph) for stocks, etc. in trading or any other transaction involving specific securities, etc. related to the stocks, etc. or allow another person to use such information: *Provided*, That the same shall not apply to cases where a tender offeror makes transactions for the purpose of public tender offer: *<Amended by Act No. 9407, Feb. 3, 2009>*

1. A tender offeror (including its affiliated companies; hereafter the same shall apply in this subparagraph and subparagraph 2) or an executive, employee, or agent of the tender offeror, who becomes aware of the material nonpublic information regarding the initiation or discontinuance of the tender offer in connection with his/her job;
 2. A significant shareholder of the tender offeror, who becomes aware of the material nonpublic information regarding the initiation or discontinuance of the tender offer in the course of exercising his/her rights;
 3. A person, having authority to grant permission or authorization, give an instruction, or supervise the tender offeror or any other power pursuant to a relevant Act and subordinate statute, who becomes aware of the material nonpublic information regarding the initiation or discontinuance of the tender offer in the course of exercising such authority or power;
 4. A person who has entered into a contract with the tender offeror or is under contract negotiation with the tender offeror, and who becomes aware of the material nonpublic information regarding the initiation or discontinuance of the tender offer in the course of entering into, negotiating, or performing such contract;
 5. An agent of a person falling under any of subparagraphs 2 through 4 (including executives, employees, and agents if the principal falling hereunder is a corporation), or a servant or employee of such person (or an executive, employee, or agent of a corporation if the person falling under any of subparagraphs 2 through 4 is a corporation), who becomes aware of the material nonpublic information regarding the initiation or discontinuance of the tender offer in connection with his/her job; and
 6. A person who acquired the material nonpublic information regarding the initiation or discontinuance of the tender offer from the tender offeror or a person falling under any of subparagraphs 1 through 5 (including a person in whose case one year has not passed since the day on which he/she no longer fell under any of subparagraphs 1 through 5).
- (3) A person who falls under any of the following subparagraphs (including a person in whose case one year has not passed since the day on which he/she no longer fell under any of subparagraphs 1 through 5) shall use material nonpublic information (referring to information not yet disclosed to a multiple number of unspecified people in a manner prescribed by Presidential Decree; hereafter the same shall apply in this paragraph) regarding acquisition or disposition of stocks, etc. in bulk (referring to an acquisition or disposition that may produce an impact on business control, as prescribed by Presidential Decree; hereafter the same shall apply in this paragraph) for stocks, etc. in trading or any other transaction of specific securities, etc. related to the stocks, etc. or allow another person to use such information: *Provided*, That the same shall not apply to the cases where a person acquiring or disposing of the stocks, etc. in bulk makes transactions for the purpose of acquiring or disposing of stocks, etc. in bulk: *<Amended by Act No. 9407, Feb. 3, 2009>*
1. An affiliated company of the person acquiring or disposing of the stocks, etc. in bulk, or an executive, employee, or agent of the person acquiring or disposing of the stocks, etc. in bulk (including its affiliated companies; hereafter the same shall apply in this subparagraph and subparagraph 2), who becomes aware of the material nonpublic information regarding the initiation or discontinuance of an acquisition or disposition in bulk in connection with his/her job;
 2. A significant shareholder of the person acquiring or disposing of the stocks, etc. in bulk, who becomes aware of the material nonpublic information regarding the initiation or discontinuance of an acquisition or disposition in bulk in the course of exercising his/her rights;
 3. A person, having authority to grant permission or authorization, give an instruction, or supervise the person acquiring or disposing of the stocks, etc. in bulk, or any other power pursuant to a relevant Act and subordinate statute, who becomes aware of the material nonpublic information regarding the initiation or discontinuance of an acquisition or disposition in bulk in the course of exercising such authority or power;
 4. A person who has entered into a contract with the person acquiring or disposing of the stocks, etc. in bulk or is under contract negotiation with the person acquiring or disposing of the stocks, etc. in bulk, and who becomes aware of the material nonpublic information regarding the initiation or discontinuance of an acquisition or disposition in bulk in the course of entering into, negotiating, or performing such contract;
 5. An agent of a person falling under any of subparagraphs 2 through 4 (including executives,

employees, and agents if the principal falling hereunder is a corporation), or a servant or employee of such person (or an executive, employee, or agent of a corporation if the person falling under any of subparagraphs 2 through 4 is a corporation), who becomes aware of the material nonpublic information regarding the initiation or discontinuance of an acquisition or disposition in bulk in connection with his/her job; and

6. A person who acquired the material nonpublic information regarding the initiation or discontinuance of an acquisition or disposition in bulk from the person acquiring or disposing of the stocks, etc. in bulk, or a person falling under any of subparagraphs 1 through 5 (including a person in whose case one year has not passed since the day on which he/she no longer fell under any of subparagraphs 1 through 5).

Article 175 (Liability for Damages Caused by Use of Material Nonpublic Information)

- (1) A person who violates [Article 174](#) shall be liable for the damages sustained by a person who trades, or makes any other transaction of, the relevant specific securities, etc. in connection with trading or any other transaction of securities, etc.
- (2) The right to claim damages under paragraph (1) ceases if it is not exercised within one year from the day on which the claimant becomes aware of a violation of [Article 174](#), or three years from the day on which such violation is committed.

CHAPTER II MARKET PRICE MANIPULATION, ETC.

Article 176 (Prohibition on Market Price Manipulation, etc.)

- (1) No one shall mislead any person to cause a misunderstanding that the trading of listed securities or exchange-traded derivatives is booming, or commit any of the following acts with an intention to mislead another person into making a wrong judgment:
 1. Selling securities or exchange-traded derivatives under a conspiracy with another person to sell the securities or exchange-traded derivatives at the same price as his/her, or at an agreed value at the same time as he/she sells them;
 2. Purchasing securities or exchange-traded derivatives under a conspiracy with another person according to which the other person sells the securities or exchange-traded derivatives at the same price as he/she purchases them at the same time as he purchases them;
 3. Appearing to trade securities or exchange-traded derivatives without an intention to transfer the interest or right therein; and
 4. Entrusting or being entrusted with an act set forth in subparagraphs 1 through 3.
- (2) No one shall commit any of the following acts with an intention to attract someone to trade listed securities or exchange-traded derivatives:
 1. Misleading someone to cause a misunderstanding that the trading of such securities or derivatives is booming, or selling or purchasing, or entrusting or being entrusted with the sale or purchase of, such securities or derivatives in order to cause a fluctuation in the market price (referring to the market price formed in the securities exchange or the derivatives market, the market price formed in the course of intermediating the trading of listed stocks by an electronic securities brokerage company, or other market price prescribed by Presidential Decree; hereinafter the same shall apply);
 2. Disseminating a rumor that fluctuations in the market price for such securities or derivatives are being caused by his/her or another person's market manipulation; and
 3. Making a false or misleading representation concerning a material fact in trading such securities or exchange-traded derivatives.
- (3) No one shall commit an act of engaging in a series of purchases or sales in connection with listed securities or exchange-traded derivatives or shall entrust or be entrusted with such act, with an intention to fix or stabilize the market price of the listed securities or exchange-traded derivatives: *Provided*, That the same shall not apply to any of the following cases:
 1. When an investment trader (limited to an investment trader who has entered into an underwriting contract with the issuer or owner of the securities subject to public offering or sale; hereafter the same shall apply in this Article) trades such securities with an intention to make the public offering or sale of the securities smooth by stabilizing the price of the securities (hereafter referred to as "manipulation for stabilization" in this paragraph) during the period of time beginning on a day specified by Presidential Decree not exceeding 30 days before the end of the subscription period for the public offering or sale of the securities and ending on the expiration of the subscription period;
 2. When an investment trader trades securities to create supply and demand (hereafter referred to as "market creation" in this paragraph) for the securities publicly offered or sold in a manner prescribed by Presidential Decree during a period of time prescribed by Presidential Decree not exceeding six months from the day on which the securities are listed;

3. When a person specified by Presidential Decree, such as an executive of the issuer of securities publicly offered or sold, entrusts an investment trader with manipulation for stabilization;
 4. When an investment trader is entrusted with manipulation for stabilization in accordance with subparagraph 3;
 5. When an underwriter of securities publicly offered or sold, entrusts an investment trader with marker creation; and
 6. When an investment trader is entrusted with market creation in accordance with subparagraph 5.
- (4) No one shall commit any of the following acts in connection with trading listed securities or exchange-traded derivatives: *<Amended by Act No. 9407, Feb. 3, 2009>*
1. Causing a fluctuation in, or fixing, the market price of underlying assets of certain exchange-traded derivatives with an intention to earn, or cause a third party to earn unjust profits from trading such exchange-traded derivatives;
 2. Causing a fluctuation in, or fixing, the market price of exchange-traded derivatives with an intention to earn, or cause a third party to earn, unjust profits from trading such underlying assets of exchange-traded derivatives; and
 3. Causing a fluctuation in, or fixing, the market price of securities linked to certain securities specified by Presidential Decree with an intention to earn, or cause a third party to earn, unjust profits from trading such securities.

Article 177 (Liability for Damages Caused by Market Price Manipulation)

- (1) A person who violates [Article 176](#) shall be liable for damages sustained by a person who trades or entrusts to trade relevant listed securities or exchange-traded securities due to such trading or entrustment at the price formed by such violation.
- (2) The right to claim damages under paragraph (1) ceases by prescription if the claimant does not exercise the right within one year from the time he/she becomes aware of the fact that there was a violation of [Article 176](#), or within three years from the time such act was committed.

CHAPTER III UNFAIR TRADING, ETC.

Article 178 (Prohibition on Unfair Trading, etc.)

- (1) No one shall commit any of the following acts in connection with trading (including public offering, private placement, and sale in case of securities; hereafter the same shall apply in this Article and [Article 179](#)) or other transaction of financial investment instruments:
 1. Utilizing an unfair means, scheme, or trick;
 2. Attempting to earn money or any interest in property, by using a document containing a false description or representation of a material fact, or an omission of a description or representation of a material fact necessary for preventing others from being misled, or any other description or representation; and
 3. Using an inaccurate market price with an intention to attract another to trade or make any other transaction in financial investment instruments.
- (2) No one shall disseminate a rumor, use a deceptive scheme, or make a threat, with an intention to trade or make any other transaction in financial investment securities or attempt to cause a fluctuation in the market price.

Article 179 (Liability for Damages Caused by Unfair Trading, etc.)

- (1) A person who violates [Article 178](#) shall be liable for damages sustained by a person who trades or makes any other transaction in financial investment instruments by relying on violation in connection with such trading or transaction.
- (2) The right to claim damages under paragraph (1) ceases by prescription if the claimant does not exercise the right within one year from the time he/she becomes aware of the fact that there was a violation of [Article 178](#), or within three years from the time such act was committed.

Article 180 (Restriction on Short Sale)

- (1) No one shall make any of the following sales (hereafter referred to as "short sale" in this Article) of listed securities (limited to securities specified by Presidential Decree; hereafter the same shall apply in this Article) in the securities exchange, or entrust someone or be entrusted with such sale: *Provided*, That such sale may be allowed in cases where the sale is made in a manner prescribed by Presidential Decree in order to maintain the stability of the securities exchange and form a fair market price:
 1. A sale of listed securities which a person does not own; and
 2. A sale with an intention to settle the account by borrowed listed securities.
- (2) Notwithstanding the main sentence of paragraph (1), a sale shall not be deemed a short sale in any of the following cases:
 1. When listed securities for which a purchase contract was made in the securities exchange are sold

- before the settlement date within the amount of the corresponding quantity;
2. When stocks that will be acquired by exercising a right of convertible bonds, exchangeable bonds, bonds with warrant, etc. are sold and it is possible to settle the account because the stocks will be listed by the settlement date; and
 3. When there is otherwise no possibility of failing to perform the settlement, as prescribed by Presidential Decree.

PART V COLLECTIVE INVESTMENT SCHEME

CHAPTER I GENERAL PROVISIONS

Article 181 (Application of Related Acts)

Collective investment schemes shall be governed by the [Commercial Act](#) and the [Civil Act](#), except as specifically provided otherwise by this Act.

Article 182 (Registration of Collective Investment Scheme)

- (1) A collective investment business entity of an investment trust or an undisclosed investment association, or an investment company, an investment limited liability company, an investment limited partnership company, or an investment association (hereafter referred to as "investment company, etc." in this Part) shall, when it creates and establishes a collective investment scheme, register such scheme with the Financial Services Commission. <Amended by Act No. 8863, Feb. 29, 2008>
- (2) The requirements for registration of a collective investment scheme under paragraph (1) are as follows:
 1. No persons under the following items may be in a period of suspension of business:
 - (a) A collective investment business entity that handles the collective investment property;
 - (b) A trust business entity that keeps in custody and manages the collective investment property;
 - (c) An investment trader and the investment broker that is responsible for selling the collective investment securities; and
 - (d) A general administration company (referring to a general administration company under [Article 254](#); hereinafter the same shall apply) with whom the affairs under [Article 184](#) (6) are entrusted by an investment company, in cases where an investment company is involved;
 2. Collective investment scheme has been created and established lawfully in compliance with this Act;
 3. Collective investment agreement does not contravene any Act and subordinate statute, nor explicitly impinge on investors' interests; and
 4. All other requirements prescribed by Presidential Decree are met, considering the form, etc. of the collective investment scheme under each subparagraph of [Article 9](#) (18).
- (3) A collective investment business entity of an investment trust or an undisclosed investment association, or an investment company, etc. shall, when it intends to have its collective investment scheme registered, file a registration application with the Financial Services Commission. <Amended by Act No. 8863, Feb. 29, 2008>
- (4) The Financial Services Commission shall, upon receiving a registration application under paragraph (3), examine the content thereof, make a decision on whether to approve the registration within 20 days, and notify the applicant of the result of and reasons for its decision in writing without delay. In such cases, the Commission may demand that the applicant make a supplementary correction if there is any deficiency in the registration application. <Amended by Act No. 8863, Feb. 29, 2008>
- (5) In calculating the examination period under paragraph (4), the time period determined by Ordinance of the Prime Minister such as the period for supplementary correction of deficiencies in a registration application shall not be included in the examination period. <Amended by Act No. 8863, Feb. 29, 2008>
- (6) In making a decision on whether to approve the registration under paragraph (4), the Financial Services Commission shall not reject the registration, unless any of the following grounds exist: <Amended by Act No. 8863, Feb. 29, 2008>
 1. The requirements under paragraph (2) are not satisfied;
 2. The registration application under paragraph (3) is prepared in a fraudulent manner; and
 3. The demand for supplementary correction under the latter part of paragraph (4) has not been complied with.
- (7) The Financial Services Commission shall, upon making a decision to approve the registration pursuant to paragraph (4), make an entry of necessary matters in the registration book of collective investment schemes, and shall provide public notice of the contents of the registration through its

- Internet homepage, etc. <Amended by Act No. 8863, Feb. 29, 2008>
- (8) A collective investment business entity of an investment trust or an undisclosed investment association, or an investment company, etc. shall, whenever there is any change in the matters registered in accordance with paragraph (1), file the details of such change as a revised registration with the Financial Services Commission within two weeks, except as provided for otherwise by Presidential Decree, in cases where there is no possibility of undermining the protection of investors. In this regard, the provisions of paragraphs (2) through (7) shall apply *mutatis mutandis*. <Amended by Act No. 8863, Feb. 29, 2008>
- (9) Matters concerning the application for registration and revised registration, including the mandatory descriptions and accompanying documents of the registration application under the provisions of paragraphs (1) through (8), and other necessary matters shall be prescribed by Presidential Decree.

Article 183 (Name of Collective Investment Scheme)

- (1) A collective investment scheme shall use the words (referring to words such as securities, real estate, special asset, mixed assets, and short-term finance) indicating the type of collective investment scheme as set forth in the subparagraphs of [Article 229](#) in its trade name or title.
- (2) No person, other than a collective investment scheme under this Act shall use the words "collective investment", "indirect investment", "investment trust", "investment company", "investment limited liability company", "investment limited partnership company", "private equity fund," "investment association", "undisclosed investment association", or any other similar words in its name: *Provided*, That such words may be used in the case of a collective investment business entity and for cases specified in [Article 6](#) (5) 1.

Article 184 (Business Execution, etc. of Collective Investment Schemes)

- (1) Voting rights for the equity securities (including securities depositary receipts related to such equity securities; hereafter the same shall apply in this Article) that belong to the property of an investment trust or an undisclosed investment association shall be exercised by the collective investment business entity of the investment trust or the undisclosed investment association, while voting rights for the equity securities that belong to the collective investment property of an investment company, etc. shall be exercised by the investment company, etc.: *Provided*, That an investment company, etc. may entrust the collective investment business entity of the investment company, etc. to exercise the voting rights of the equity securities that belong to the collective investment property of the investment company, etc.
- (2) Handling of the property of an investment trust or an undisclosed investment association shall be carried out by the collective investment business entity of the investment trust or the undisclosed investment association, while handling of the collective investment property of an investment company, etc. shall be carried out by the corporate director or the executive partner of the investment company, etc. or the collective investment business entity as the executive partner.
- (3) A collective investment business entity of an investment trust or an undisclosed investment association, or an investment company, etc. shall entrust the trust business entity with safekeeping and management of the collective investment property.
- (4) No collective investment business entity shall act as a trust business entity that keeps in custody and manages a collective investment property operated by itself.
- (5) A collective investment business entity of an investment trust or an undisclosed investment association, or an investment company, etc. shall, when it intends to sell the collective investment securities of a collective investment scheme, execute a sales contract with an investment trader or a sales entrustment contract with an investment broker: *Provided*, That it is not necessary to execute a sales contract or a sales entrustment contract, in cases where the collective investment business entity of an investment trust or an undisclosed investment association sells the collective investment securities of the collective investment scheme in the capacity of an investment trader or an investment broker.
- (6) An investment company shall entrust a general administration company with the following affairs:
1. Issuance of stocks of the investment company and transfer of title thereto;
 2. Computation of the property of the investment company;
 3. Notices and public notices pursuant to relevant Acts and subordinate statutes or the articles of incorporation;
 4. Affairs related to calling and opening the directors' meeting and the general meeting of shareholders, preparation of minutes, etc.; and
 5. Other matters prescribed by Presidential Decree as necessary for handling the affairs of the investment company.
- (7) No investment company, etc. shall have a standing executive or employee, nor shall it have any sales office other than the head office.

Article 185 (Joint Liability)

A collective investment business entity, a trust business entity, an investment trader, an investment

broker, a general administration company, a collective investment scheme assessment company (referring to the collective investment scheme assessment company under [Article 258](#)) and a bond assessment company (referring to the bond assessment company under [Article 263](#)) shall, when they are held liable for damages sustained by investors pursuant to this Act, be jointly liable for such damages if they are culpable for such damages.

Article 186 (Restriction, etc. on Acquisition of One's Own Collective Investment Securities)

- (1) No investment company, etc. shall acquire collective investment securities issued by itself on its own account nor receive them as the subject matter of a pledge right: *Provided*, That collective investment securities issued by itself on its own account may be acquired in any of the following cases:
1. When it is necessary for exercising a security right or other right. In this regard, the collective investment securities so acquired shall be disposed of in a manner prescribed by Presidential Decree;
 2. When the collective investment securities of an investment company, etc. are redeemed in accordance with [Article 235](#); and
 3. When stocks are purchased in accordance with [Article 201](#) (4).
- (2) The provisions of [Articles 87](#) and 89 through 92 shall apply *mutatis mutandis* to investment companies, etc. In this regard, the term "collective investment business entity (limited to a collective investment business entity of an investment trust or an undisclosed investment association; hereafter the same shall apply in this Article)" in [Article 87](#) shall be construed as "investment company, etc. (referring to a collective investment business entity in cases where an investment company, etc. entrusts the collective investment business entity to exercise voting rights; hereafter the same shall apply in this Article)," the term "collective investment business entity" in [Article 87](#) as "investment company, etc.," the term "collective investment business entity of an investment trust or an undisclosed investment association" in [Article 89](#) (1) as "investment company, etc.," and the terms "collective investment business entity (limited to the collective investment business entity of an investment trust or an undisclosed investment association; hereafter the same shall apply in this Article)" and "collective investment business entity" in [Articles 90](#) and 92 as "investment company, etc." respectively, while the term "collective investment business entity (limited to the collective investment business entity of an investment trust or an undisclosed investment association, but including the investment trader or the investment broker that sold the relevant collective investment securities; hereafter the same shall apply in this Article)" in [Article 91](#) shall be construed as "investment company, etc. (including the investment trader or the investment broker that sold the relevant collective investment securities; hereafter the same shall apply in this Article)" and the term "collective investment business entity" in [Article 91](#) as "investment company, etc." respectively.
<Amended by Act No. 9407, Feb. 3, 2009>

Article 187 (Keeping and Maintaining Records of Data)

- (1) An investment company, etc. shall keep and maintain records of data related to its business by categories of data as specified by Presidential Decree during the period of time prescribed by Presidential Decree.
- (2) An investment company, etc. shall establish and implement measures appropriate for preventing the records of data to be kept and maintained in accordance with paragraph (1) from being destroyed, counterfeited, or altered.

CHAPTER II ORGANIZATION, ETC. OF COLLECTIVE INVESTMENT SCHEMES

SECTION 1 Investment Trust

Article 188 (Execution, etc. of Trust Contract)

- (1) A collective investment business entity shall, when it intends to create an investment trust, execute a trust contract with a trust business entity in a trust contract form that contains the following matters therein:
1. The trade names of the collective investment business entity and the trust business entity;
 2. Matters concerning the value of the principal of the trust and the total number of units of beneficiary certificates;
 3. Matters concerning the operation and management of the investment trust property;
 4. Matters concerning the distribution of income and redemption;
 5. Matters concerning the computation method and the time and method of payment of the remuneration and other fees to which the collective investment business entity and the trust business entity shall be entitled: *Provided*, That the contract shall include a provision that the fees

for computation of the base price shall be borne by the relevant investment trust property in cases where the collective investment business entity entrusts someone else with the affairs related to computation of the base price;

6. Matters concerning the general meeting of beneficiaries;
 7. Matters concerning public disclosure and reports; and
 8. Other matters prescribed by Presidential Decree necessary for the protection of beneficiaries.
- (2) A collective investment business entity that has created an investment trust shall, when it intends to amend the relevant trust contract, execute an amended contract with the trust business entity. In this regard, in cases where any of the following matters in the trust contract is to be amended, the case shall be brought for resolution in advance to the general meeting of beneficiaries under the main sentence of [Article 190](#) (5):
1. An increase in the remuneration or any other fee to which the collective investment business entity, the trust business entity, etc. shall be entitled;
 2. A change in the nature of the trust business entity (excluding cases where it is changed due to a merger, division, merger after division, or any other reason as specified by Presidential Decree);
 3. Amendment of the trust contract term; and
 4. Other matters prescribed by Presidential Decree as an important matter related to beneficiaries' interests.
- (3) A collective investment business entity that has created an investment trust shall, upon amending the trust contract in accordance with paragraph (2), disclose such amendment through its Internet homepage, etc., and shall, upon amending the trust contract in accordance with the latter part of paragraph (2), notify the beneficiaries thereof, in addition to disclosing such amendment to the public.
- (4) A collective investment business entity shall, when it creates an investment trust in accordance with paragraph (1), pay the full amount of the principal of the trust stipulated in the relevant trust contract to the trust business entity in cash.

Article 189 (Beneficiary Certificate, etc.)

- (1) A collective investment business entity that has created an investment trust shall divide the beneficiary interest in the investment trust equally and indicate the divided right in beneficiary certificates.
- (2) Each beneficiary shall have an equal right in the redemption of the principal of the trust, the distribution of profit, etc. in proportion to the number of units of beneficiary certificates.
- (3) A collective investment business entity that has created an investment trust shall, upon completing the payment of the full amount of the issue value of the beneficiary certificates, issue beneficiary certificates in a manner set forth in [Article 309](#) (5) subject to confirmation by the trust business entity.
- (4) Beneficiary certificates shall be in registered form with no par value.
- (5) A collective investment business entity that has created an investment trust shall describe the following matters in the beneficiary certificates, which shall bear the printed names, and affixed seals, or joint signatures, of the representative directors of the collective investment business entity and the trust business entity that keeps in custody and manages the investment trust property:
 1. The trade names of the collective investment business entity and the trust business entity;
 2. Names or titles of beneficiaries;
 3. The value of the principal of the trust at the time of executing the trust contract and the total number of units of beneficiary certificates;
 4. The issue date of the beneficiary certificates; and
 5. Other matters prescribed by Presidential Decree necessary for the protection of beneficiaries.
- (6) A collective investment business entity that has created an investment trust shall entrust the Securities Depository with the affairs related to preparation of a list of beneficiaries.
- (7) The Securities Depository shall, upon being entrusted in accordance with paragraph (6), prepare and keep the list of beneficiaries containing the following descriptions:
 1. Addresses and names of beneficiaries;
 2. Number of units of beneficiary certificates owned by each beneficiary; and
 3. Serial numbers of beneficiary certificates, if they were issued.
- (8) The Securities Depository shall not furnish any other person with the information under the subparagraphs of paragraph (7): *Provided*, That it may be furnished in cases where it is furnished to the collective investment business entity for purposes of opening the general meeting of beneficiaries and other cases prescribed by Presidential Decree.
- (9) The provisions of [Articles 336 through 340](#) and [358-2 through 360 of the Commercial Act](#) shall apply *mutatis mutandis* to beneficiary interest and beneficiary certificates, while [Articles 353](#) and [354 of the Commercial Act](#) shall apply *mutatis mutandis* to the list of beneficiaries.

Article 190 (General Meeting of Beneficiaries)

- (1) An investment trust shall hold a general meeting of beneficiaries consisting of all beneficiaries, and

- the general meeting of beneficiaries shall have the power to adopt resolutions for only those matters provided for by this Act or the trust contract.
- (2) The general meeting of beneficiaries shall be convened by the collective investment business entity that has created the investment trust.
 - (3) A collective investment business entity that has created an investment trust shall convene the general meeting of beneficiaries within one month, if the trust business entity that keeps in custody and manages the investment trust property or the beneficiaries who hold 5/100 or more of the total number of units of beneficiary certificates, request the collective investment business entity in writing to convene the general meeting of beneficiaries, stating the purpose of the general meeting of beneficiaries and the reasons for convening the meeting. In this regard, if the collective investment business entity does not execute the procedure for convening the general meeting of beneficiaries with no justifiable reason, the trust business entity or the beneficiaries who hold 5/100 or more of the total number of units of beneficiary certificates may hold the general meeting of beneficiaries subject to approval by the Financial Services Commission. <Amended by Act No. 8863, Feb. 29, 2008>
 - (4) [Article 363 \(1\) and \(2\) of the Commercial Act](#) shall apply *mutatis mutandis* to the notice for convening a general meeting of beneficiaries. In this regard, the term "shareholders" shall be construed as "beneficiaries", the term "list of shareholders" as "list of beneficiaries", and the term "company" as "collective investment business entity" respectively.
 - (5) The general meeting of beneficiaries shall be duly formed with the attendance of beneficiaries who hold the majority of the total number of units of beneficiary certificates, and shall adopt a resolution by the affirmative vote of two-thirds or more of the voting rights of the beneficiaries present at the meeting and one-third or more of the total number of units of outstanding beneficiary certificates: *Provided*, That a resolution on the matters for which a resolution by the general meeting of beneficiaries is required in accordance with the provisions of the trust contract, in addition to the matters that require a resolution of the general meeting of beneficiaries pursuant to this Act may be adopted by the majority of voting rights of the beneficiaries present at the meeting and one-fourth or more of the total number of units of beneficiary certificates.
 - (6) A beneficiary may exercise his/her voting rights in writing without attending the general meeting of beneficiaries.
 - (7) A collective investment business entity that has created an investment trust (including the trust business entity or beneficiaries holding 5/100 or more of the total number of units of outstanding beneficiary certificates, who convene the general meeting of beneficiaries pursuant to the latter part of paragraph (3); hereafter the same shall apply in this paragraph) may postpone the general meeting of beneficiaries, if the number of units of beneficiary certificates held by the beneficiaries present at the meeting after the lapse of one hour from the time scheduled for opening the meeting fails to reach the majority of the total number of units of outstanding beneficiary certificates. In such cases, the collective investment business entity shall convene the postponed general meeting of beneficiaries (hereinafter referred to as "postponed general meeting of beneficiaries") within two weeks from the initially scheduled date.
 - (8) In the event that the number of units of beneficiary certificates held by the beneficiaries present at the postponed general meeting of beneficiaries after the lapse of one hour from the time scheduled for opening the meeting fails to reach the majority of the total number of units of outstanding beneficiary certificates, it shall be deemed that the general meeting of beneficiaries is duly formed with total number of beneficiaries held by the beneficiaries present at the meeting. In such cases, for the purposes of applying paragraph (5) to resolutions by the postponed general meeting of beneficiaries, the term "two-thirds or more of the voting rights of beneficiaries present at the meeting and one-third or more of the total number of outstanding beneficiary certificates" shall be construed as "two-thirds or more of the voting rights of beneficiaries present at the meeting", and the term "majority of the voting rights of beneficiaries present at the meeting and one-fourth or more of the total number of outstanding beneficiary certificates" as "majority of the voting rights of beneficiaries present at the meeting".
 - (9) The method of convening the general meeting of beneficiaries and the postponed general meeting of beneficiaries, the method of exercising voting rights in writing, and other matters pertaining to the general meeting of beneficiaries shall be prescribed by Presidential Decree.
 - (10) The provisions of [Articles 364, 366-2](#) (2) and (3), [367, 368](#) (3) and (4), [369](#) (1) and (2), [371 through 373, 376, 377](#), and [379 through 381](#) shall apply *mutatis mutandis* to the general meeting of beneficiaries. In this regard, the term "shareholder" shall be construed as "beneficiary," the term "articles of incorporation" as "trust contract," the term "stocks" as "beneficiary certificates," and the term "company" as "collective investment business entity."

Article 191 (Dissenting Beneficiary's Right to Require Purchase of Beneficiary Certificates)

- (1) A beneficiary who dissents from the resolution adopted by the general meeting of beneficiaries concerning an amendment of the trust contract under the latter part other than the subparagraphs

of [Article 188](#) (2) or a merger of the investment trust under [Article 193](#) (2), may require the collective investment business entity in a writing that states the number of beneficiary certificates, to purchase the beneficiary certificates held by him/her within 20 days from the date on which the resolution was adopted by the general meeting of beneficiaries, if he/she sent a notice of his dissent from the resolution to the relevant collective business entity before the opening of the general meeting of beneficiaries.

- (2) Upon receiving a claim under paragraph (1), the collective investment business entity that has created the investment trust shall not require the beneficiary to bear the fees for purchasing the beneficiary certificates and other expenses.
- (3) Upon receiving a claim under paragraph (1), the collective investment business entity that has created the investment trust shall purchase the beneficiary certificates within 15 days from the expiration of the time period for claiming such purchase with the investment trust property in a manner prescribed by Presidential Decree: *Provided*, That purchasing the beneficiary certificates may be postponed subject to a prior approval of the Financial Services Commission, if it is impossible to comply with the claim for purchasing because of a lack of funds for purchasing.
<Amended by Act No. 8863, Feb. 29, 2008>
- (4) A collective investment business entity that has created an investment trust shall, upon purchasing beneficiary certificates in accordance with the main sentence of paragraph (3), retire such beneficiary certificates without delay.

Article 192 (Termination of Investment Trust)

- (1) A collective investment business entity that has created an investment trust may terminate the investment trust subject to prior approval of the Financial Services Commission: *Provided*, That an investment trust may be terminated without approval of the Financial Services Commission, if there is no possibility of undermining beneficiaries' interests, as prescribed by Presidential Decree. In such cases, the collective investment business entity shall report the termination to the Financial Services Commission without delay. <Amended by Act No. 8863, Feb. 29, 2008>
- (2) A collective investment business entity that has created an investment trust shall, if any of the following events occur, terminate the investment trust without delay. In such cases, the collective investment business entity shall report the termination to the Financial Services Commission immediately: <Amended by Act No. 8863, Feb. 29, 2008>
 1. Expiration of the trust contract term stipulated by the trust contract;
 2. Resolution by the general meeting of beneficiaries to terminate the investment trust;
 3. Absorbed merger of the investment trust; and
 4. Revocation of the registration of the investment trust.
- (3) A collective investment business entity that has created an investment trust may, when it terminates the investment trust in accordance with paragraph (1) or (2) (excluding subparagraph 3), pay the assets that belong to the investment trust property to the relevant beneficiaries in accordance with the terms and conditions of the trust contract.
- (4) The mandatory descriptions of an application and accompanying documents in the case of applying for approval for termination in accordance with paragraph (1), the disposition method of the receivable, payables, etc. in the case of terminating an investment trust in accordance with paragraph (1) or (2), and other matters pertaining to the termination of an investment trust shall be prescribed by Presidential Decree.
- (5) A collective investment business entity that has created an investment trust may terminate a part of an investment trust, in cases where it is necessary for complying with a beneficiary's claim for redemption or any other case as prescribed by Presidential Decree.

Article 193 (Merger of Investment Trusts)

- (1) A collective investment business entity that has created an investment trust may merge the investment trust by absorbing another investment trust operated by the collective investment business entity.
- (2) A collective investment business entity that has created an investment trust shall, when it intends to merge the investment trusts in accordance with paragraph (1), prepare a merger plan that shall contain the following matters, and shall present such plan for resolution to the general meetings of beneficiaries of the investment trusts subject to the merger:
 1. The increased value of the trust principal and the number of units of beneficiary certificates of the surviving investment trust in the merger of the investment trusts;
 2. Matters concerning the distribution of beneficiary certificates issued to the beneficiaries of the investment trust to cease in the merger of the investment trusts;
 3. The details of payment, in cases where the beneficiaries of the investment trust to cease in the merger of the investment trusts are to be paid in cash;
 4. The dates of the general meeting of beneficiaries of each investment trust to be merged;
 5. The scheduled date of merger;
 6. Any amended terms and conditions of the trust contract of the surviving investment trust in the

- merger of the investment trusts, if the terms and conditions of the trust contract are amended; and
7. Other matters prescribed by Presidential Decree.
- (3) [Article 527-5 \(1\) and \(3\) of the Commercial Act](#) shall apply *mutatis mutandis* to the case of a merger of an investment trust that has creditors. In this regard, the term "company" shall be construed as "collective investment business entity", and the term "general meeting of shareholders" as "general meeting of beneficiaries".
- (4) A collective investment business entity that has created an investment trust shall keep the following documents at its head office and the sales offices of the investment trader or the investment broker, from two weeks before the opening date of the general meeting of beneficiaries and until six months have elapsed after the merger. In this regard, beneficiaries and creditors of the investment trust may inspect such documents at any time during business hours, and may also request it to deliver a certified copy or an abstract of the documents:
1. The latest reports on the settlement of accounts of each merged investment trust;
 2. A written statement that describes the matters concerning the distribution of beneficiary certificates issued to the beneficiaries of the investment trust to cease in the merger and the reasons therefor; and
 3. The merger plan.
- (5) A collective investment business entity that has created an investment trust shall, when it merges the investment trusts in accordance with paragraph (1), report such merger to the Financial Services Commission without delay. In this regard, it shall also report such merger to the Korea Exchange, if the beneficiary certificates of the merged investment trust have been listed in the securities exchange. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (6) A merger of investment trusts shall become effective at the time the collective investment business entity of the surviving investment trust completes its report to the Financial Services Commission in accordance with paragraph (5). In this regard, it shall be deemed that the investment trust to cease is terminated. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (7) The surviving investment trust after a merger shall succeed to the rights and obligations of the ceased investment trust in the merger.
- (8) The computation formula of the merged value of beneficiary certificates, the notice to beneficiaries of the matters approved by the general meeting of beneficiaries, and other matters pertaining to a merger of investment trusts shall be prescribed by Presidential Decree.

SECTION 2 Collective Investment Scheme in Form of Company

KLRI KOREA LEGISLATION
RESEARCH INSTITUTE

Sub-Section 1 Investment Company

Article 194 (Incorporation, etc. of Investment Company)

- (1) Any person who falls under any subparagraph of [Article 24](#) shall not be qualified for becoming a promoter of an investment company.
- (2) Promoters shall prepare the articles of incorporation that shall provide for the following matters, and all promoters shall print their names and affix their seals thereon, or sign it: *<Amended by Act No. 9407, Feb. 3, 2009>*
 1. Purpose;
 2. Trade name;
 3. Total number of stocks to be issued;
 4. Total number and value of stocks issued at the time of incorporation;
 5. Address of the company;
 6. Matters concerning the operation and management of the investment company's property;
 7. Minimum amount of net assets (referring to the amount obtained by subtracting liabilities from assets) that the investment company is required to maintain (hereinafter referred to as "minimum net assets");
 8. Matters concerning distribution of profit and redemption;
 9. Matters concerning public disclosure and reports;
 10. Methods of public notice; and
 11. Other matters prescribed by Presidential Decree as necessary for the protection of shareholders.
- (3) The capital at the time of incorporation of an investment company shall be the total value of the stocks issued.
- (4) The total number of stocks to be issued at the time of incorporation of an investment company may be provided for by a maximum limit and a minimum limit.
- (5) The minimum net assets of an investment company shall be at least the amount prescribed by

Presidential Decree within a limit not exceeding one billion won.

- (6) The promoters of an investment company shall subscribe (referring to subscription under [Article 293 of the Commercial Act](#); hereafter the same shall apply in this Chapter) the total number of stocks issued at the time of incorporation of the investment company.
- (7) The promoters who subscribed stocks in accordance with paragraph (6) shall pay the value of subscribed stocks by cash without delay.
- (8) Promoters shall, upon completing the payment of the value of subscribed stocks issued at the time of incorporation of the investment company, appoint directors by the affirmative vote of the majority of voting rights without delay, and the directors so appointed shall inspect whether there is any violation of the relevant Acts and subordinate statutes, or of the articles of incorporation of the investment company, in relation to the incorporation of the investment company and report the result thereof to the board of directors.
- (9) Directors shall, if they discover any violation of the relevant Acts and subordinate statutes, or of the articles of incorporation of the investment company, as a result of the inspection under paragraph (8), report their discovery to promoters without delay.
- (10) The promoters of an investment company shall complete the incorporation registration for the following matters along with the accompanying documents prescribed by Presidential Decree within two weeks from the date on which the report under paragraph (8) is completed:
 1. Matters under paragraph (2) 1 through 3 and matters under subparagraphs 5, 7, and 10 of the same paragraph;
 2. The continuance period or grounds for dissolution of the investment company, if there are such period or grounds provided for in the articles of incorporation; and
 3. Names and citizen registration numbers of directors (or trade name and business registration number if a director is a corporation).
- (11) No promoter of an investment company shall establish an investment company that falls under any of the following subparagraphs, and an investment company shall not amend its articles of incorporation after its incorporation to make it fall under any of the following subparagraphs:
 1. An investment company that invests in real property in excess of 70/100 of its property; and
 2. An investment company that invests its property in ships.

Article 195 (Amendment of Articles of Incorporation, etc.)

- (1) An investment company may amend its articles of incorporation by a resolution of its board of directors: *Provided*, That an amendment of any of the following matters requires a resolution of the general meeting of shareholders under the proviso to [Article 201](#) (2):
 1. An increase in the remuneration or any other fee for the collective investment business entity, the trust business entity, etc.;
 2. A change in the nature of the collective investment business entity or the trust business entity;
 3. An amendment of its continuance term or the grounds for dissolution, if its articles of incorporation provide for the continuance term or the grounds for dissolution; and
 4. Other matters prescribed by Presidential Decree as important matters related to shareholders' interests.
- (2) Notwithstanding paragraph (1), an investment company may amend its articles of incorporation without a resolution of the board of directors or the general meeting of shareholders, in cases where the collective investment business entity or the nature of the trust business entity is changed due to a merger, division, merger after division, or any other event prescribed by Presidential Decree.
- (3) An investment company shall, when it amends its articles of incorporation in accordance with paragraph (1) or (2), disclose such amendment through its Internet homepage, etc., and shall provide notice to its shareholders in addition to public disclosure, in cases where it amends its articles of incorporation in accordance with the proviso to paragraph (1).

Article 196 (Investment Company's Stocks)

- (1) An investment company's stocks shall be in the registered form with no par value.
- (2) An investment company shall issue its stocks in a manner provided for in [Article 309](#) (5) on the date of its formation or at the end of the time period for the payment for new stocks without delay.
- (3) When an investment company issues new stocks after its formation, the number of new stocks, the issue value and the time limit for the payment therefor shall be determined by its board of directors: *Provided*, That the provisions of its articles of incorporation shall apply if its articles of incorporation provides otherwise.
- (4) When an investment company that is allowed to repurchase its own stocks from a shareholder upon a request from the shareholder (hereafter referred to as an "open-end investment company" in this Article) issues new stocks after its formation, its board of directors may determine the following matters. In this regard, such open-end investment company shall post the daily issue value fixed in a manner under subparagraph 3 at the branch offices and sales offices of the

investment trader or the investment broker that sells the investment company's stocks, and shall also disclose it through its Internet homepage, etc.:

1. The time period for issuance of new stocks;
 2. The maximum limit of the number of new stocks issued within the time period for issuance under subparagraph 1; and
 3. The daily issue value during the time period for issuance under subparagraph 1 and the method for determining the time limit for payment of the stock price.
- (5) An investment company shall, if it issues new stocks after its formation, make equal the issue value of new stocks issued on the same day and other terms and conditions of issuance. In this regard, the issue value of new stocks shall be determined in a manner prescribed by Presidential Decree based on net asset value of the assets owned by the investment company.
- (6) [Article 194](#) (7) shall apply *mutatis mutandis* to the subscribers for stocks when issuing new stocks.
- (7) In cases where an investment company issues new stocks after its formation, subscribers for the stocks shall acquire the rights and duties of a shareholder simultaneously with the payment of the stock price.

Article 197 (Classification, etc. of Directors)

- (1) Directors of an investment company shall be classified into the director that is the collective investment business entity (hereafter referred to as "corporate director" in this Sub-Section) and supervisory directors.
- (2) An investment company shall have one corporate director and two or more supervisory directors.

Article 198 (Corporate Director)

- (1) The corporate director shall represent the investment company, and shall execute the business affairs of the investment company.
- (2) The corporate director shall, when it intends to execute any of the following business affairs, obtain a resolution of the board of directors:
 1. Execution of a business entrustment contract (including an amendment of contract) with a collective investment business entity, a trust business entity, an investment trader, an investment broker, or a general administration company;
 2. Payment of remuneration for management, safekeeping, etc. of assets;
 3. Matters concerning the distribution of money and stocks; and
 4. Other matters provided for in its articles of incorporation as those deemed important to the operations of the investment company.
- (3) The corporate director shall report the status of execution of its business and the details of asset management to the board of directors at least once every three months.
- (4) The corporate director may appoint a person who shall execute some of its duties within a prescribed extent on its behalf from among its executives or employees. In such cases, the collective investment business entity shall notify the investment company of such appointment in writing.
- (5) Acts conducted by the person notified to the investment company in accordance with paragraph (4) within the scope of his/her duties shall be deemed to be those conducted by the corporate director.

Article 199 (Supervisory Director)

- (1) A supervisory director shall oversee the business affairs executed by the corporate director and may, if necessary for understanding the status of business and property of the investment company, demand that the corporate director and the trust business entity that keeps in custody and manages the property of the investment company, the investment trader or the investment broker that sells the investment company's stocks, or the general administration company that has been entrusted by the investment company with the business affairs under [Article 184](#) (6), submit a report on the status of the business and property relevant to the investment company.
- (2) A supervisory director may, if deemed necessary for performing his/her duties, demand that the accounting auditor under [Article 240](#) (3) submit an accounting audit report.
- (3) A person who receives a demand from a supervisory director pursuant to paragraph (1) or (2) shall comply with such demand, unless there exists an extraordinary reason otherwise.
- (4) A person who falls under any of the following subparagraphs shall not be qualified to be a supervisory director, and a person shall lose his/her office, even after becoming a supervisory director, if he/she comes to fall under any of the following subparagraphs:
 1. A person who falls under any subparagraph of Article 24;
 2. A promoter of the relevant investment company (limited to a case where the supervisory directors of the investment company are appointed for the first time in accordance with [Article 194](#) (8));
 3. A major shareholder of the investment company or his/her specially related person;
 4. A person who receives remuneration regularly from a specially related person of the corporate

- director or the corporate director itself;
 - 5. A specially related person of the investment trader or the investment broker that sells the investment company's stocks;
 - 6. A full-time executive or employee of a corporation, if a director of the investment company takes a concurrent office as a director of the corporation; and
 - 7. Other persons specified by Presidential Decree as one for whom there exists possibility of undermining the impartiality of a supervisory director.
- (5) [Article 54](#) shall apply *mutatis mutandis* to supervisory directors.

Article 200 (Directors' Meeting)

- (1) The directors' meeting shall be called by a director.
- (2) A director who intends to call the directors' meeting shall notify each director of the call to meeting no later than three days before the meeting: *Provided*, That the period of time for notice may be shortened by the provisions of the articles of incorporation.
- (3) The board of directors shall have the authority to adopt a resolution only for the matters provided for in this Act and the articles of incorporation.
- (4) The board of directors shall, whenever it has a vacancy on the board, call a general meeting of shareholders immediately to appoint a director.
- (5) A resolution by the directors' meeting requires the attendance of the majority of directors and the affirmative vote of the majority of directors present at the meeting.

Article 201 (General Meeting of Shareholders)

- (1) The general meeting of shareholders of an investment company shall be called by its board of directors.
- (2) The general meeting of shareholders shall be duly formed with the attendance of shareholders who hold the majority of the total number of outstanding stocks, and shall adopt a resolution by the majority of the voting rights of shareholders present at the meeting and one-fourth or more of the total number of outstanding stocks: *Provided*, That a resolution to which [Article 434 of the Commercial Act](#) shall apply shall be adopted by two-thirds or more of the voting rights of shareholders present at the meeting and one-third or more of the total number of outstanding stocks.
- (3) The provisions of [Article 190](#) (3) and (6) through (9) shall apply *mutatis mutandis* to the general meeting of shareholders of an investment company. In this regard, the terms "collective investment business entity that has created an investment trust" and "collective investment business entity" shall be construed as "board of directors of an investment company" collectively, the term "property of an investment trust" as "property of an investment company", the term "beneficiary certificates" as "stocks", the term "total number of units" as "total number", the term "beneficiaries" as "shareholders", the term "general meeting of beneficiaries" as "general meeting of shareholders", the term "number of units" as "number", and the term "paragraph (5)" in paragraph (8) of the same Article as "paragraph (2)".
- (4) [Article 191](#) shall apply *mutatis mutandis* to an amendment of the articles of incorporation under the proviso to [Article 195](#) (1) or the shareholders dissenting from a resolution by the general meeting of shareholders for a merger under [Article 204](#) (2). In this regard, the term "trust contract" shall be construed as "articles of incorporation", the terms "investment trust", "collective investment business entity", and "collective investment business entity that has created an investment trust" as "investment company" collectively, the term "general meeting of beneficiaries" as "general meeting of shareholders", the term "beneficiaries" as "shareholders", the term "beneficiary certificates" as "stocks", and the term "property of an investment trust" as "property of an investment company".

Article 202 (Dissolution)

- (1) An investment company shall be dissolved when it falls under any of the following subparagraphs. In such cases, the liquidator shall file a report on the reason for and date of dissolution, names and citizen registration numbers of the liquidator and the liquidation overseer (or the trade name and business registration number, if the liquidator is the corporate director) with the Financial Services Commission within 30 days from the date of dissolution: *<Amended by Act No. 8863, Feb. 29, 2008>*
 - 1. Expiration of the continuance period or occurrence of a cause of dissolution as stipulated by the articles of incorporation;
 - 2. Resolution for dissolution by the general meeting of shareholders;
 - 3. Absorbed merger of the investment company;
 - 4. Bankruptcy of the investment company;
 - 5. Order or judgment of a court; and
 - 6. Revocation of the registration of the investment company.
- (2) An investment company shall, when it is dissolved, complete the registration of the following

matters, along with the accompanying documents specified by Presidential Decree, within two weeks from the date of its dissolution if the corporate director acts as the liquidator, or within two weeks from the date of appointment of a liquidator if a liquidator is appointed:

1. Name and citizen registration number of the liquidator (or the trade name and business registration number, if the liquidator is the corporate director); and
2. Details of any agreement by which the representative liquidator shall be appointed among liquidators, or two or more liquidators shall jointly represent the investment company.
- (3) An investment company shall, when it is dissolved, complete the registration of the name and citizen registration number of the liquidation overseer, along with accompanying documents specified by Presidential Decree, within two weeks from the date of dissolution if a supervisory director acts as the liquidation overseer, or within two weeks from the date of appointment of the liquidation overseer if a liquidation overseer is appointed.
- (4) An investment company shall, when it is dissolved (excluding a case where it is dissolved due to a cause set forth in paragraph (1) 3 or 4), hold a liquidators' meeting composed of liquidators and liquidation overseers.
- (5) When an investment company is dissolved due to a cause set forth in paragraph (1) 1 or 2, the corporate director and supervisory directors shall act as the liquidator and liquidation overseers, except as provided for otherwise by the articles of incorporation or the general meeting of shareholders.
- (6) When an investment company comes to fall under any of the following subparagraphs, the Financial Services Commission shall appoint the liquidator and liquidation overseers upon receiving a request from an interested person: *<Amended by Act No. 8863, Feb. 29, 2008>*
 1. When it is dissolved due to the cause set forth in paragraph (1) 5;
 2. When no liquidator or liquidation overseer exists; and
 3. When it is liquidated in accordance with [Article 193 \(1\) of the Commercial Act](#).
- (7) When an investment company is dissolved due to the cause set forth in paragraph (1) 6, the Financial Services Commission shall, *ex officio*, appoint a liquidator and liquidation overseers. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (8) If a liquidator or liquidation overseer is significantly incompetent in performing his/her duties or if there is any serious violation of a relevant law or statute, the Financial Services Commission may, *ex officio* or upon receiving a request from an interested person, dismiss the liquidator or liquidation overseer. In such cases, the Financial Services Commission may, *ex officio*, appoint a new liquidator or liquidation overseer. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (9) If any of the following events occurs, the Financial Services Commission shall request the registry office having jurisdiction over the domicile of the investment company to enter the relevant registration along with a written statement that certifies the cause of registration: *<Amended by Act No. 8863, Feb. 29, 2008>*
 1. When an investment company is dissolved due to the cause set forth in paragraph (1) 6; and
 2. When the Financial Services Commission, *ex officio*, dismisses a liquidator or liquidation overseer.

Article 203 (Liquidation)

- (1) A liquidator shall inspect the status of property of the investment company immediately after his/her inauguration, prepare a property list and balance sheet within the period of time prescribed by Ordinance of the Prime Minister, submit it to the liquidators' meeting for approval, and submit a certified copy of such to the Financial Services Commission without delay. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (2) A liquidation overseer shall, when he/she discovers that the liquidator has violated an Act and subordinate statute, or the articles of incorporation, in the course of performing his/her duties, or that he/she is otherwise likely to inflict serious damage upon the investment company, report his/her discovery to the Financial Services Commission. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (3) A liquidator shall provide peremptory notices to creditors of the investment company within one month of his/her inauguration by providing public notice, at least twice, that creditors shall file a statement on their claims within a certain period of time and that the claims on which a statement has not been filed during such period of time shall be excluded from the liquidation proceedings. In this regard, the period of time for filing such statement shall be at least one month.
- (4) Notwithstanding paragraph (3), a liquidator may omit the procedure for the peremptory notice to a creditor, following the manner prescribed by Presidential Decree, if the investment company involved is subject to a restriction on borrowing loans, guaranteeing obligations, or offering an asset as security: *Provided*, That the procedure shall not be omitted where there exists an obligation to perform a contract in connection with trading exchange-traded derivatives, or in any other case prescribed by Presidential Decree.
- (5) A liquidator shall, upon completion of the liquidation proceedings, prepare a report of the settlement of accounts without delay for approval of the general meeting of shareholders. In this

regard, he/she shall provide public notice of the report on the settlement of accounts and submit it to the Financial Services Commission and the Association. <Amended by Act No. 8863, Feb. 29, 2008>

- (6) A liquidator or liquidation overseer may receive remuneration from the investment company as prescribed by the articles of incorporation or resolved by the general meeting of shareholders, in cases falling under [Article 202](#) (5), or as determined by the Financial Services Commission in cases where he/she was appointed pursuant to paragraph (6) or (7) of the same Article. <Amended by Act No. 8863, Feb. 29, 2008>
- (7) A liquidator shall keep the property list and balance sheet as approved in accordance with paragraph (1) until the liquidation proceedings are closed, and shall dispatch them to the collective investment business entity and the investment trader or investment broker, requiring them to keep the documents in their sales offices.

Article 204 (Merger)

- (1) No investment company may be merged with another company unless it is merged by absorbing another company whose corporate director is the same as the one of the investment company.
- (2) An investment company shall, if it intends to be merged in accordance with paragraph (1), obtain a resolution of the general meeting of shareholders under the proviso to [Article 201](#) (2).
- (3) [Article 193](#) (4), (5), and (8) shall apply *mutatis mutandis* to merger of investment companies. In this regard, the term "collective investment business entity that created an investment trust", "investment trust", and "collective investment business entity of an investment trust" shall be construed as "investment company" collectively, the term "general meeting of beneficiaries" as "general meeting of shareholders", and the term "beneficiary certificates" as "stocks".

Article 205 (Special Exceptions for Investment Company)

- (1) The provisions of Part III, Chapter III shall not apply to investment companies.
- (2) [Article 29](#) shall apply *mutatis mutandis* to shareholders of an investment company. In this regard, the term "financial investment business entity (excluding financial investment business entities specified by Presidential Decree, considering the size of their assets, etc.; hereafter the same shall apply in this Article)" in paragraph (1) of the same Article shall be construed as "investment company", the term "5/100,000" in the same paragraph as "1/10,000", the term "financial investment business entity" in paragraphs (2) through (8) of the same Article as "investment company", the terms "250/1,000,000" and "125/1,000,000" in paragraph (2) of the same Article as "50/100,000" and "25/100,000" respectively, the terms "50/ 100,000" and "25/100,000" in paragraph (3) of the same Article as "10/ 10,000" and "5/10,000" respectively, the terms "250/100,000" and "125/ 100,000" in paragraph (4) of the same Article as "50/10,000" and "25/ 10,000" respectively, the terms "150/10,000" and "75/10,000" in paragraph (5) of the same Article as "30/1,000" and "15/1,000" respectively, and the terms "50/10,000" and "25/10,000" in paragraph (6) of the same Article as "10/1,000" and "5/1,000" respectively.

Article 206 (Relation to Commercial Act)

- (1) In applying the [Commercial Act](#) to investment companies, the term "court" in [Articles 259](#) (4), [298](#) (4), [299](#), [299-2](#), [300](#), [325](#), [422](#), [467](#) (1) through (3), [536](#), [539](#), and [541 of the Commercial Act](#) shall be construed as "Financial Services Commission", while the term "public prosecutor" in [Article 176](#) of the same Act shall be construed as "Financial Services Commission". <Amended by Act No. 8863, Feb. 29, 2008>
- (2) [Articles 19](#), [177](#), [288](#), [289](#) (2), [292](#), [298](#) (1) through (3), [301](#) through [313](#), [329](#) (1) and (4), and [330](#), [335](#) (1) (proviso), [335-2 through 335-7](#), [341](#) through [351](#), [365](#), [370](#), [374-2](#), [383](#), [389](#) (1), [409 through 415-2](#), [417](#) through [420-4](#), [438](#), [439](#), [449](#), [450](#), [458](#) through [461](#), and [604 of the Commercial Act](#) shall not apply to investment companies.

Sub-Section 2 Investment Limited Liability Company

Article 207 (Incorporation of Investment Limited Liability Company, etc.)

- (1) A collective investment business entity that intends to incorporate an investment limited liability company shall prepare articles of incorporation, which shall provide for the following matters, and shall print its name and affix its seal thereon, or sign it:
 1. Purpose;
 2. Trade name;
 3. Trade name and business registration number of the corporate director under [Article 209](#) (1);
 4. Address of the company;
 5. Matters concerning operation and management of the property of the investment limited liability company;
 6. Matters concerning distribution of profit and redemption;

7. Matters concerning public disclosure and reports; and
 8. Other matters prescribed by Presidential Decree as necessary for the protection of partners.
- (2) The collective investment business entity shall, upon completing preparation of the articles of incorporation, pay the contribution in cash at the time of incorporation of the investment limited liability company.
 - (3) The collective investment business entity shall complete the incorporation registration of the following matters, along with the accompanying documents specified by Presidential Decree, within two weeks from the day on which the contribution is paid:
 1. Matters under paragraph (1) 1 through 4; and
 2. Terms and conditions related to the continuance term of the investment limited liability company and the grounds for its dissolution, if the articles of incorporation provide for such terms and conditions.
 - (4) Contributions by partners of an investment limited liability company shall only be made by cash.
 - (5) No investment limited liability company shall admit any person other than the collective investment business entity as its partner before it completes the registration under [Article 182](#).

Article 208 (Equity Securities)

- (1) Each partner of an investment limited liability company shall have an equal right to the return of contributions, the distribution of profit, etc. in proportion to the number of equity securities.
- (2) The equity securities of an investment limited liability company shall bear the following descriptions, and the corporate director under [Article 209](#) (1) shall print its name and affix its seal thereon, or sign them:
 1. Trade name of the company;
 2. Date of formation of the company;
 3. Issue date of the equity securities;
 4. Names of partners (or trade name if a partner is a corporation); and
 5. Other matters prescribed by Presidential Decree as necessary for the protection of partners of an investment limited liability company.
- (3) [Article 196](#) shall apply *mutatis mutandis* to the equity securities of an investment limited liability company. In this regard, the term "investment company" shall be construed as "investment limited liability company", the term "stocks" as "equity securities", the term "new stocks" as "new equity securities", the term "board of directors" as "corporate director", the term "shareholders" as "partners", and the term "stock price" as "price for equity securities".

Article 209 (Corporate Director)

- (1) Each investment limited liability company shall have one director who shall be a collective investment business entity (hereafter referred to as "corporate director" in this Sub-Section).
- (2) [Article 198](#) (1), (4), and (5) shall apply *mutatis mutandis* to the corporate director of an investment limited liability company. In this regard, the term "investment company" shall be construed as "investment limited liability company".

Article 210 (General Meeting of Partners)

- (1) The general meeting of partners of an investment limited liability company shall be called by the corporate director.
- (2) The general meeting of partners of an investment limited liability company shall be duly formed with the attendance of partners who hold the majority of the total number of outstanding equity securities, and shall adopt a resolution by affirmative vote of the majority of voting rights of partners present at the meeting: *Provided*, That a resolution to which [Article 585 \(1\) of the Commercial Act](#) shall apply requires two-thirds or more of the voting rights of partners present at the meeting and one-third of more of the total number of outstanding equity securities.
- (3) The provisions of [Article 190](#) (3), (4), and (6) through (10) shall apply *mutatis mutandis* to the general meeting of partners of an investment limited liability company. In this regard, the terms "collective investment business entity that created an investment trust" and "collective investment business entity" shall be construed as "corporate director of an investment limited liability company" collectively, the term "property of an investment trust" as "property of an investment limited liability company", the term "beneficiary certificates" as "equity securities", the term "total number of units" as "total number", the term "beneficiaries" as "partners," the term "general meeting of beneficiaries" as "general meeting of partners," the term "list of beneficiaries" as "list of partners", the term "number of units" as "number", and the term "paragraph (5)" in the latter part of paragraph (8) of the same Article as "paragraph (2)", the term "two-thirds or more of the voting rights of beneficiaries present at the meeting and one-third or more of the total number of outstanding beneficiary certificates" as "two-thirds or more of voting rights of partners present at the meeting," and the terms "majority of the voting rights of beneficiaries present at the meeting and one-fourth or more of the total number of outstanding beneficiary certificates" and "majority of the voting rights of beneficiaries present at the meeting" as "two-thirds or more of the voting rights

of partners present at the meeting and one-third or more of the total number of outstanding equity securities" and "two-thirds or more of the voting rights of partners present at the meeting" respectively.

Article 211 (Provisions Applicable Mutatis Mutandis)

- (1) [Article 195](#) shall apply *mutatis mutandis* to an amendment of the articles of incorporation of an investment limited liability company. In this regard, the term "investment company" shall be construed as "investment limited liability company", the term "by a resolution of its board of directors" in paragraph (1) of the same Article as "by the corporate director", the term "proviso to [Article 201](#) (2)" as "proviso to [Article 210](#) (2)", the terms "resolution of the general meeting of shareholders" in paragraph (1) of the same Article and "resolution of the board of directors or the general meeting of shareholders" in paragraph (2) of the same Article as "resolution of the general meeting of partners" collectively, and the term "shareholders" as "partners".
- (2) [Articles 202](#) (excluding paragraphs (3) and (4)), [203](#) (excluding paragraph (2)), and [204](#) shall apply *mutatis mutandis* to the dissolution, liquidation, and merger of an investment limited liability company. In this regard, the term "investment company" shall be construed as "investment limited liability company", the term "general meeting of shareholders" as "general meeting of partners", the term "corporate director and supervisory directors" as "corporate director", the term "liquidator and/or liquidation overseers" as "liquidator", the term "prepare a property list and balance sheet, and submit them to the liquidators' meeting for approval, and submit a certified copy of them" as "prepare a property list and balance sheet, and submit a certified copy of them", the term "proviso to [Article 201](#) (2)" as "proviso to [Article 210](#) (2)", and the term "stocks" as "equity securities".

Article 212 (Relation to Commercial Act)

- (1) In applying the [Commercial Act](#) to investment limited liability companies, the term "court" in [Articles 582](#), [613](#) (1) (only where [Articles 259](#) (4), [536](#) (2), and [541](#) (2) shall apply *mutatis mutandis*), and [613](#) (2) (only where [Article 539](#) shall apply *mutatis mutandis*) of the same Act shall be construed as "Financial Services Commission". <Amended by Act No. 8863, Feb. 29, 2008>
- (2) [Articles 543](#) (3), [546](#) (2), [560](#) (only where [Articles 341-3](#), [342](#), and [343](#) (1) shall apply *mutatis mutandis*), [568 through 570](#), [575](#) (proviso), [583](#) (only where [Articles 449](#) (1) and (2), [450](#), and [458 through 460](#) shall apply *mutatis mutandis*), [584 through 592](#), [597](#) (only where [Article 439](#) (1) and (2) shall apply *mutatis mutandis*), and [607 of the Commercial Act](#) shall not apply to investment limited liability companies.

Sub-Section 3 Investment Limited Partnership Company

Article 213 (Incorporation of Investment Limited Partnership Company, etc.)

- (1) A collective investment business entity that intends to incorporate an investment limited partnership company shall prepare articles of incorporation which shall provide for the following matters, and one general partner and one limited partner shall print their names and affix their seals thereon, or sign it:
 1. Purpose;
 2. Trade name;
 3. Trade name and business registration number of the executive partner;
 4. Address of the company;
 5. Matters concerning operation and management of the property of the investment limited partnership company;
 6. Matters concerning distribution of profit and redemption;
 7. Matters concerning public disclosure and reports; and
 8. Other matters prescribed by Presidential Decree as necessary for the protection of partners.
- (2) The collective investment business entity shall, upon completing preparation of the articles of incorporation, pay the contribution in cash at the time of incorporation of the investment limited partnership company.
- (3) The collective investment business entity shall complete an incorporation registration of the following matters, along with the accompanying documents specified by Presidential Decree, within two weeks from the day on which the contributions are paid:
 1. Matters under paragraph (1) 1 through 4; and
 2. Terms and conditions related to the continuance term of the investment limited partnership company and the grounds for its dissolution, if the articles of incorporation provide for such terms and conditions.
- (4) Contributions by partners of an investment limited partnership company shall only be made by cash.
- (5) No investment limited partnership company shall admit any person other than the partners under

paragraph (1) as its partner before it completes the registration under [Article 182](#).

Article 214 (Executive Partner)

- (1) An investment limited partnership company shall not have any general partner in addition to one executive partner. In this regard, the executive partner shall be a collective investment business entity, notwithstanding [Article 173 of the Commercial Act](#).
- (2) [Article 198](#) (1), (4), and (5) shall apply *mutatis mutandis* to the executive partner of an investment limited partnership company. In this regard, the term "corporate director" shall be construed as "executive partner", while the term "investment company" shall be construed as "investment limited partnership company".

Article 215 (General Meeting of Partners)

- (1) An investment limited partnership company shall hold a general meeting of partners, which shall consist of all partners, and the general meeting of partners shall have the power to adopt a resolution only for the matters provided for in this Act or the articles of incorporation.
- (2) (2). The general meeting of partners of an investment limited partnership company shall be called by the executive partner.
- (3) The general meeting of partners of an investment limited liability company shall be duly formed with the attendance of partners who hold the majority of the total number of outstanding equity securities, and shall adopt a resolution by affirmative vote of two-thirds or more of the voting rights of partners present at the meeting and one-third or more of the total number of outstanding equity securities.
- (4) [Article 190](#) (3), (4), and (6) through (10) shall apply *mutatis mutandis* to the general meeting of partners of an investment limited partnership company. In this regard, the terms "collective investment business entity that has created an investment trust" and "collective investment business entity" shall be construed as "executive partner of an investment limited partnership company" collectively, the term "property of an investment trust" as "property of an investment limited partnership company", the term "beneficiary certificates" as "equity securities", the term "total number of units" as "total number", the term "beneficiaries" as "partners", the term "general meeting of beneficiaries" as "general meeting of partners", the term "list of beneficiaries" as "list of partners," the term "number of units" as "number", and the term "paragraph (5)" in the latter part of paragraph (8) of the same Article as "paragraph (3)", the term "two-thirds or more of the voting rights of beneficiaries present at the meeting and one-third or more of the total number of outstanding beneficiary certificates" as "two-thirds or more of the voting rights of partners present at the meeting", and the terms "majority of the voting rights of beneficiaries present at the meeting and one-fourth or more of the total number of outstanding beneficiary certificates" and "majority of the voting rights of beneficiaries present at the meeting" as "two-thirds or more of the voting rights of partners present at the meeting and one-third or more of the total number of outstanding equity securities" and "two-thirds or more of the voting rights of partners present at the meeting" respectively.

Article 216 (Provisions Applicable Mutatis Mutandis)

- (1) [Article 195](#) shall apply *mutatis mutandis* to an amendment of the articles of incorporation of an investment limited partnership company. In this regard, the term "investment company" shall be construed as "investment limited partnership company", the term "by a resolution of its board of directors" in paragraph (1) of the same Article as "by the executive partner", the term "proviso to [Article 201](#) (2)" as "proviso to [Article 215](#) (3)", the terms "resolution of the general meeting of shareholders" in paragraph (1) of the same Article and "resolution of the board of directors or the general meeting of shareholders" in paragraph (2) of the same Article as "resolution of the general meeting of partners" collectively, and the term "shareholders" as "partners".
- (2) [Article 208](#) shall apply *mutatis mutandis* to equity securities of an investment limited partnership company. In this regard, the term "investment limited liability company" shall be construed as "investment limited partnership company", the terms "corporate director under [Article 209](#) (1)" and "corporate director" as "executive partner" collectively, and the term "partner" in paragraph (1) of the same Article as "limited partner".
- (3) [Articles 202](#) (excluding paragraphs (3) and (4)), [203](#) (excluding paragraph (2)), and [204](#) shall apply *mutatis mutandis* to the dissolution, liquidation, and merger of an investment limited partnership company. In this regard, the term "investment company" shall be construed as "investment limited partnership company", the term "general meeting of shareholders" as "general meeting of partners", the term "corporate director" and "corporate director and supervisory directors" as "executive partner" collectively, the term "liquidator and/or liquidation overseers" as "liquidator", the term "prepare a property list and balance sheet, and submit them to the liquidators' meeting for approval, and submit a certified copy of them" as "prepare a property list and balance sheet, and submit a certified copy of them", the term "proviso to [Article 201](#) (2)" as "proviso to [Article 215](#) (3)", and the term "stocks" as "equity securities".

Article 217 (Relation to Commercial Act)

- (1) In applying the [Commercial Act](#) to investment limited partnership companies, the term "court" in [Articles 200-2](#), [205](#), [259](#), and [277](#) of the same Act shall be construed as "Financial Services Commission". <Amended by Act No. 8863, Feb. 29, 2008>
- (2) [Articles 198](#), [217 through 220](#), [224](#), [280](#), and [286 of the Commercial Act](#) shall not apply to investment limited partnership companies.
- (3) Notwithstanding [Article 279 of the Commercial Act](#), a limited partner of an investment limited partnership company shall be liable for obligations of the investment limited partnership company within the limit of the amount that he/she has contributed.
- (4) In distributing dividends in accordance with the articles of incorporation, any investment limited partnership company may make distinctions between the general partner and limited partners regarding dividend rate, priority in distribution of dividends, etc.
- (5) In allocating losses, no investment limited partnership company shall make a distinction between the general partner and limited partners regarding allocation rate, order of allocation, etc.

SECTION 3 Collective Investment Scheme in Form of Association**Sub-Section 1 Investment Association****Article 218 (Establishment of Investment Association, etc.)**

- (1) A collective investment business entity that intends to establish an investment association shall prepare an association agreement which shall provide for the following matters, and one executive partner under [Article 219](#) (1) and one limited partner shall print their names and affix their seals thereon, or sign it:
 1. Purpose;
 2. Name of the investment association;
 3. Trade name and business registration number of the executive partner;
 4. Address of the investment association;
 5. Matters concerning operation and management of the property of the investment association;
 6. Terms and conditions related to the continuance term or the grounds for dissolution, if there are such terms and conditions agreed upon;
 7. Matters concerning distribution of profit and redemption;
 8. Matters concerning public disclosure and reports; and
 9. Other matters prescribed by Presidential Decree as necessary for the protection of partners.
- (2) Contributions by partners shall only be made by cash.
- (3) No investment association shall admit any person other than the partners under paragraph (1) as its partner before it completes the registration under [Article 182](#).

Article 219 (Executive Partner, etc.)

- (1) An investment association shall be composed of one executive partner, who shall be a collective investment business entity and shall take an unlimited liability for obligations of the investment association, and limited partners, who shall take a limited liability for such obligations within the limit of contribution made by each partner.
- (2) [Article 198](#) (1), (4), and (5) shall apply *mutatis mutandis* to the executive partner of an investment association. In this regard, the term "corporate director" shall be construed as "executive partner," while the term "investment company" shall be construed as "investment association."

Article 220 (General Meeting of Partners)

- (1) Each investment association shall hold a general meeting of partners, which shall consist of all partners, and the general meeting of partners shall have the power to adopt a resolution only for the matters provided for in this Act or the association agreement.
- (2) The general meeting of partners of an investment association shall be called by the executive partner.
- (3) The general meeting of partners of an investment association shall be duly formed with the attendance of partners who hold the majority of the total number of outstanding equity securities, and shall adopt a resolution by affirmative vote of two-thirds or more of the voting rights of partners present at the meeting and one-third or more of the total number of outstanding equity securities.
- (4) [Article 190](#) (3), (4), and (6) through (10) shall apply *mutatis mutandis* to the general meeting of partners of an investment association. In this regard, the terms "collective investment business entity that has created an investment trust" and "collective investment business entity" shall be

construed as "executive partner of an investment association" collectively, the term "property of an investment trust" as "property of an investment association," the term "beneficiary certificates" as "equity securities," the term "total number of units" as "total number," the term "beneficiaries" as "partners," the term "general meeting of beneficiaries" as "general meeting of partners," the term "list of beneficiaries" as "list of partners," the term "number of units" as "number," and the term "paragraph (5)" in the latter part of paragraph (8) of the same Article as "paragraph (3)," the term "two-thirds or more of the voting rights of beneficiaries present at the meeting and one-third or more of the total number of outstanding beneficiary certificates" as "two-thirds or more of the voting rights of partners present at the meeting," and the terms "majority of the voting rights of beneficiaries present at the meeting and one-fourth or more of the total number of outstanding beneficiary certificates" and "majority of the voting rights of beneficiaries present at the meeting" as "two-thirds or more of the voting rights of partners present at the meeting and one-third or more of the total number of outstanding equity securities" and "two-thirds or more of the voting rights of partners present at the meeting" respectively.

Article 221 (Dissolution and Liquidation of Investment Association)

- (1) An investment association shall be dissolved if any of the following events occurs. In this regard, the liquidator shall file a report on the matters prescribed by Presidential Decree to the Financial Services Commission: <Amended by Act No. 8863, Feb. 29, 2008>
 1. Expiration of the continuance period or occurrence of a cause of dissolution as stipulated by the association agreement;
 2. Resolution for dissolution by the general meeting of partners; and
 3. Revocation of the registration of the investment association.
- (2) When an investment association is dissolved, the executive partner shall act as the liquidator, except as provided for otherwise by the association agreement or the general meeting of partners.
- (3) If an investment association does not, or will not, have a liquidator under paragraph (2), the Financial Services Commission shall, *ex officio*, appoint a liquidator. <Amended by Act No. 8863, Feb. 29, 2008>
- (4) If a liquidator is significantly incompetent in performing his/her duties, or if there is any serious violation of a relevant Act and subordinate statute, the Financial Services Commission may, *ex officio* or upon receiving a request from an interested person, dismiss the liquidator. In such cases, the Financial Services Commission may, *ex officio*, appoint a new liquidator. <Amended by Act No. 8863, Feb. 29, 2008>
- (5) A liquidator may, when he/she distributes the residual property of the investment association to partners, give assets that belong to the property of the investment association to the partners in accordance with the association agreement.
- (6) [Article 203](#) (excluding paragraph (2)) shall apply *mutatis mutandis* to the dissolution of an investment association. In this regard, the term "investment company" shall be construed as "investment association," the term "prepare a property list and balance sheet, and submit them to the liquidators' meeting for approval, and submit a certified copy of them" as "prepare a property list and balance sheet, and submit a certified copy of them," the term "general meeting of shareholders" as "general meeting of partners," and the term "liquidator and liquidation overseers" as "liquidator."

Article 222 (Provisions Applicable Mutatis Mutandis)

- (1) [Article 195](#) shall apply *mutatis mutandis* to an amendment of the association agreement of an investment association. In this regard, the term "investment company" shall be construed as "investment association," the term "by a resolution of its board of directors" in paragraph (1) of the same Article as "by the executive partner," the term "proviso to [Article 201](#) (2)" as "[Article 220](#) (3)," the terms "resolution of the general meeting of shareholders" in paragraph (1) of the same Article and "resolution of the board of directors or the general meeting of shareholders" in paragraph (2) of the same Article as "resolution of the general meeting of partners" collectively, and the term "shareholders" as "partners."
- (2) [Article 208](#) shall apply *mutatis mutandis* to equity securities of an investment association. In this regard, the terms "investment limited liability company" and "company" shall be construed as "investment association" collectively, the terms "corporate director under [Article 209](#) (1)" and "corporate director" as "executive partner," the term "articles of incorporation" as "association agreement," the term "partner" in paragraph (1) of the same Article as "limited partner," and the term "partner" in paragraphs (2) and (3) of the same Article as "partner."

Article 223 (Relation to Civil Act)

- (1) The provisions of [Articles 703](#) (2), [706](#), [707](#), [710 through 713](#), and [716 through 724 of the Civil Act](#) shall not apply to investment associations.
- (2) It shall be deemed that an investor is admitted to an investment association as a partner when

- he/she purchases equity securities of the investment association.
- (3) In distributing dividends in accordance with the association agreement, an investment association may make distinctions between the general partner and limited partners regarding dividend rate, priority in distribution of dividends, etc.
 - (4) In allocating losses, no investment association shall make a distinction between the general partner and limited partners regarding allocation rate, order of allocation, etc.

Sub-Section 2 Undisclosed Investment Association

Article 224 (Establishment of Undisclosed Investment Association, etc.)

- (1) A collective investment business entity that intends to establish an undisclosed investment association shall prepare an undisclosed association agreement which shall provide for the following matters, and one business operator and one undisclosed partner shall print their names and affix their seals thereon, or sign it:
 1. Purpose;
 2. Name of the undisclosed investment association;
 3. Trade name and business registration number of the business operator;
 4. Address of the undisclosed investment association;
 5. Matters concerning operation and management of the property of the undisclosed investment association;
 6. Terms and conditions related to the continuance term or the grounds for dissolution, if there are such terms and conditions agreed upon;
 7. Matters concerning distribution of profit and redemption;
 8. Matters concerning public disclosure and reports; and
 9. Other matters prescribed by Presidential Decree as necessary for the protection of undisclosed partners.
- (2) Contributions by undisclosed partners shall only be made by cash.
- (3) The business operator of an undisclosed investment association shall not admit any person other than the undisclosed partner under paragraph (1) as its undisclosed partner before it completes the registration under [Article 182](#).

Article 225 (Business Operator)

- (1) The property of an undisclosed investment association shall be managed by a single business operator, which shall be a collective investment business entity.
- (2) [Article 198](#) (1), (4), and (5) shall apply *mutatis mutandis* to the business operator of an undisclosed investment association. In this regard, the term "corporate director" shall be construed as "business operator," while the term "investment company" shall be construed as "undisclosed investment association."

Article 226 (General Meeting of Undisclosed Partners)

- (1) An undisclosed investment association shall hold a general meeting of undisclosed partners, which shall consist of all undisclosed partners, and the general meeting of undisclosed partners shall have the power to adopt a resolution only for the matters provided for in this Act or the undisclosed association agreement.
- (2) A general meeting of undisclosed partners of an undisclosed investment association shall be called by the business operator.
- (3) A general meeting of undisclosed partners of an undisclosed investment association shall be duly formed with the attendance of undisclosed partners who hold the majority of the total number of outstanding equity securities, and shall adopt a resolution by an affirmative vote of two-thirds or more of the voting rights of the undisclosed partners present at the meeting and one-third or more of the total number of outstanding equity securities.
- (4) [Article 190](#) (3), (4), and (6) through (10) shall apply *mutatis mutandis* to the general meeting of undisclosed partners of an undisclosed investment association. In this regard, the terms "collective investment business entity that has created an investment trust" and "collective investment business entity" shall be construed as "business operator of an undisclosed investment association" collectively, the term "property of an investment trust" as "property of an undisclosed investment association," the term "beneficiary certificates" as "equity securities," the term "total number of units" as "total number," the term "beneficiaries" as "undisclosed partners," the term "general meeting of beneficiaries" as "general meeting of undisclosed partners," the term "list of beneficiaries" as "list of undisclosed partners," the term "number of units" as "number," and the term "paragraph (5)" in the latter part of paragraph (8) of the same Article as "paragraph (3)," the term "two-thirds or more of the voting rights of the beneficiaries present at the meeting and one-third or more of the total number of outstanding beneficiary certificates" as "two-thirds or

more of the voting rights of undisclosed partners present at the meeting," and the terms "majority of the voting rights of the beneficiaries present at the meeting and one-fourth or more of the total number of outstanding beneficiary certificates" and "majority of the voting rights of the beneficiaries present at the meeting" as "two-thirds or more of the voting rights of the undisclosed partners present at the meeting and one-third or more of the total number of outstanding equity securities" and "two-thirds or more of the voting rights of the undisclosed partners present at the meeting" respectively.

Article 227 (Provisions Applicable Mutatis Mutandis)

- (1) [Article 195](#) shall apply *mutatis mutandis* to an amendment of the undisclosed association agreement of an undisclosed investment association. In this regard, the term "investment company" shall be construed as "undisclosed investment association," the term "by a resolution of its board of directors" in paragraph (1) of the same Article as "by the business operator," the term "proviso to [Article 201](#) (2)" as "[Article 226](#) (3)," the terms "resolution of the general meeting of shareholders" in paragraph (1) of the same Article and "resolution of the board of directors or the general meeting of shareholders" in paragraph (2) of the same Article as "resolution of the general meeting of undisclosed partners" collectively, and the term "shareholders" as "undisclosed partners."
- (2) [Article 208](#) shall apply *mutatis mutandis* to equity securities of an undisclosed investment association. In this regard, the terms "investment limited liability company" and "company" shall be construed as "undisclosed investment association" collectively, the terms "corporate director under [Article 209](#) (1)" and "corporate director" as "business operator," the term "partner" as "undisclosed partner," and the term "articles of incorporation" as "undisclosed association agreement."
- (3) [Article 221](#) shall apply *mutatis mutandis* to the dissolution and liquidation of an undisclosed investment association. In this regard, the term "investment association" shall be construed as "undisclosed investment association," the term "general meeting of partners" as "general meeting of undisclosed partners," and the term "executive partner" as "business operator" respectively.

Article 228 (Relation to Other Acts)

- (1) [Articles 82](#) (3), [83](#), and [84 of the Commercial Act](#) shall not apply to undisclosed investment associations.
- (2) Chapter III of the [Trust Act](#) shall apply *mutatis mutandis* to undisclosed investment associations. In this regard, the term "trust property" shall be construed as "property of an undisclosed investment association," the term "trustee" as "business operator," the term "entrustment" as "participation in an undisclosed investment association as a partner," and the terms "trustor" and "beneficiary" as "undisclosed partner" collectively.
- (3) It shall be deemed that an investor is admitted to an undisclosed investment association as an undisclosed partner when he/she purchases equity securities of the undisclosed investment association.

CHAPTER III TYPES, ETC. OF COLLECTIVE INVESTMENT SCHEMES

SECTION 1 Types of Collective Investment Schemes

Article 229 (Types of Collective Investment Schemes)

Collective investment schemes shall be categorized into the following categories according to the objects of operation of the collective investment property:

1. Securities fund: A collective investment scheme, not falling under any of subparagraphs 2 and 3, that invests the collective investment property in securities (excluding those securities specified by Presidential Decree, but including derivatives based on underlying assets consisting of any securities other than those specified by Presidential Decree; hereafter the same shall apply in this Article) in excess of the ratio prescribed by Presidential Decree, which shall be no less than 40/100 of the collective investment property;
2. Real estate fund: A collective investment scheme that invests the collective investment property in real estate (including investment in derivatives based on underlying assets consisting of real estate, loans to corporations related to the development of real estate, and other investment in real estate in a manner prescribed by Presidential Decree and in securities related to real estate as prescribed by Presidential Decree; hereafter the same shall apply in this Article) in excess of the ratio prescribed by Presidential Decree, which shall be no less than 40/100 of the collective investment property;

3. Special asset fund: A collective investment scheme that invests the collective investment property in special assets (referring to investable assets other than securities and real estate) in excess of the ratio prescribed by Presidential Decree, which shall be no less than 40/100 of the collective investment property;
4. Mixed asset fund: A collective investment scheme to which the restrictions under the provisions of subparagraphs 1 through 3 shall not be applicable in operating the collective investment property; and
5. Money market fund: A collective investment scheme that invests the collective investment property in whole in short-term financial instruments, as specified by Presidential Decree, which is managed in a manner prescribed by Presidential Decree.

SECTION 2 Collective Investment Schemes in Extraordinary Form

Article 230 (Closed-end Fund)

- (1) Notwithstanding [Article 235](#) (1), a collective investment business entity, or the promoters of an investment company that intends to create or establish an investment trust, an investment limited liability company, an investment limited partnership company, an investment association, or an undisclosed investment association (hereafter referred to as "collective investment business entity, etc." in this Section) may create or establish a collective investment scheme under which the collective investment scheme with a predetermined continuance period shall not allow any claim for redemption of collective investment securities (hereafter referred to as "closed-end fund" in this Article).
- (2) The collective investment business entity of an investment trust or an undisclosed investment association, or an investment company, etc. may issue additional collective investment securities for a closed-end fund only when there is no possibility of undermining the existing investors' interests, as prescribed by Presidential Decree.
- (3) The collective investment business entity of an investment trust or an investment company shall, if there is no specific method provided for in the trust contract or the articles of incorporation for guaranteeing realizability, etc. to investors, list the collective investment securities within ninety days from the day on which the collective investment securities of a closed-end fund are initially issued.
- (4) [Article 238](#) (6) through (8) shall not apply to collective investment securities of a closed-end fund: *Provided*, That the provisions shall apply when the closed-end fund is allowed to issue additional collective investment securities in accordance with paragraph (2).
- (5) A collective investment business entity, etc. shall create or establish a collective investment scheme as a closed-end fund, in cases prescribed by Presidential Decree, considering the circumstances, etc. under which it is difficult to convert the investable property of the collective investment scheme into cash.

Article 231 (Multiple Class Fund)

- (1) Notwithstanding [Articles 189](#) (2), [196](#) (5), and [208](#) (1) (including where the afore-said Article shall apply *mutatis mutandis* pursuant to [Article 216](#) (2), [222](#) (2), or [227](#) (2)), a collective investment business entity, etc. may create or establish a collective investment scheme that issues collective investment securities of the same collective investment scheme in multiple classes with varying base prices or varying sales commissions according to the difference in sales remuneration under [Article 76](#) (4) (hereafter referred to as "multiple class fund" in this Article).
- (2) In cases where a matter requires a resolution by the general meeting of collective investors, but such resolution is related only to the interests of the investors of the collective investment securities in a specific class, the multiple class fund may hold a general meeting of investors with only the investors in the specific class.
- (3) Matters concerning creation and establishment of a multiple class fund, issuance, sale, and redemption of the collective investment securities of such fund, and other matters pertaining to multiple class funds shall be prescribed by Presidential Decree.

Article 232 (Umbrella Fund)

- (1) When a collective investment business entity, etc. creates or establishes a collective investment scheme with a mechanism for granting investors a right to convert collective investment securities held by investors of a collective investment scheme into those of another collective investment scheme between a multiple number of collective investment schemes (hereafter referred to as "umbrella fund" in this Article), the entity shall satisfy all of the following requirements:
 1. There shall be a collective investment agreement applicable in common to a multiple number of collective investment schemes; and
 2. The collective investment agreement shall prohibit conversion between collective investment

schemes under the provisions of [Article 9](#) (18) 1 through 7.

- (2) Matters concerning the conversion of collective investment securities and other matters pertaining to umbrella funds shall be prescribed by Presidential Decree.

Article 233 (Master-Feeder Fund)

- (1) When a collective investment business entity, etc. creates or establishes a collective investment scheme (hereafter referred to as "feeder fund" in this Article) with a mechanism for acquiring collective investment securities issued by another collective investment scheme (hereafter referred to as "master fund" in this Article), the entity, etc. shall all of the following requirements:
1. The feeder fund shall not be allowed to acquire any collective investment securities other than those of the master fund;
 2. No person other than the feeder fund shall be allowed to acquire collective investment securities of the master fund; and
 3. The collective investment properties of the feeder fund and the master fund shall be operated by one and the same collective investment business entity.
- (2) [Article 81](#) (1) 3 (excluding item (d)) shall not apply in cases where the feeder fund acquires collective investment securities from the master fund.
- (3) Matters concerning creation and establishment of a master and feeder fund (hereafter referred to as "master-feeder fund" in this Article), sale and redemption of collective investment securities, and other matters pertaining to master-feeder funds shall be prescribed by Presidential Decree.

Article 234 (Exchange Traded Fund)

- (1) The provisions of [Article 34](#) (1) 1 and 2, the proviso to [Article 87](#) (1) (including the cases as applicable *mutatis mutandis* in [Article 186](#) (2)), the proviso to [Article 87](#) (2) (including the cases as applicable *mutatis mutandis* in [Article 186](#) (2)), [Articles 88](#), [147](#), [172](#), [173](#), and [235 through 237](#) shall not apply to a collective investment scheme that meets all of the following requirements (hereafter referred to as "exchange traded fund" in this Article): <Amended by Act No. 9407, Feb. 3, 2009>
1. Its purpose shall be to link its operation and management with the fluctuation of indexes indicating the price levels of a multiple number of items for each price or each type of underlying assets in a collective manner. In such cases, the price or type of underlying assets shall meet the requirements prescribed by Presidential Decree;
 2. It shall allow redemption of beneficiary certificates or stocks of an investment company; and
 3. The beneficiary certificates or stocks of an investment company shall be listed in the securities exchange within 30 days from the creation date of the relevant investment trust or the establishment date of the investment company.
- (2) A person specified by Presidential Decree among investment traders or investment brokers shall not be deemed to engage in a discretionary investment business in cases where it sells securities on its own account or on a third party's account in order to create or establish an exchange traded fund.
- (3) When an exchange traded fund is created or additionally created, or when an exchange traded fund is established and issues new stocks, the payment therefor may be made by assets in lieu of money, notwithstanding [Articles 188](#) (4) and [194](#) (7) (including cases to which the aforesaid paragraph shall apply *mutatis mutandis* pursuant to [Article 196](#) (6)). <Amended by Act No. 9407, Feb. 3, 2009>
- (4) Matters concerning creation, additional creation, establishment and issuance of new stocks of an exchange traded fund, sale and redemption of collective investment securities, listing and delisting, and public notice of property owned, and other necessary matters shall be prescribed by Presidential Decree. <Amended by Act No. 9407, Feb. 3, 2009>

Article 234-2 (Investment Company for Corporate Financial Stability)

- (1) [Article 81](#) (1) shall not apply to an investment company satisfying the requirements under the following subparagraphs and the objective of which is to support the financial stability of a company (hereinafter referred to as "investment company for corporate financial stability"):
1. An investment company for corporate financial stability shall invest in securities prescribed by Presidential Decree which are issued by a company (referring to a company which does not belong to an enterprise group prescribed by Presidential Decree, the total amount of assets of which is not more than five trillion won, among enterprise groups under the [Monopoly Regulation and Fair Trade Act](#)) in the rate not less than that prescribed by Presidential Decree which is not less than 50/100 of the assets of the investment company;
 2. The existence term of an investment company shall not be less than term prescribed by Presidential Decree which is not less than one year;
 3. An investment company shall not be an open-end investment company under [Article 196](#) (4).
- (2) An collective investment business entity shall, when it invests in the securities of the same item in excess of 10/100 of the assets of an investment company for corporate financial stability, publicly

announce the details thereof using the Internet homepages of the collective investment business entity and the Association.

- (3) The management of an investment company for corporate financial stability, public announcement under paragraph (2) and other necessary matters shall be prescribed by Presidential Decree.

[This Article Newly Inserted by Act No. 10063, Mar. 12, 2010] <<Date of Expiration: Refer to the Addenda>>

CHAPTER IV REDEMPTION OF COLLECTIVE INVESTMENT SECURITIES

Article 235 (Claim for Redemption, Manner therefor, etc.)

- (1) An investor may make a claim for redemption of collective investment securities at any time.
- (2) An investor who intends to make a claim for redemption of collective investment securities shall make such claim to the investment trader or the investment broker that sold the collective investment securities: *Provided*, That such claim may be made directly to the collective investment business entity of the relevant collective investment scheme in a manner prescribed by Ordinance of the Prime Minister, if the investment trader or the investment broker is unable to perform the redemption owing to its dissolution, revoked authorization, suspended business, or any other reason specified by Presidential Decree (hereafter referred to as "dissolution, etc." in this paragraph), while such claim may be made to the trust business entity that keeps in custody and manages the relevant collective investment property, if the collective investment business entity is unable to perform the redemption owing to its dissolution, etc. <Amended by Act No. 8863, Feb. 29, 2008>
- (3) An investment trader or an investment broker shall, upon receiving a claim for redemption in accordance with the main sentence of paragraph (2), demand that the collective investment business entity of the relevant investment trust or undisclosed investment association, where the beneficiary certificates or equity securities of the undisclosed investment association are involved, or the investment company, etc., where collective investment securities issued by the investment company, etc. are involved, perform the redemption without delay, and the collective investment business entity or the trust business entity shall, upon receiving a claim in accordance with the proviso to paragraph (2) for redemption of collective investment securities issued by an investment company, etc., demand that the investment company, etc. perform the redemption without delay.
- (4) A collective investment business entity of an investment trust or an undisclosed investment association (including the trust business entity that keeps in custody and manages the relevant collective investment property) or an investment company, etc. shall, upon receiving a claim for redemption or a demand for performance of the redemption in accordance with paragraph (2) or (3), pay the redemption money on the day prescribed for redemption by the collective investment agreement within 15 days from the day on which the investor made a claim for redemption, except as otherwise provided for by Presidential Decree, considering the realizability of the investable assets of the collective investment scheme.
- (5) A collective investment business entity of an investment trust or an undisclosed investment association (including the trust business entity that keeps in custody and manages the relevant collective investment property) or an investment company, etc. shall, when it pays the redemption money in accordance with paragraph (4), make such payment in cash held in hand as part of the collective investment property or raised by disposing of the collective investment property, within the limit of the collective investment property: *Provided*, That such payment may be made with the collective investment property held in hand by the collective investment scheme if all investors of the collective investment scheme consent to do so.
- (6) An investment trader or an investment broker that sells collective investment securities, a collective investment business entity that operates collective investment property, or a trust business entity that keeps in custody and manages collective investment property shall not acquire the collective investment securities of which redemption is claimed or the performance of redemption is demanded on its own account or solicit another person to acquire them: *Provided*, That the investment trader, investment broker, collective investment business entity, or trust business entity may acquire the collective investment securities of which redemption is claimed, or of which the performance of redemption is demanded on its own account, if it is necessary for facilitating the redemption of the collective investment securities or if there is no possibility of undermining investors' interests, as prescribed by Presidential Decree.
- (7) A collective investment business entity of an investment trust or an undisclosed investment association (including the trust business entity that keeps in custody and manages the relevant collective investment property; hereafter the same shall apply in this Chapter), or an investment company, etc. shall, upon redeeming collective investment securities in accordance with this Chapter, retire the collective investment securities.

Article 236 (Redemption Price and Commission)

- (1) A collective investment business entity of an investment trust or an undisclosed investment association, or an investment company, etc. shall make redemption of the collective investment securities based on a base price computed after the day on which redemption is claimed:
Provided, That the base price computed before the day on which redemption is claimed may be applied to redemptions if there is no possibility of undermining investors' interests or the stable management of the collective investment property, as prescribed by Presidential Decree.
- (2) The redemption commission charged on redeemed collective investment securities shall be borne by the investor who claims redemption of the collective investment securities in a manner prescribed by Presidential Decree, and the redemption commission paid by the investor shall belong to the collective investment property.
- (3) Matters pertaining to the redemption price, including computation of the base price after the day on which redemption is claimed in accordance with paragraph (1), shall be prescribed by Presidential Decree.

Article 237 (Postponement of Redemption)

- (1) In the event that a collective investment business entity of an investment trust or an undisclosed investment association, or an investment company, etc. is unable to redeem collective investment securities on the day prescribed by the collective investment agreement, owing to impossibility of disposing of assets that belong to the collective investment property or any other cause prescribed by Presidential Decree, it may postpone the redemption of the collective investment securities. In such cases, the collective investment business entity of an investment trust or an undisclosed investment association, or an investment company, etc. shall obtain a resolution (referring to a resolution under the main sentence of [Article 190](#) (5), the proviso to [Article 201](#) (2), the proviso to [Article 210](#) (2), [Articles 215](#) (3) and [220](#) (3) and [226](#) (3)) on the matters concerning the redemption of the collective investment securities, as prescribed by Presidential Decree, by a general meeting of collective investors held within six weeks after such postponement of redemption.
- (2) In the event that the general meeting of collective investors under the latter part of paragraph (1) fails to adopt a resolution on matters concerning the redemption of collective investment securities, or if it is impossible to perform a resolution adopted by the general meeting of collective investors on the matters concerning redemption, the collective investment business entity of an investment trust or an undisclosed investment association, or an investment company, etc. may postpone the redemption continuously.
- (3) In the event that the general meeting of collective investors under the latter part of paragraph (1) adopts a resolution on the matters concerning redemption or it is determined to postpone the redemption continuously in accordance with paragraph (2), the collective investment business entity of an investment trust or an undisclosed investment association, or an investment company, etc., shall notify investors of the matters resolved or determined, according to the following categories as the case may be, without delay:
1. When the general meeting of collective investors adopts a resolution on the matters concerning the redemption:
 - (a) Matters resolved concerning the redemption; and
 - (b) Other matters prescribed by Presidential Decree; and
 2. When it is determined to postpone the redemption continuously:
 - (a) Reasons for postponing the redemption;
 - (b) Period of time during which the redemption is postponed;
 - (c) Payment method of redemption price, when the redemption is resumed; and
 - (d) Other matters prescribed by Presidential Decree.
- (4) When the cause of postponement of redemption is completely or partially terminated, the collective investment business entity of an investment trust or an undisclosed investment association, or an investment company, etc. shall notify investors for whom redemption has been postponed of its intention to resume the redemption, and shall pay the redemption price in a manner prescribed by Presidential Decree.
- (5) In cases where a cause of postponement of redemption under paragraph (1) effects a part of the collective investment property, the collective investment business entity of an investment trust or an undisclosed investment association, or an investment company, etc. may postpone the redemption for such part and perform the redemption for the remaining part in the proportion to the units of the collective investment securities held by each investor.
- (6) A collective investment business entity of an investment trust or an undisclosed investment association, or an investment company, etc. may create or establish a separate collective investment scheme only with the collective investment property for which redemption has been postponed in accordance with paragraph (5). In such cases, [Articles 81](#), [88](#), [238](#) (7), [240](#) (3) through (8), and [248](#) shall not apply.
- (7) Matters pertaining to the payment method of the redemption price under paragraph (5), the creation

- or establishment of a separate collective investment scheme under paragraph (6), etc. shall be prescribed by Presidential Decree.
- (8) A collective investment business entity of an investment trust or an undisclosed investment association, or an investment company, etc. may refuse to approve a claim for redemption under [Article 235](#) (1) in any of the following cases:
1. When the collective investment scheme (excluding an investment trust) is dissolved;
 2. When the net asset value of the investment company does not reach the minimum net asset value stipulated by the articles of incorporation;
 3. When the redemption is restricted by an Act and subordinate statute or an order issued pursuant to such an Act and subordinate statute; and
 4. When a beneficiary of an investment trust, a shareholder of an investment company, or a pledge right holder of such beneficiary or shareholder makes a claim for redemption during a period of time between a day fixed in accordance with [Article 354 \(1\) of the Commercial Act](#) for determining the person who can exercise his/her right (including the cases as applicable *mutatis mutandis* in [Article 189](#) (9); hereafter the same shall apply in this Article) and the day on which the right is exercisable, in cases where it is provided that a beneficiary, shareholder, or pledge right holder recorded in the list of beneficiaries or the list of shareholders, as of the fixed day shall be deemed the beneficiary, shareholder, or pledge right holder who can exercise his/her right. In this regard, the term "three months" in applying [Article 354](#) (3) of the same Act shall be construed as "two months."

CHAPTER V ASSESSMENT AND ACCOUNTING

Article 238 (Assessment of Collective Investment Property, Computation of Base Price, etc.)

- (1) A (1) A collective investment business entity shall assess a collective investment property according to market price, by a method prescribed by Presidential Decree, but shall assess it according to the fair market value prescribed by Presidential Decree, if there is no reliable market price available as of the assessment date: *Provided*, That it may be assessed by value prescribed by Presidential Decree, if investors are frequently changed or there is little possibility of undermining investors' interests, as prescribed by Presidential Decree.
- (2) A collective investment business entity shall organize and operate an assessment committee in a manner prescribed by Presidential Decree, which shall carry out the affairs related to the assessment of the collective investment property under paragraph (1).
- (3) A collective investment business entity shall prepare the standards for the assessment of the collective investment property and procedures therefor (hereafter referred to as "standards for assessment of the collective investment property" in this Article), which shall include the following matters, subject to confirmation by the trust business entity that keeps in custody and manages the collective investment property, to ensure that the assessment of the collective investment property is carried out fairly and precisely:
1. Matters concerning organization and operation of the assessment committee under paragraph (2);
 2. Matters concerning maintenance of integrity in the assessment of the collective investment property;
 3. Matters concerning selection and change of a bond assessment company (referring to a bond assessment company under [Article 263](#)) that shall assess the price of the relevant collective investment property by types, if it retains such bond assessment company, and the application of the price informed by such bond assessment company; and
 4. Other matters prescribed by Presidential Decree.
- (4) A collective investment business entity shall, when the assessment committee under paragraph (2) makes an assessment of the collective investment property, inform the trust business entity that keeps in custody and manages the collective investment property of the details of such assessment without delay.
- (5) The trust business entity that keeps in custody and manages collective investment property shall review the assessment by the collective investment business entity of the collective investment property to confirm that it has been fairly made in accordance with the relevant Acts and subordinate statutes and the standards for assessment of the collective investment property.
- (6) A collective investment business entity of an investment trust or an undisclosed investment association, or an investment company, etc. shall compute the base price of collective investment securities by a formula prescribed by Presidential Decree, according to the results of the assessment of the collective investment property under the provisions of paragraphs (1) through (5).
- (7) A collective investment business entity of an investment trust or an undisclosed investment association, or an investment company, etc. shall provide and post a public notice of the base price computed in accordance with paragraph (6) daily: *Provided*, That a different period of public

notification and posting of the base price may be stipulated by the relevant collective investment agreement, not exceeding 15 days, if it is difficult to provide and post a public notice of the base price daily or in any other case as specified further by Presidential Decree.

- (8) If a base price computed by a collective investment business entity of an investment trust or an undisclosed investment association, or an investment company, etc. is false, in violation of paragraph (6), the Financial Services Commission may order the collective investment business entity of an investment trust or an undisclosed investment association, or an investment company, etc. to entrust the work related to the assessment of base prices to a general administration company specifying the scope of the work. In such cases, the collective investment business entity, an affiliated company of the collective investment business entity, or an affiliated company of the investment company, investment limited liability company or investment limited partnership company shall be excluded from those eligible for such entrustment. <Amended by Act No. 8863, Feb. 29, 2008>

Article 239 (Preparation, etc. of Documents of Settlement of Accounts)

- (1)A (1)A collective investment business entity of an investment trust or an undisclosed investment association, or an investment company, etc. shall prepare the following documents and accompanying statements (hereafter referred to as "documents of settlement of accounts" in this Article) for each financial term of a collective investment scheme:
1. Balance sheet;
 2. Income statement; and
 3. Asset management report under [Article 88](#).
- (2) The corporate director of an investment company shall submit the documents of settlement of accounts to the board of directors for approval no later than one week before holding the directors' meeting.
- (3) A collective investment business entity of an investment trust or an undisclosed investment association, or an investment company, etc. shall keep the following documents at its head office (including the head office of the collective investment business entity that operates the collective investment property of an investment company, etc., in the case of an investment company, etc.), and shall dispatch the documents to the investment trader or investment broker that sold the relevant collective investment securities and require it to keep them at its sales offices:
1. Documents of settlement of accounts;
 2. Report on accounting audit;
 3. Minutes of the general meeting of collective investors; and
 4. Minutes of the directors' meeting (limited to an investment company).
- (4) A collective investment business entity of an investment trust or an undisclosed investment association, or an investment company, etc. and the investment trader or investment broker that sold the relevant collective investment securities shall keep the documents of settlement of accounts and the report on accounting audit for five years from the day set for keeping them in paragraph (3).
- (5) Investors and creditors of a collective investment scheme may inspect the documents kept in accordance with paragraph (3) at any time during business hours, and may also request the entity to issue a certified copy or an abstract of the documents.
- (6) Matters pertaining to the mandatory descriptions of the documents of settlement of accounts shall be determined by the Financial Services Commission, and provided by public notice. <Amended by Act No. 8863, Feb. 29, 2008>

Article 240 (Accounting, etc. of Collective Investment Property)

- (1)In (1)In accounting the collective investment property, a collective investment business entity of an investment trust or an undisclosed investment association, or an investment company, etc. shall comply with the accounting standards established by the Financial Services Commission and provided by public notice, through deliberation by the Securities and Futures Commission. <Amended by Act No. 8863, Feb. 29, 2008>
- (2) The Financial Services Commission may entrust the establishment and amendment of the accounting standards under paragraph (1) to a non-governmental corporation or organization with expertise, which is specified by Presidential Decree. In this regard, the non-governmental corporation or organization shall, whenever it establishes or amends the accounting standards, report it to the Financial Services Commission without delay. <Amended by Act No. 8863, Feb. 29, 2008>
- (3) A collective investment business entity of an investment trust or an undisclosed investment association, or an investment company, etc. shall receive an accounting audit conducted by an accounting auditor for the collective investment property within two months from the end of each financial term and from the dates set forth in the following subparagraphs: *Provided*, That the same shall not apply in cases where there is no possibility of undermining investors' interests, as specified further by Presidential Decree:

1. Upon expiration or termination of the contract term: The date of expiration or termination; and
2. Upon expiration of continuance period or dissolution: The date of expiration or dissolution.
- (4) A collective investment business entity of an investment trust or an undisclosed investment association, or an investment company, etc. shall, when it appoints or replaces the accounting auditor of the collective investment property, notify the trust business entity that keeps in custody and manages the collective investment property of such appointment or replacement, without delay, and shall also report such appointment or replacement to the Financial Services Commission within one week from the date of appointment or replacement. <Amended by Act No. 8863, Feb. 29, 2008>
- (5) In auditing the work related to computation by a collective investment business entity of an investment trust or an undisclosed investment association, or an investment company, etc. of the base price of collective investment securities and the work related to accounting of the collective investment property, an accounting auditor shall determine whether the entity or company complies with the standards for assessment of the collective investment property, and shall inform the auditor (or the audit committee, if there is an audit committee installed) of the collective investment business entity of the investment trust or the undisclosed investment association, or the investment company, etc. of the results thereof.
- (6) An accounting auditor shall comply with the audit standards under paragraph (10) and the accounting audit standards under [Article 5 of the Act on External Audit of Stock Companies](#) in conducting the accounting audit. <Amended by Act No. 9407, Feb. 3, 2009>
- (7) An accounting auditor may request the following persons to allow him/ her to inspect or copy relevant materials such as account books of the collective investment property, or demand that such persons furnish the materials necessary for accounting audit. In such cases, such persons shall comply with the request or demand without delay:
 1. The collective investment business entity that operates the collective investment property;
 2. The trust business entity that keeps in custody and manages the collective investment property;
 3. The investment trader or the investment broker that sells the collective investment securities; and
 4. The general administration company to which the investment company entrusts business affairs in accordance with [Article 184](#) (6), or the general administration company to which the collective investment business entity of the investment trust or the undisclosed investment association, or the investment company, etc. entrusts the work related to computation of the base price in accordance with [Article 238](#) (8).
- (8) [Article 9 of the Act on External Audit of Stock Companies](#) shall apply *mutatis mutandis* to the accounting audit of the collective investment property under paragraph (3).
- (9) [Articles 2 and 2-2 of the Act on External Audit of Stock Companies](#) shall not apply to investment companies.
- (10) Matters pertaining to the guidelines for appointment of an accounting auditor, the audit standards, the authority of an accounting auditor, the submission and public disclosure of an accounting audit report, etc. shall be prescribed by Presidential Decree. <Amended by Act No. 9407, Feb. 3, 2009>

Article 241 (Accounting Auditor's Liability for Damages)

- (1) An accounting auditor shall be liable for damages sustained by investors due to their reliance on an accounting audit report in which there is any false description or representation of a material fact, or an omission of a description or representation of a material fact, as a result of the accounting audit under [Article 240](#) (3). In this regard, if the account auditor is an auditing team under [Article 3 \(1\) 3 of the Act on External Audit of Stock Companies](#), the persons participated in the audit of the relevant collective investment property shall be jointly liable for such damages.
- (2) If an accounting auditor is liable for damages sustained by investors, and a director or an auditor (or an auditor of the audit committee, if there is an audit committee installed; hereafter the same shall apply in this paragraph) of the collective investment business entity that operates the relevant collective investment property or a supervisory director of the investment company is also culpable for such damages, the accounting auditor and the director or auditor of the collective investment business entity or the supervisory director of the investment company shall be jointly liable for such 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 cases under paragraphs (1) and (2).

Article 242 (Distribution of Profit)

- (1) A collective investment business entity of an investment trust or an undisclosed investment association, or an investment company, etc. shall distribute to investors the profit generated as a result of the operation of the collective investment property of a collective investment scheme in cash, or by newly issued collective investment securities: *Provided*, That any of the collective investment schemes specified by Presidential Decree, considering the characteristics of the collective investment schemes, may reserve the dividends of profit in the collective investment

- scheme in accordance with the provisions of its collective investment agreement.
- (2) A collective investment business entity of an investment trust or an undisclosed investment association, or an investment company, etc. may distribute dividends in cash in excess of profit, if it is necessary to distribute dividends in excess of profit in light of the characteristics of the collective investment scheme: *Provided*, That no investment company may distribute dividends in excess of an amount calculated by subtracting the minimum net asset value from the net asset value.
- (3) Matters pertaining to distribution of profit under paragraph (1) and distribution of money in excess of the profit under paragraph (2) shall be prescribed by Presidential Decree. <Amended by Act No. 9407, Feb. 3, 2009>

Article 243 (Report, etc. on Failure to Meet Minimum Net Asset Value)

- (1) An investment company shall, if its net asset value becomes lower than the minimum net asset value, report such fact to the Financial Services Commission, in a manner prescribed by Presidential Decree within three days after such event occurs. <Amended by Act No. 8863, Feb. 29, 2008>
- (2) The Financial Services Commission shall provide an investment company whose net asset value becomes lower than the minimum net asset with a notice that its registration may be revoked if it fails to meet the minimum asset value until three months lapse. <Amended by Act No. 8863, Feb. 29, 2008>

CHAPTER VI SAFEKEEPING AND MANAGEMENT OF COLLECTIVE INVESTMENT PROPERTY

Article 244 (Fiduciary Duty of Due Care)

A trust business entity that keeps in custody and manages collective investment property shall exercise a fiduciary duty of due care in keeping in custody and managing the collective investment property, and shall protect investors' interests.

Article 245 (Exclusion from Application)

The provisions of Part II, Chapter IV, Section 2, Subsection 4 (excluding [Articles 116](#) and [117](#)) shall not apply to an investment trust when a trust business entity is entrusted with the property of the investment trust.

Article 246 (Limitations on Business of Trust Business Entities)

- (1) No trust business entity that keeps in custody and manages collective investment property shall be an affiliated company of any of the following persons:
1. The relevant collective investment scheme (limited to an investment company, an investment limited liability company, or an investment limited partnership company); and
 2. The collective investment business entity that operates the collective investment property.
- (2) A trust business entity that keeps in custody and manages collective investment property shall separate the collective investment property from its proprietary property, other collective investment property, and the property with which it has been entrusted by a third party for safekeeping and management. In such cases, it shall clearly earmark the facts pertaining to the collective investment property and the trustor.
- (3) A trust business entity that keeps in custody and manages collective investment property shall separate, from its proprietary property, securities and other instruments specified by Presidential Decree, out of the collective investment property, and shall deposit them in the Securities Depository.
- (4) Whenever the collective investment business entity that operates the collective investment property gives it an instruction necessary for the performance of acquisition, disposition, etc. of an asset, or for safekeeping, management, etc. in accordance with [Article 80](#), a trust business entity that keeps in custody and manages collective investment property shall execute such instruction separately for each collective investment scheme in a manner prescribed by Presidential Decree.
- (5) A trust business entity that keeps in custody and manages collective investment property shall not trade collective investment property which is being kept and managed by it with its own property, other collective investment property or property entrusted with its custody by a third party: *Provided*, That the same shall not apply to cases prescribed by Presidential Decree as necessary for the efficient management of collective investment property. <Newly Inserted by Act No. 9407, Feb. 3, 2009>
- (6) A trust business entity that keeps in custody and manages collective investment property shall not trade collective investment property which is being kept and managed by it with the property of its interested persons. <Newly Inserted by Act No. 9407, Feb. 3, 2009>
- (7) A trust business entity that keeps in custody and manages collective investment property shall not use information about the collective investment property of the collective investment scheme for the management of its own property, management of the property that it keeps in custody and

manages, or the sales of collective investment securities that it sells. <Newly Inserted by Act No. 9407, Feb. 3, 2009>

Article 247 (Monitoring of Operational Acts, etc.)

- (1) A trust business entity that keeps in custody and manages collective investment property (excluding the property of an investment company) shall examine whether a management instruction or an operational act of the collective investment business entity that operates the collective investment property violates an Act and subordinate statute, the collective investment agreement, or the prospectus (including the preliminary prospectus and the short-form prospectus; hereafter the same shall apply in this Article) in accordance with the guidelines and manner prescribed by Presidential Decree, and shall demand that the collective investment business entity withdraw, revise, or rectify the management instruction or operational act, if any such violation exists therein.
- (2) A trust business entity that keeps in custody and manages the property of an investment company shall examine whether an operational act of the collective investment business entity that operates the property of the investment company violates an Act and subordinate statute, the articles of incorporation, the prospectus, etc. in accordance with the guidelines and manner prescribed by Presidential Decree, report any violation to the supervisory directors of the investment company, and the supervisory directors of the investment company shall, in turn, demand that the collective investment business entity that operates the property of the investment company rectify the operational act, if any such violation exists therein.
- (3) A trust business entity that keeps in custody and manages collective investment property (excluding the property of an investment company), or the supervisory directors of an investment company shall, if the collective investment business entity that operates the collective investment property fails to comply with a demand under paragraph (1) or (2) by the third business day, report such fact to the Financial Services Commission, and shall disclose the matters prescribed by Presidential Decree to the public in a manner prescribed by Presidential Decree: *Provided*, That the trust business entity that keeps in custody and manages the property of the investment company shall take such measures, if the supervisory directors of the investment company fail to perform their duty to report to the Financial Services Commission or make such public disclosure. <Amended by Act No. 8863, Feb. 29, 2008>
- (4) A collective investment business entity may file an objection to a demand under paragraph (1) or (2) with the Financial Services Commission. In such cases, the parties involved shall comply with the decision made by the Financial Services Commission in accordance with the guidelines prescribed by Presidential Decree. <Amended by Act No. 8863, Feb. 29, 2008>
- (5) A trust business entity that keeps in custody and manages collective investment property shall confirm the following matters in connection with the collective investment property:
 1. Whether the prospectus conforms to Acts and subordinate statutes, and the collective investment agreement;
 2. Whether the asset management report under [Article 88](#) (1) and (2) has been prepared properly;
 3. Whether the risk management method under [Article 93](#) (2) has been prepared properly;
 4. Whether the assessment of the collective investment property has been made fairly in accordance with [Article 238](#) (1);
 5. Whether the computation of the base price under [Article 238](#) (6) has been performed adequately;
 6. The details of the performance of the collective investment business entity in relation to a demand for rectification, etc. under paragraph (1) or (2); and
 7. Other matters prescribed by Presidential Decree as necessary for the protection of investors.
- (6) A trust business entity that keeps in custody and manages collective investment property may, if necessary for making a demand under paragraph (1), submitting a report under paragraph (2), or confirming the matters under the subparagraphs of paragraph (5), demand that the collective investment business entity or the investment trust company, etc. furnish relevant materials. In such cases, the collective investment business entity or the investment company, etc. shall comply with such demand, unless there is a justifiable reason otherwise.
- (7) Matters pertaining to the time, procedure, scope, etc. concerning the confirmation by a trust business entity that keeps in custody and manages collective investment property of the matters under the subparagraphs of paragraph (5) shall be prescribed by Ordinance of the Prime Minister. <Amended by Act No. 8863, Feb. 29, 2008>

Article 248 (Delivery of Report on Safekeeping and Management of Assets)

- (1) A trust business entity that keeps in custody and manages collective investment property shall prepare a report on safekeeping and management of assets, which shall contain the following matters, within two months of the occurrence of any of the events set forth in the subparagraphs of [Article 90](#) (2), and deliver such report to investors: *Provided*, that delivering the reports on safekeeping and management of assets to investors may be omitted if investors are frequently changed or there is no possibility of undermining investors' interests, as prescribed further by Presidential Decree: <Amended by Act No. 9407, Feb. 3, 2009>

1. Amendments to essential provisions of the collective investment agreement;
 2. Changes in fund managers;
 3. Details of a resolution adopted by the general meeting of collective investors;
 4. Matters referred to in the subparagraphs of [Article 247](#) (5); and
 5. Other matters prescribed by Presidential Decree.
- (2) A trust business entity shall deliver the report on safekeeping and management of assets under paragraph (1) to the Financial Services Commission and the Association within the time period set forth in paragraph (1). *<Amended by Act No. 8863, Feb. 29, 2008; Act No. 9407, Feb. 3, 2009>*
- (3) Matters pertaining to the time, method, liability for expenses, etc. concerning the furnishing of the report on safekeeping and management of assets under paragraph (1) shall be prescribed by Presidential Decree.

CHAPTER VII SPECIAL PROVISIONS FOR PRIVATELY PLACED FUNDS, ETC.

Article 249 (Special Cases Concerning Privately Placed Funds)

- (1) [Articles 57](#) and [81](#) (1) 1, 3, and 4, the proviso to [Article 81](#) (1) (limited to cases prescribed by Presidential Decree), [Articles 88](#), [89](#) (including the cases as applicable *mutatis mutandis* in [Article 186](#) (2)), [90](#) (including the cases as applicable *mutatis mutandis* in [Article 186](#) (2)), [91](#) (3) (including the cases as applicable *mutatis mutandis* in [Article 186](#) (2)), [93](#), [230](#) (3), [238](#) (7), [239](#) (3) through (5), [240](#) (3) through (9), [241](#), [247](#), and [248](#) shall not apply to privately placed funds.
- (2) Investors of a privately placed fund shall not transfer the relevant collective investment securities by splitting them: *Provided*, That such collective investment securities may be split and transferred, if they satisfy the requirements for a privately placed fund as a result of such a transfer.
- (3) Notwithstanding [Articles 188](#) (4), [194](#) (7) (including the cases as applicable *mutatis mutandis* in [Article 196](#) (6)), [207](#) (4), [213](#) (4), [218](#) (2), and [224](#) (2), investors of a privately placed fund (or the collective investment business entity that operates the property of an investment trust in the context of an investment trust) may fund their investment by an asset such as securities, real estate, commodities, etc. instead of cash, in a manner prescribed by Presidential Decree, if it is possible to assess the value of such asset objectively and there is no possibility of undermining other investors' interests.
- (4) The general meeting of collective investors and the provisions related to it shall not apply to privately placed funds.
- (5) A notice given to all investors by a collective investment business entity of an investment trust or an undisclosed investment association, or an investment company, etc. concerning a matter that shall be publicly disclosed or noticed in accordance with this Act or the [Commercial Act](#), in a manner provided for in the collective investment agreement shall be deemed to be the public disclosure or public notice made in accordance with this Act or the [Commercial Act](#), if the collective investment scheme involved is a privately placed fund.
- (6) The requirements for privately placed funds, the special exceptions in management, and other necessary matters shall be prescribed by Presidential Decree.

Article 249-2 (Special Cases concerning Privately Placed Fund for Qualified Investors Only)

- (1) [Articles 57](#), [76](#) (2) through (6), [81](#) (excluding [Article 81](#) (1) 1 (d) and 2), [82](#), [83](#), [88](#), [89](#) (including the cases as applicable *mutatis mutandis* in [Article 186](#) (2)), [90](#) (including the cases as applicable *mutatis mutandis* in [Article 186](#) (2)), [91](#) (3) (including the cases as applicable *mutatis mutandis* in [Article 186](#) (2)), [92](#), [93](#), [94](#) (1) through (4) and (6), [182](#), [183](#) (1), [184](#) (3), (4) and (6), [186](#) (excluding the cases as applicable *mutatis mutandis* in [Article 87](#)), [188](#) (2) and (3), [195](#), [197](#), [198](#) (2) and (3), [199](#), [200](#), [207](#) (5), [211](#) (1), [213](#) (5), [216](#) (1), [218](#) (3), [222](#) (1), [224](#) (3), [227](#) (1), [229](#), [230](#), [235](#), [237](#), [238](#) (4) through (8), [239](#) (2) through (5), [240](#) (3) through (8) and (10), [241](#), [243](#), [247](#), [248](#) and [249](#) (1), (2), and (6) shall not apply to funds, excluding privately placed funds, from among funds issuing collective investment securities in a private placement method only to qualified investors prescribed by Presidential Decree (hereafter referred to as "privately placed fund for qualified investors" in this Article). *<Amended by Act No. 10063, Mar. 12, 2010>*
- (2) An investor in a privately placed fund for qualified investors shall not transfer relevant collective investment securities to a person who is not a qualified investor under paragraph (1).
- (3) Where a collective investment business entity borrows funds for the account of a fund in managing collective investment property of a privately placed fund for qualified investors, the total amount of such loan shall not exceed the ratio prescribed by Presidential Decree within 400/100 of the total amount of collective investment property at the time of borrowing such funds.
- (4) Where a collective investment business entity guarantees repayment of debts or provides security for any person other than the relevant fund using collective investment property in managing collective investment property of a privately placed fund for qualified investors, the aggregate of the amount of such debt guarantee and the value of object of the security shall not exceed the ratio

- prescribed by Presidential Decree within 100/100 of the total amount of the collective investment property at the time of guaranteeing repayment of debts and offering security.
- (5) The methods of borrowing funds, guaranteeing repayment of debts, and providing security under paragraphs (3) and (4), and other necessary matters shall be prescribed by Presidential Decree.
 - (6) An investment trust which is a privately placed fund for qualified investors or a collective investment business entity of an undisclosed investment association or an investment company which is a privately placed fund for qualified investors shall, when a privately placed fund for qualified investors is created or established or any other reason specified by Presidential Decree occurs, report the fact to the Financial Services Commission under the conditions prescribed by Presidential Decree within one month from the date on which such a reason occurs.
 - (7) A collective investment business entity shall report the current status of borrowing funds, current status of sales and purchase of derivatives, etc. with respect to a privately placed fund for qualified investors under the conditions prescribed by Presidential Decree.
 - (8) An investment company which is a privately placed fund for qualified investors shall have one corporate director who is a collective investment business entity and may have one or two directors notwithstanding [Article 383 \(1\) of the Commercial Act](#).

[This Article Newly Inserted by Act No. 9407, Feb. 3, 2009]

Article 250 (Special Rules for Banks)

- (1) A bank that obtained authorization for a collective investment business under [Article 12](#) (hereafter referred to as "bank that runs a collective investment business concurrently" in this Article) may engage in a business for creation and termination of an investment trust and management of investment trust property within authorized scope of business.
- (2) A bank that runs a collective investment business concurrently shall have a committee for management of the collective investment property, which shall be composed of three executives (including two outside directors) who are not in charge of business affairs under paragraph (7) 1, 3, and 4, in order to make a decision related to the management of the collective investment property. In this regard, matters pertaining to the operation, etc. of the committee for management of the collective investment property shall be prescribed by Presidential Decree.
- (3) No bank that runs a collective investment business concurrently shall commit any of the following acts in connection with the management of a collective investment property:
 1. Acquiring beneficiary certificates of an investment trust issued by itself as its proprietary property;
 2. Using the information about the property of an investment trust operated by itself for sale of other collective investment securities;
 3. Selling beneficiary certificates of an investment trust operated by itself through another bank; and
 4. Creating a money market fund under subparagraph 5 of [Article 229](#).
- (4) No bank that engages in safekeeping and management of collective investment property shall use information regarding the collective investment property of the collective investment scheme for management of the property of an investment trust operated by itself or sale of collective investment securities sold by itself.
- (5) No bank that engages in the business of a general administration company shall use information regarding the collective investment property of the relevant collective investment scheme for management of the property of an investment trust operated by itself or sale of the collective investment securities sold by itself.
- (6) No bank who engages in the sale of collective investment securities with authorization for an investment trading business or an investment brokerage business shall commit any of the following acts:
 1. Using information regarding the collective investment property of the collective investment securities sold by itself for management of the property of an investment trust operated by itself or the sale of beneficiary certificates of an investment trust operated by itself; and
 2. Discriminating against customers without a justifiable reason by linking the sales business of collective investment securities with the business under the [Banking Act](#).
- (7) A bank shall, when it engages in a collective investment business, a trust business (including the business of safekeeping and management of collective investment property; hereafter the same shall apply in this paragraph), or the business of a general administration company under this Act, have executives (including persons in a position equivalent to executives in fact as specified further by Presidential Decree; hereafter the same shall apply in this paragraph) assigned to such a business, shall not assign concurrently any of the following business affairs to the executives or employees, and shall be equipped with a system for preventing conflicts of interest, as prescribed by Presidential Decree, including prohibition of use of an electronic computer system or offices in common and restriction on exchange of information between executives or employees who run different businesses: *Provided*, That an executive may take concurrent charge of any business affair under subparagraph 1, if there is little possibility of conflicts of interest between the business affair and the business affairs under subparagraphs 2 through 4, as prescribed further by Presidential Decree, and the business affairs under subparagraphs 2 through 4, and the executive

may also take concurrent charge of the business affairs under subparagraphs 3 and 4 concurrently:
<Amended by Act No. 9407, Feb. 3, 2009>

1. Business affairs under the [Banking Act](#) (excluding the business affairs under subparagraphs 2 through 4);
2. Business affairs of a collective investment business;
3. Business affairs of a trust business; and
4. Business affairs of a general management company.

Article 251 (Special Rules for Insurance Companies)

- (1) An insurance company that obtained authorization for a financial investment business for a collective investment business under [Article 12](#) (hereafter referred to as "insurance company that runs a collective investment business concurrently" in this Article) may engage in the creation and termination of an investment trust, and management of property of an investment trust, within authorized scope of business. In such cases, the creation and termination of an investment trust and the management of property of an investment trust shall be limited to a special account under [Article 108 \(1\) 3 of the Insurance Business Act](#) (referring to each investment trust, if there are a multiple number of investment trusts created under an individual trust contract within the special account; hereafter the same shall apply in this paragraph), and such a special account shall be deemed an investment trust under this Act.
- (2) [Article 250](#) (3) (limited to subparagraph 2) shall apply *mutatis mutandis* to insurance companies that run a collective investment business concurrently, and the provisions of paragraph (4) through (6) of the same Article shall apply *mutatis mutandis* to insurance companies. In this regard, the term "bank" shall be construed as "insurance company," and the term "Banking Act" as "Insurance Business Act."
- (3) An insurance company shall, when it engages in a collective investment business, a trust business (including the business of safekeeping and management of collective investment property; hereafter the same shall apply in this paragraph), or the business of a general administration company under this Act, have executives (excluding the executives in the case of management of the property of an investment trust in a manner prescribed by Presidential Decree, but including the persons in a position equivalent to executives in fact as specified further by Presidential Decree; hereafter the same shall apply in this paragraph) assigned to such a business, shall not assign concurrently any of the following business affairs to the executives or employees, and shall be equipped with a system for preventing conflicts of interest, as prescribed by Presidential Decree, including prohibition of use of an electronic computer system or offices in common and restriction on exchange of information between executives or employees who run different businesses: *Provided*, That an executive may take concurrent charge of any business affair under subparagraph 1, if there is little possibility of conflicts of interest between the business affair and the business affairs under subparagraphs 2 through 4, as prescribed further by Presidential Decree, and the business affairs under subparagraphs 2 through 4, and the executive may also take concurrent charge of the business affairs under subparagraphs 3 and 4 concurrently: <Amended by Act No. 9407, Feb. 3, 2009>
 1. Business affairs under the [Insurance Business Act](#) (excluding the business affairs under subparagraphs 2 through 4);
 2. Business affairs of a collective investment business;
 3. Business affairs of a trust business; and
 4. Business affairs of a general management company.
- (4) Notwithstanding [Article 83](#) (4), an insurance company that runs a collective investment business concurrently may manage assets that belong to investment trust property by granting loans to insurance policy holders in a manner provided for in the [Insurance Business Act](#).
- (5) [Articles 182, 183](#) (1), and [188](#) (1) 2 and 6, the latter part other than the subparagraphs of [Article 188](#) (2), and paragraph (3) of the same Article, [Articles 189 through 193, 230, 235 through 237, 238](#) (2) (limited to cases where investment trust property is managed in a manner prescribed by Presidential Decree), [239](#) (3), [253](#) (1), and [420](#) (1), shall not apply to investment trusts managed by insurance companies that run a collective investment business concurrently.
- (6) [Articles 82](#) and [86, Article 89](#) (1) 4, and [Articles 90](#) and [92](#) shall not apply to a collective investment business run by an insurance company. <Amended by Act No. 9407, Feb. 3, 2009>

CHAPTER VIII SUPERVISION AND INSPECTION

Article 252 (Supervision and Inspection on Investment Companies, etc.)

- (1) The Financial Services Commission may order investment companies, etc. to take measures necessary for the following matters in order to protect investors and maintain sound trade practice: <Amended by Act No. 8863, Feb. 29, 2008>

1. Matters concerning management of collective investment property;
 2. Matters concerning public disclosures related to collective investment property; and
 3. Other matters prescribed by Presidential Decree as necessary for the protection of investors or sound trade practice.
- (2) [Article 419](#) (excluding paragraphs (2) through (4) and (8)) shall apply *mutatis mutandis* to an inspection on an investment company, etc.

Article 253 (Registration Revocation, etc. of Collective Investment Scheme)

- (1) The Financial Services Commission may revoke the registration of a collective investment scheme in any of the following cases: Provided, the registration shall be necessarily revoked in the event set forth in subparagraph 3: <Amended by Act No. 8863, Feb. 29, 2008>
1. If the scheme executed or revised the registration under [Article 182](#) (1) or (8) by falsity or in any other fraudulent manner;
 2. If the scheme fails to satisfy the requirements for registration under the subparagraphs of [Article 182](#) (2);
 3. If the scheme is terminated or dissolved;
 4. If the net asset value of the investment company fails to meet the minimum net asset value under 194 (2) 7 continuously for three months or longer;
 5. If the scheme fails to make a revised registration under [Article 182](#) (8);
 6. If the scheme does not comply with an order of rectification or discontinuance issued by the Financial Services Commission;
 7. If the scheme falls under any of the subparagraphs of the attached Table 2, as prescribed further by Presidential Decree;
 8. If the scheme violates any finance-related Act and subordinate statute, etc. specified by Presidential Decree, as prescribed further by Presidential Decree; and
 9. If there is a possibility of seriously undermining investors' interests or if it is deemed difficult to continue its existence as a collective investment scheme, as prescribed further by Presidential Decree.
- (2) If an investment company, etc. (including its collective investment business entity, corporate director, and executive partner) falls under any of the subparagraphs of paragraph (1) (excluding subparagraph 7) or under any of the subparagraphs of the attached Table 2, the Financial Services Commission may take any of the following measures against the investment company, etc.: <Amended by Act No. 8863, Feb. 29, 2008>
1. Suspension of its business completely or partially for six months or less;
 2. Issuance of an order to transfer contracts;
 3. Issuance of an order to correct or discontinue a violation;
 4. Issuance of an order to provide public notice or disclosure of the fact that it has been subjected to a measure due to its violation;
 5. Issuance of a warning to the institution as a whole;
 6. Issuance of a caution to the institution as a whole; or
 7. Other measures specified by Presidential Decree necessary for correcting or preventing a violation.
- (3) If the supervisory directors of an investment company fall under any of the following subparagraphs, the Financial Services Commission may demand dismissal, suspension of their duties for six months or less, warning of reprimand, warning for attention, or caution, or take any other measure as prescribed by Presidential Decree: <Amended by Act No. 8863, Feb. 29, 2008>
1. If the directors amend the articles of incorporation in violation of the proviso to [Article 195](#) (1);
 2. If the directors use the information related to their work without a justifiable reason in violation of [Article 54](#), which shall apply *mutatis mutandis* pursuant to [Article 199](#) (5);
 3. If the directors adopt a resolution in violation of [Article 200](#) (3);
 4. If the directors do not demand rectification in violation of [Article 247](#) (2), or do not carry out reporting or public disclosure in violation of paragraph (3) of the said Article; and
 5. If there is a possibility of undermining the protection of investors or sound trade practice, as prescribed further by Presidential Decree.
- (4) If the Financial Services Commission intends to revoke the registration of a collective investment scheme pursuant to paragraph (1) or demand dismissal of the supervisory directors of an investment company pursuant to paragraph (3), it shall hold a hearing. <Amended by Act No. 8863, Feb. 29, 2008>
- (5) [Articles 424](#) and [425](#) shall apply *mutatis mutandis* to the measures, etc. taken against a collective investment scheme and supervisory directors of an investment company.

CHAPTER IX COMPANIES RELATED TO COLLECTIVE INVESTMENT SCHEMES

Article 254 (General Administration Company)

- (1) A person who intends to engage in a business under the subparagraphs of [Article 184](#) (6) by means of entrustment by an investment company in accordance with [Article 184](#) (6), shall register with the Financial Services Commission. <Amended by Act No. 8863, Feb. 29, 2008>
- (2) A person who intends to register under paragraph (1) shall satisfy all of the following requirements:
 1. It shall fall under any of the following items:
 - (a) A stock company under the [Commercial Act](#);
 - (b) A transfer agency company (including the Securities Depository); and
 - (c) Other financial institution specified by Presidential Decree;
 2. Its equity capital shall reach or exceed the amount prescribed by Presidential Decree, which shall be at least 500 million won;
 3. It shall retain professionals that meet the criteria prescribed by Presidential Decree as full-time executives or employees;
 4. It shall be equipped with physical facilities specified by Presidential Decree, including an electronic computer system;
 5. None of its executives shall fall under the subparagraphs of [Article 24](#); and
 6. It shall have a system for preventing conflicts of interest as prescribed by Presidential Decree (limited to cases where it engages in a financial business specified by Presidential Decree).
- (3) A person who intends to register under paragraph (1) shall file a registration application with the Financial Services Commission. <Amended by Act No. 8863, Feb. 29, 2008>
- (4) The Financial Services Commission shall, upon receiving a registration application under paragraph (3), examine its contents, make a decision on whether to approve the registration within 30 days, and notify the applicant of the result and the reasons therefor, in writing and without delay. In such cases, the Commission may require the applicant to make a supplementary correction if there is a deficiency in the application. <Amended by Act No. 8863, Feb. 29, 2008>
- (5) In calculating the examination period under paragraph (4), the period of time specified by Ordinance of the Prime Minister, including the period of time for supplementary correction of a deficiency in the registration application, shall not be included. <Amended by Act No. 8863, Feb. 29, 2008>
- (6) In making a decision on whether to approve the registration under paragraph (4), the Financial Services Commission shall not reject the registration, unless there exists a ground falling under any of the following subparagraphs: <Amended by Act No. 8863, Feb. 29, 2008>
 1. When the applicant fails to satisfy the requirements for registration under paragraph (2);
 2. When the registration application under paragraph (3) has been prepared by falsity; and
 3. When the applicant fails to comply with the demand for supplementary correction under the latter part of paragraph (4).
- (7) The Financial Services Commission shall, upon making a decision on the registration pursuant to paragraph (4), make an entry of the necessary matters in the register of general administration companies, and shall provide public notice of the contents of its decision through the official gazette, its Internet homepage, etc. <Amended by Act No. 8863, Feb. 29, 2008>
- (8) A person who registers under paragraph (1) (hereinafter referred to as "general administration company") shall maintain the requirements for registration under the subparagraphs of paragraph (2) (referring to the requirements alleviated as prescribed by Presidential Decree in the case of subparagraph 2 of said paragraph) continuously while carrying on its business following registration.
- (9) Matters concerning the application for registration, including the mandatory descriptions and accompanying documents of the registration application under the provisions of paragraphs (1) through (7), and other necessary matters, including the method and procedure for examination of the registration shall be prescribed by Presidential Decree.

Article 255 (Provisions Applicable Mutatis Mutandis)

Articles 42, 54, 60, and 64 shall apply *mutatis mutandis* to general administration companies.

Article 256 (Supervision and Inspection on General Administration Companies)

- (1) The Financial Services Commission may order a general administration company to take any necessary measures for the following matters in order to protect investors and maintain sound trade practice: <Amended by Act No. 8863, Feb. 29, 2008>
 1. Matters concerning management of its proprietary property;
 2. Matters concerning maintenance of order in operation;
 3. Matters concerning operating methods; and
 4. Other matters prescribed by Presidential Decree necessary for protecting investors and maintaining sound trade practice.
- (2) [Article 419](#) (excluding paragraphs (2) through (4) and (8)) shall apply *mutatis mutandis* to the inspection on general administration companies.

Article 257 (Dispositions against General Administration Companies)

- (1) If a general administration company falls under any of the subparagraphs of the attached Table 3, the Financial Services Commission may revoke its registration under [Article 254](#) (1). <Amended by Act No. 8863, Feb. 29, 2008>

- (2) The Financial Services Commission may take any of the following measures, if a general administration company falls under any of the subparagraphs of the attached Table 3: *<Amended by Act No. 8863, Feb. 29, 2008>*
1. Suspension of its business entirely or partially for six months or less;
 2. Issuance of an order to transfer contracts;
 3. Issuance of an order to correct or discontinue a violation;
 4. Issuance of an order to provide public notice or disclosure of the fact that it has been subjected to a measure due to its violation;
 5. Issuance of a warning to the institution as a whole;
 6. Issuance of a caution to the institution as a whole; and
 7. Other measures specified by Presidential Decree necessary for correcting or preventing a violation.
- (3) If an executive of a general administration company falls under any of the subparagraphs of the attached Table 3, the Financial Services Commission may take any of the following measures: *<Amended by Act No. 8863, Feb. 29, 2008>*
1. Demand for dismissal;
 2. Suspension of his/her duties for six months or less;
 3. Reprimand warning;
 4. Warning for attention;
 5. Caution; and
 6. Other measures prescribed by Presidential Decree necessary for correcting or preventing a violation.
- (4) If an employee of a general administration company falls under any of the subparagraphs of the attached Table 3, the Financial Services Commission may demand that the general administration company take any of the following measures: *<Amended by Act No. 8863, Feb. 29, 2008>*
1. Removal;
 2. Suspension of his/her duties for six months or less;
 3. Salary reduction;
 4. Reprimand;
 5. Warning;
 6. Caution; and
 7. Other measures prescribed by Presidential Decree necessary for correcting or preventing a violation.
- (5) The provisions of [Article 422](#) (3) and [423 through 425](#) shall apply *mutatis mutandis* to the measures taken against general administration companies and their executives or employees.

Article 258 (Fund Assessment Company)

- (1) A person who intends to engage in a business for assessing collective investment schemes and furnishing investors with such assessment shall register with the Financial Services Commission. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (2) A person who intends to register under paragraph (1) shall satisfy all of the following requirements:
1. It shall be a stock company under the [Commercial Act](#);
 2. It shall not be an investment trader, an investment broker, a collective investment business entity, or an affiliated company of such an entity;
 3. Its equity capital shall reach or exceed the amount prescribed by Presidential Decree, which shall be at least 100 million won;
 4. It shall retain professionals that meet the criteria prescribed by Presidential Decree as full-time executives or employees;
 5. It shall be equipped with physical facilities specified by Presidential Decree, including an electronic computer system;
 6. None of its executives shall fall under any of the subparagraphs of [Article 24](#);
 7. It shall have a system for assessment of collective investment schemes as prescribed by Presidential Decree; and
 8. It shall have a system for preventing conflicts of interest as prescribed by Presidential Decree (limited to cases where it engages in a financial business specified by Presidential Decree).
- (3) A person who intends to register under paragraph (1) shall file a registration application with the Financial Services Commission. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (4) The Financial Services Commission shall, upon receiving a registration application under paragraph (3), examine its contents, make a decision on whether to approve the registration within 30 days, and notify the applicant of the result and the reasons therefor, in writing and without delay. In such cases, the Commission may require the applicant to make a supplementary correction if there is a deficiency in the application. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (5) In calculating the examination period under paragraph (4), the period of time specified by Ordinance of the Prime Minister, including the period of time for supplementary correction of a deficiency in the registration application, shall not be included. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (6) In making a decision on whether to approve the registration under paragraph (4), the Financial

Services Commission shall not reject the registration, unless there exists a ground falling under any of the following subparagraphs: <Amended by Act No. 8863, Feb. 29, 2008>

1. When the applicant fails to satisfy the requirements for registration under paragraph (2);
 2. When the registration application under paragraph (3) has been prepared by falsity; and
 3. When the applicant fails to comply with the demand for supplementary correction under the latter part of paragraph (4).
- (7) The Financial Services Commission shall, upon making a decision on the registration pursuant to paragraph (4), make an entry of the necessary matters in the register of fund assessment companies, and shall provide public notice of the contents of its decision through the official gazette, its Internet homepage, etc. <Amended by Act No. 8863, Feb. 29, 2008>
- (8) A person who registers under paragraph (1) (hereinafter referred to as "fund assessment company") shall maintain the requirements for registration under the subparagraphs of paragraph (2) (referring to the requirements alleviated as prescribed by Presidential Decree in the case of subparagraph 3 of said paragraph) continuously while carrying on its business following registration.
- (9) Matters concerning the application for registration, including the mandatory descriptions and accompanying documents of the registration application under the provisions of paragraphs (1) through (7), and other necessary matters, including the methods and procedures for examination of the registration, shall be prescribed by Presidential Decree.

Article 259 (Working Rules on Business Conduct, etc.)

- (1) A fund assessment company shall establish working rules on business conduct, which shall include the matters prescribed by Presidential Decree.
- (2) A collective investment business entity may furnish the details of its collective investment property to fund assessment companies in a manner prescribed by Presidential Decree.
- (3) Matters pertaining to the method, etc. of public disclosure of the criteria for assessment by a fund assessment company shall be prescribed by Presidential Decree.

Article 260 (Provisions Applicable Mutatis Mutandis)

Articles 54, 60, and 64 shall apply *mutatis mutandis* to fund assessment companies.

Article 261 (Supervision and Inspection on Fund Assessment Companies)

- (1) The Financial Services Commission may order a fund assessment company to take any necessary measures for the following matters in order to protect investors and maintain sound trade practice: <Amended by Act No. 8863, Feb. 29, 2008>
 1. Matters concerning management of its proprietary property;
 2. Matters concerning maintenance of order in operations;
 3. Matters concerning operating methods; and
 4. Other matters prescribed by Presidential Decree as necessary for protecting investors and maintaining sound trade practice.
- (2) [Article 419](#) (excluding paragraphs (2) through (4) and (8)) shall apply *mutatis mutandis* to the inspection on fund assessment companies.

Article 262 (Dispositions against Fund Assessment Companies)

- (1) If a fund assessment company falls under any of the subparagraphs of the attached Table 4, the Financial Services Commission may revoke its registration under [Article 258](#) (1). <Amended by Act No. 8863, Feb. 29, 2008>
- (2) The Financial Services Commission may take any of the following measures, if a fund assessment company falls under any of the subparagraphs of the attached Table 4: <Amended by Act No. 8863, Feb. 29, 2008>
 1. Suspension of its business entirely or partially for six months or less;
 2. Issuance of an order to transfer contracts;
 3. Issuance of an order to correct or discontinue a violation;
 4. Issuance of an order to provide public notice or disclosure of the fact that it has been subjected to a measure due to its violation;
 5. Issuance of a warning to the institution as a whole;
 6. Issuance of a caution to the institution as a whole; and
 7. Other measures specified by Presidential Decree necessary for correcting or preventing a violation.
- (3) If an executive of a fund assessment company falls under any of the subparagraphs of the attached Table 4, the Financial Services Commission may take any of the following measures: <Amended by Act No. 8863, Feb. 29, 2008>
 1. Demand for dismissal;
 2. Suspension of his/her duties for six months or less;
 3. Reprimand warning;
 4. Warning for attention;
 5. Caution; and
 6. Other measures prescribed by Presidential Decree necessary for correcting or preventing a

- violation.
- (4) If an employee of a fund assessment company falls under any of the subparagraphs of the attached Table 4, the Financial Services Commission may demand that the fund assessment company take any of the following measures: *<Amended by Act No. 8863, Feb. 29, 2008>*
1. Removal;
 2. Suspension of his/her duties for six months or less;
 3. Salary reduction;
 4. Reprimand;
 5. Warning;
 6. Caution; and
 7. Other measures prescribed by Presidential Decree necessary for correcting or preventing a violation.
- (5) The provisions of [Article 422](#) (3) and [423 through 425](#) shall apply *mutatis mutandis* to the measures against fund assessment companies and their executives or employees.

Article 263 (Bond Assessment Company)

- (1) A person who intends to engage in a business for assessing the value of the assets belonging to collective investment property including bonds and furnishing investors with such assessment shall register with the Financial Services Commission. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (2) A person who intends to register under paragraph (1) shall satisfy all of the following requirements:
1. It shall be a stock company under the [Commercial Act](#);
 2. Its equity capital shall reach or exceed the amount prescribed by Presidential Decree, which shall be at least 2 billion won;
 3. Contributions to the person by an enterprise group subject to restriction on mutual investment or contributions to the person by a financial institution specified by Presidential Decree shall not exceed 10/100;
 4. It shall retain professionals that meet the criteria prescribed by Presidential Decree as full-time executives or employees;
 5. It shall be equipped with physical facilities specified by Presidential Decree, including an electronic computer system;
 6. None of its executives shall fall under any of the subparagraphs of [Article 24](#);
 7. It shall have a system for assessment of bonds, etc. as prescribed by Presidential Decree; and
 8. It shall have a system for preventing conflicts of interest as prescribed by Presidential Decree (limited to cases where it engages in a financial business specified by Presidential Decree).
- (3) A person who intends to register under paragraph (1) shall file a registration application with the Financial Services Commission. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (4) The Financial Services Commission shall, upon receiving a registration application under paragraph (3), examine its contents, make a decision on whether to approve the registration within 30 days, and notify the applicant of the result and the reasons therefor, in writing and without delay. In such cases, the Commission may require the applicant to make a supplementary correction if there is a deficiency in the application. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (5) In calculating the examination period under paragraph (4), the period of time specified by Ordinance of the Prime Minister, including the period of time for supplementary correction of a deficiency in a registration application, shall not be included. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (6) In making a decision on whether to approve the registration under paragraph (4), the Financial Services Commission shall not reject the registration, unless there exists a ground falling under any of the following subparagraphs: *<Amended by Act No. 8863, Feb. 29, 2008>*
1. When the applicant fails to satisfy the requirements for registration under paragraph (2);
 2. When the registration application under paragraph (3) has been prepared by falsity; and
 3. When the applicant fails to comply with the demand for supplementary correction under the latter part of paragraph (4).
- (7) The Financial Services Commission shall, upon making a decision on the registration pursuant to paragraph (4), make an entry of the necessary matters in the register of bond assessment companies, and shall provide public notice of the contents of its decision through the official gazette, its Internet homepage, etc. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (8) A person who registers under paragraph (1) (hereinafter referred to as "bond assessment company") shall maintain the requirements for registration under the subparagraphs of paragraph (2) (referring to the requirements alleviated as prescribed by Presidential Decree in the case of subparagraph 2 of said paragraph) continuously while carrying on its business following registration.
- (9) Matters concerning the application for registration, including the mandatory descriptions and accompanying documents of the registration application under the provisions of paragraphs (1) through (7), and other necessary matters, including the methods and procedures for examination of the registration shall be prescribed by Presidential Decree.

Article 264 (Working Rules on Work Process)

- (1) A bond assessment company shall establish working rules on work process, which shall include the matters prescribed by Presidential Decree.
- (2) Matters pertaining to the method, etc. of public disclosure of the criteria for assessment of securities by a bond assessment company shall be prescribed by Presidential Decree.

Article 265 (Provisions Applicable Mutatis Mutandis)

Articles 54, 60, and 64 shall apply *mutatis mutandis* to bond assessment companies.

Article 266 (Supervision and Inspection on Bond Assessment Companies)

- (1) The Financial Services Commission may order a bond assessment company to take any measures necessary for the following matters in order to protect investors and maintain sound trade practice: <Amended by Act No. 8863, Feb. 29, 2008>
 1. Matters concerning management of its proprietary property;
 2. Matters concerning maintenance of order in operations;
 3. Matters concerning operating methods; and
 4. Other matters prescribed by Presidential Decree necessary for protecting investors and maintaining sound trade practice.
- (2) [Article 419](#) (excluding paragraphs (2) through (4) and (8)) shall apply *mutatis mutandis* to the inspection on bond assessment companies.

Article 267 (Dispositions against Bond Assessment Companies)

- (1) If a bond assessment company falls under any of the subparagraphs of the attached Table 5, the Financial Services Commission may revoke its registration under [Article 263](#) (1). <Amended by Act No. 8863, Feb. 29, 2008>
- (2) The Financial Services Commission may take any of the following measures, if a bond assessment company falls under any of the subparagraphs of the attached Table 5: <Amended by Act No. 8863, Feb. 29, 2008>
 1. Suspension of its business entirely or partially for six months or less;
 2. Issuance of an order to transfer contracts;
 3. Issuance of an order to correct or discontinue a violation;
 4. Issuance of an order to provide public notice or disclosure of the fact that it has been subjected to a measure due to its violation;
 5. Issuance of a warning to the institution as a whole;
 6. Issuance of a caution to the institution as a whole; and
 7. Other measures specified by Presidential Decree necessary for correcting or preventing a violation.
- (3) If an executive of a bond assessment company falls under any of the subparagraphs of the attached Table 5, the Financial Services Commission may take any of the following measures: <Amended by Act No. 8863, Feb. 29, 2008>
 1. Demand for dismissal;
 2. Suspension of his/her duties for six months or less;
 3. Reprimand warning;
 4. Warning for attention;
 5. Caution; and
 6. Other measures prescribed by Presidential Decree necessary for correcting or preventing a violation.
- (4) If an employee of a bond assessment company falls under any of the subparagraphs of the attached Table 5, the Financial Services Commission may demand that the bond assessment company take any of the following measures: <Amended by Act No. 8863, Feb. 29, 2008>
 1. Removal;
 2. Suspension of his/her duties for six months or less;
 3. Salary reduction;
 4. Reprimand;
 5. Warning;
 6. Caution; and
 7. Other measures prescribed by Presidential Decree necessary for correcting or preventing a violation.
- (5) The provisions of [Articles 422](#) (3) and [423 through 425](#) shall apply *mutatis mutandis* to measures taken against bond assessment companies and their executives or employees.

CHAPTER X SPECIAL CASES CONCERNING PRIVATE EQUITY FUNDS

Article 268 (Incorporation and Registration)

- (1) The articles of incorporation of a private equity fund shall include the following descriptions, and all partners shall print their names and affix their seals or write their signatures thereon:

1. Purpose;
 2. Trade name;
 3. Address of the company;
 4. Means of contribution by each partner and the criteria for pricing or assessment;
 5. Continuance period of the company (which shall not exceed 15 years from the registration date of incorporation);
 6. Grounds for dissolution of the company, if there are such grounds agreed upon;
 7. Names, citizen registration numbers (or trade name or title, and business registration number in the case of a corporation), and addresses of partners;
 8. Distinction between the general partner and limited partners; and
 9. Preparation date of the articles of incorporation.
- (2) A private equity fund shall register the following matters for incorporation:
1. Matters under paragraph (1) 1 through 3 and matters under subparagraphs 5 and 6 of the same paragraph; and
 2. Name, citizen registration number (or trade name or title, and business registration number if the partner is a corporation), and address of the general partner.
- (3) A private equity fund shall apply for the registration with the Financial Services Commission within two weeks from the registration date of its incorporation. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (4) A person who intends to register under paragraph (3) shall meet all of the following requirements:
1. The private equity fund has been incorporated in compliance with the provisions of this Act; and
 2. The articles of incorporation of the private equity fund do not violate any law or statute nor impinge on investors' interests explicitly.
- (5) A person who intends to register under paragraph (3) shall file a registration application with the Financial Services Commission. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (6) The Financial Services Commission shall, upon receiving a registration application under paragraph (5), examine its contents, make a decision on whether to approve the registration within 30 days, and notify the applicant of the result and the reasons therefor, in writing and without delay. In such cases, the Commission may require the applicant to make a supplementary correction if there is a deficiency in the application. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (7) In calculating the examination period under paragraph (6), the period of time specified by Ordinance of the Prime Minister, including the period of time for supplementary correction of a deficiency in the registration application, shall not be included. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (8) In making a decision on whether to approve the registration under paragraph (6), the Financial Services Commission shall not reject the registration, unless there exists a ground falling under any of the following subparagraphs: *<Amended by Act No. 8863, Feb. 29, 2008>*
1. When the applicant fails to satisfy the requirements for registration under paragraph (4);
 2. When the registration application under paragraph (5) has been prepared by falsity; and
 3. When the applicant fails to comply with the demand for supplementary correction under the latter part of paragraph (6).
- (9) The Financial Services Commission shall, upon making a decision on the registration pursuant to paragraph (6), make an entry of the necessary matters in the register of private equity funds, and shall provide public notice of the contents of its decision through its Internet homepage, etc. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (10) Whenever there is a change in the descriptions registered in accordance with paragraph (3), the private equity fund shall file an application for the revised registration with the Financial Services Commission within two weeks. In this regard, the provisions of paragraphs (4) through (9) shall apply *mutatis mutandis*. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (11) Matters concerning the registration and revised registration, including the mandatory descriptions of the registration application, accompanying documents, etc. under the provisions of paragraphs (3) through (10), and other necessary matters, including the methods and procedures for examination of the registration, shall be prescribed by Presidential Decree.

Article 269 (Partners and Contributions)

- (1) Partners of a private equity fund shall consist of one general partner and one or more limited partners, and the total number of partners shall not exceed 49 persons. *<Amended by Act No. 9407, Feb. 3, 2009>*
- (2) In counting the total number of partners under paragraph (1), the number of investors in another collective investment scheme shall be added, if the collective investment scheme holds 10/100 or more of the equity shares of the private equity fund.
- (3) The persons specified by Presidential Decree from among professional investors shall be excluded for the calculation of the total number of partners under paragraph (1).
- (4) No limited partner shall influence the exercise of voting rights for stocks or equity shares that belong to the property of the private equity fund.
- (5) Contributions by partners of a private equity fund shall be only made by cash: *Provided*, That

- securities may be acceptable for contributions if it is possible to assess the value objectively and there is no possibility of undermining partners' interests, subject to the consent of all other partners.
- (6) The minimum contribution amount of each limited partner shall be the amount prescribed by Presidential Decree, which shall not exceed 10 billion won.
 - (7) The Korea Development Bank under the [Korea Development Bank Act](#) and the Industrial Bank of Korea under the [Industrial Bank of Korea Act](#) may make a contribution to a private equity fund to the extent that it conforms to the purpose of its establishment.
 - (8) Other matters pertaining to the methods and procedures of contribution by partners shall be prescribed by Presidential Decree.

Article 270 (Management of Property of Private Equity Fund)

- (1) A private equity fund (including a case of managing it with another private equity fund jointly in a manner prescribed by Presidential Decree) shall manage its property by any of the following methods:
 1. Investment in 10/100 or more of the total number of outstanding voting stocks or the total contribution amount of another company (excluding an investment company, an investment limited liability company, an investment limited partnership company, or other company specified by Presidential Decree; hereafter the same shall apply in this Article);
 2. Investment that enables it to exercise *de facto* control over major business affairs of an invested company such as appointment and dismissal of executives, notwithstanding subparagraph 1;
 3. Investment (limited to an investment with the purpose set forth in subparagraph 1 or 2) in securities (excluding equity securities);
 4. Investment in exchange-traded derivatives or over-the-counter derivatives for avoiding risks in investment in securities issued by an investable enterprise (referring to an enterprise in which a private equity fund or a special purpose company as defined in [Article 271](#) invests in a manner set forth in subparagraph 1 or 2; hereafter the same shall apply in this Chapter), as prescribed further by Presidential Decree;
 5. Investment in securities issued by a company specializing in investment and financing for social infrastructure under the [Act on Private Participation in Infrastructure](#);
 6. Investment in equity securities of a special purpose company under [Article 271](#) (hereinafter referred to as "special purpose company"); and
 7. Other investment similar to the investment under subparagraphs 1 through 6, as prescribed further by Presidential Decree.
- (2) A private equity fund may manage the surplus fund left over after making an investment with the property of the private equity fund in accordance with the subparagraphs of paragraph (1) by any of the following methods:
 1. Short-term loans prescribed by Presidential Decree;
 2. Deposits in financial institutions specified by Presidential Decree;
 3. Investment in securities at the ratio prescribed by Presidential Decree, which shall not exceed 5/100 of the property of the private equity fund; and
 4. Other method with no possibility of undermining the soundness in asset management of the private equity fund, as prescribed further by Presidential Decree.
- (3) A private equity fund shall manage a certain amount of its contribution at a ratio prescribed by Presidential Decree, which shall be 50/100 or more of the amount contributed within the period prescribed by Presidential Decree, exceeding six months from the day on which partners pay their contributions, by the method set forth in paragraph (1) 1, 2, 5, or 6 (limited to an investment by the method set forth in paragraph (1) 1, 2, or 5): *Provided*, That the same shall not apply in cases where it is difficult to select an investable enterprise or in other cases prescribed by Presidential Decree, subject to prior approval of the Financial Services Commission. <Amended by Act No. 8863, Feb. 29, 2008>
- (4) A private equity fund shall continue to hold the equity securities issued by an invested enterprise for six month or longer from the day on which it reaches the status set forth in paragraph (1) 1 or 2, and shall not dispose of such equity securities before a period of six months has elapsed: *Provided*, That it may dispose of such securities before the lapse of six months, where it is clearly foreseen that partners' interests will likely be undermined by holding the equity securities continuously or in any other case prescribed by Presidential Decree, subject to prior approval of the Financial Services Commission. <Amended by Act No. 8863, Feb. 29, 2008>
- (5) A private equity fund (including a person who became a shareholder or partner of a special purpose company in accordance with [Article 271](#) (1) 3 (b) or (c)) shall continue to hold the equity securities issued by a special purpose company for six months or longer after it acquires them, and shall not dispose of such equity securities before a period of six months has elapsed: *Provided*, That it may dispose of such securities before the lapse of six months, where it is clearly foreseen that partners' interests will likely be undermined by holding the equity securities of a special purpose company continuously or in any other case prescribed by Presidential Decree, subject to prior approval of the Financial Services Commission. <Amended by Act No. 8863, Feb. 29, 2008>

- (6) If a private equity fund fails to reach the status set forth in paragraph (1) 1 or 2 by the time six months has lapsed after it initially acquires the equity securities of another company, it shall transfer all the equity securities of the company already acquired to another person (excluding a person who has an investment relationship with the private equity fund or who is under the control of such person through an investment) within a period prescribed by Presidential Decree, and shall report it to the Financial Services Commission without delay: *Provided*, That it is not required to dispose of such equity securities within the period of time prescribed by Presidential Decree, where it is difficult to dispose of them or in any other case prescribed by Presidential Decree, subject to prior approval of the Financial Services Commission. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (7) If any of the following events occurs, a private equity fund may obtain a loan or guarantee the performance of an obligation of an invested enterprise or other person related to an invested enterprise. In such cases, the aggregate of such loans borrowed and guarantees for the performance of an obligation shall not exceed 10/100 of the property of the private equity fund:
1. If it is unavoidable for purposes of returning the contribution of a withdrawing partner;
 2. If the funds necessary to satisfy operating expenses temporarily run out; and
 3. If it is temporarily short of the funds necessary for investing in an investable enterprise.
- (8) The calculation formula of the ratio of investment to the property of a private equity fund and other matters pertaining to the management of the property of a private equity fund shall be prescribed by Presidential Decree.

Article 271 (Special Purpose Company)

- (1) The term "special purpose company" means a company that satisfies all of the following requirements: *<Amended by Act No. 9407, Feb. 3, 2009>*
1. It shall be a stock company or a limited liability company incorporated in accordance with the [Commercial Act](#);
 2. Its business purpose shall be to make an investment under [Article 270](#) (1) 1 through 5 or 7;
 3. Its shareholders or partners shall fall under any of the following items, and the ratio of contribution made by a shareholder or partner who falls under item (a) shall reach or exceed a ratio prescribed by Presidential Decree:
 - (a) A private equity fund;
 - (b) An executive or a major shareholder of the company in which the special purpose company invests; and
 - (c) Other person, specified by Presidential Decree who is required to become a shareholder or partner of the special purpose company for efficient management of the special purpose company;
 4. The aggregate of the number of partners of a private equity fund, who are shareholders or partners of the company, and the number of shareholders or partners who are not a private equity fund, shall not exceed 49 persons; and
 5. It shall not have a full-time executive or an employee, nor shall it have any sales office other than its head office.
- (2) The provisions governing a stock company or a limited liability company in the [Commercial Act](#) shall apply to special purpose companies, except as provided for explicitly by this Act.
- (3) A specific purpose company may obtain loans and guarantee the performance of an obligation for an invested enterprise or any other person related to the invested enterprise. In such cases, the aggregate of the borrowed loans and guarantees for the performance of an obligation shall not exceed the limit set by Presidential Decree.
- (4) The methods of computing investment ratio of the property of a special purpose companies and other matters necessary for the management of the property of the special purpose companies shall be prescribed by Presidential Decree. *<Newly Inserted by Act No. 9407, Feb. 3, 2009>*
- (5) [Articles 242](#), [269](#) (3), [270](#) (4) and (6), and [274](#) shall apply *mutatis mutandis* to specific purpose companies. *<Amended by Act No. 9407, Feb. 3, 2009>*
- (6) [Articles 317](#) (2) 2 and 3 and [549 \(2\) 2 of the Commercial Act](#) shall not apply to special purpose companies. *<Amended by Act No. 9407, Feb. 3, 2009>*

Article 272 (Executive Partners, etc.)

- (1) A private equity fund shall designate one or more general partners as an executive partner through its articles of incorporation. In this regard, each executive partner shall have the rights and duties to execute the business affairs of the fund.
- (2) A person who runs a business provided for in a finance-related Act and subordinate statute specified by Presidential Decree may become an executive partner, notwithstanding the corresponding provisions of the Act and subordinate statute. In such cases, the executive partner may execute the business affairs to the extent not violating the provisions of the Act and subordinate statute that restricts or prohibits such execution.
- (3) A private equity fund may determine the matters concerning the distribution of profit or loss to executive partners, the priority in profit or loss, etc.

- (4) [Article 11](#) shall not apply in cases where an executive partner of a private equity fund runs the operation, safekeeping, and management of the property of the private equity fund, the sale and redemption of equity shares of the private equity fund, etc.
- (5) Each executive partner shall perform his/her duties in good faith for the private equity fund in compliance with Acts and subordinate statutes, and with the articles of incorporation.
- (6) No executive partner (including executives or employees of a corporation under subparagraph 2 or 3, if the executive partner is a corporation) shall commit any of the following acts:
 1. Trading with the private equity fund (excluding cases where all partners consent to do so);
 2. Unduly soliciting a person to become a partner by promising to guarantee the principal or a certain amount of profit or in any other manner;
 3. Furnishing the details of assets owned by the private equity fund to any person other than the partners without consent of all partners for the benefits of some of the partners or a third party; and
 4. An act that has a possibility of undermining the protection of partners of the private equity fund, the stability of the property of the private equity fund, etc., as prescribed further by Presidential Decree.
- (7) A private equity fund shall establish specific working rules of conduct with which executive partners shall comply in accordance with paragraphs (5) and (6), and shall, whenever it establishes or amends such working rules, report such to the Financial Services Commission without delay. In this regard, the Financial Services Commission may, upon receiving a report on the working rules of conduct, order an amendment to the provisions thereof or supplementary correction, if the rules contravene any Act and subordinate statute, or if there is a possibility of undermining partners' the interests. <Amended by Act No. 8863, Feb. 29, 2008>
- (8) An executive partner shall furnish partners with the financial statements of the private equity fund and the special purpose company in which the private equity fund invests at least once per interval prescribed by Presidential Decree, explain the status of management and property to them, and keep and maintain the records of the facts related to such furnishing and explanation.
- (9) A partner other than the executive partners may make a request for inspection on account books and documents related to the property of the private equity fund, or the special purpose company in which the private equity fund invests during business hours, or to have issued a certified copy or an abstract of such account books and documents.
- (10) If an executive partner is significantly incompetent in the performance of his/her duties or commits a serious violation while performing his/her duties, a partner, other than executive partners, may conduct an inspection on the business affairs and the status of the property of the private equity fund or special purpose company in which the private equity fund invests, subject to approval of the Financial Services Commission. <Amended by Act No. 8863, Feb. 29, 2008>
- (11) A private equity fund may provide remuneration (including compensation contingent upon the performance of management) to each executive partner with the property of the private equity fund in accordance with the articles of incorporation.

Article 273 (Transfer of Equity Shares)

- (1) No general partner of a private equity fund shall transfer his/her equity shares in the contribution to another person: *Provided*, That equity shares may be transferred to another person without splitting them with the consent of all partners, if the articles of incorporation so allow.
- (2) A limited partner of a private equity fund may transfer his/her equity shares to another person without splitting them with the consent of all general partners.
- (3) Notwithstanding paragraphs (1) (proviso) and (2), general partners and limited partners of a private equity fund may split and transfer equity shares to other persons to the extent that the total number of partners of the private equity fund after such transfer shall not exceed 49 persons. In such cases, [Article 269](#) (3) shall apply *mutatis mutandis*. <Amended by Act No. 9407, Feb. 3, 2009>
- (4) No private equity fund may be merged with another company (including another private equity fund).

Article 274 (Restrictions on Private Equity Funds, etc. Affiliated with Enterprise Group subject to Restriction on Mutual Investment)

- (1) If a private equity fund that is an affiliated company of an enterprise group subject to a restriction on mutual investment, or whose executive partner is an affiliated company of an enterprise group subject to a restriction on mutual investment, acquires another company (excluding foreign companies referred to in [Article 9](#) (16) 4) as its affiliated company, it shall dispose of the equity shares of such another company to any person, other than an affiliated company of the enterprise group subject to a restriction on mutual investment within five years of such acquisition. <Amended by Act No. 9407, Feb. 3, 2009>
- (2) A private equity fund that is an affiliated company of an enterprise group subject to a restriction on mutual investment, or whose executive partner is an affiliated company of an enterprise group subject to a restriction on mutual investment shall not acquire equity securities issued by its affiliated company.

Article 275 Deleted. <by Act No. 9784, Jun. 9, 2009>

Article 276 (Special Exception to Regulation on Holding Companies)

- (1) The provisions governing holding companies in the [Monopoly Regulation and Fair Trade Act](#) shall not apply to a private equity fund or a special purpose company until the tenth anniversary of the day on which it satisfies requirements under [Article 270](#) (1) 1 or 2.
- (2) A private equity fund or a special purpose company shall, when it falls under paragraph (1), report such fact to the Financial Services Commission in a manner prescribed by Presidential Decree within two weeks from the day on which such requirement is satisfied, and the Financial Services Commission shall, in turn, notify the Fair Trade Commission of the matter. <Amended by Act No. 8863, Feb. 29, 2008>
- (3) A private equity fund (including a general partner of a private equity fund who is not an affiliated company of an enterprise group subject to a restriction on mutual investment or a financial holding company) or a special purpose company shall not be deemed a financial holding company under the [Financial Holding Companies Act](#) until the tenth anniversary of the day on which it satisfies requirements under [Article 270](#) (1) 1 or 2: *Provided*, That [Articles 45 through 45-4](#) and [48](#) of the said Act shall apply *mutatis mutandis* to a private equity fund or a special purpose company, if it has control over one or more financial institutions specified by Presidential Decree.
- (4) The provisions of [Articles 45-2 through 45-4 of the Financial Holding Companies Act](#) shall apply *mutatis mutandis* to a case where a company is an executive partner of a private equity fund. In this regard, the term "major shareholder of the bank holding company" shall be construed as "executive partner" or "major shareholder of the executive partner."
- (5) A subsidiary company under the [Financial Holding Companies Act](#) may acquire equity shares of a private equity fund, notwithstanding of [Article 19](#) of the said Act.

Article 277 (Exclusion from Application)

- (1) [Articles 182, 183](#) (1), [184](#) (1) through (6), [185, 186, 213 through 215, 216](#) (excluding the part in which [Article 216](#) (3) shall apply *mutatis mutandis* with respect to the dissolution or liquidation of investment limited partnership companies), [217, 229 through 237, 238](#) (2) through (5), (7) and (8), [239, 240](#) (3) through (10), [241, 243 through 251](#), and [253](#) shall not apply to private equity funds. <Amended by Act No. 9407, Feb. 3, 2009>
- (2) [Articles 173, 198, 217](#) (2), [224, 274](#), and [286 of the Commercial Act](#) shall not apply to private equity funds.

Article 278 (Dispositions against Private Equity Funds)

- (1) If a private equity fund falls under any of the following subparagraphs, the Financial Services Commission may revoke the registration of the private equity fund: *Provided*, That the registration shall be necessarily revoked in the event set forth in subparagraph 3: <Amended by Act No. 8863, Feb. 29, 2008>
1. If it made the registration or revised registration under [Article 268](#) (3) or (10) by falsity or in any other fraudulent manner;
 2. If it fails to satisfy the requirements for registration under the subparagraphs of [Article 268](#) (4);
 3. If the private equity fund is dissolved;
 4. If it does not comply with an order of rectification or discontinuance issued by the Financial Services Commission;
 5. If it fails to make a revised registration under [Article 268](#) (10);
 6. If it falls under any of the subparagraphs of the attached Table 6, as prescribed further by Presidential Decree;
 7. If it violates any finance-related Act and subordinate statute, etc. specified by Presidential Decree, as prescribed further by Presidential Decree; and
 8. If there is a possibility of seriously undermining investors' interests or if it is deemed difficult to continue its existence as a private equity fund, as prescribed further by Presidential Decree.
- (2) A private equity fund shall be dissolved upon revocation of its registration pursuant to paragraph (1) (excluding subparagraph 3).
- (3) The Financial Services Commission may take any of the following measures if a private equity fund falls under any subparagraph of paragraph (1) (excluding subparagraph 6) or any of the subparagraphs of the attached Table 6: <Amended by Act No. 8863, Feb. 29, 2008>
1. Issuance of a suspension of its business entirely or partially for six months or less;
 2. Issuance of an order to transfer contracts;
 3. Issuance of an order to correct or discontinue a violation;
 4. Issuance of an order to provide public notice or disclosure of the fact that it has been subjected to a measure due to its violation;
 5. Issuance of a warning to the institution as a whole;
 6. Issuance of a caution to the institution as a whole; and
 7. Other measures specified by Presidential Decree necessary for correcting or preventing a violation.
- (4) If an executive partner (limited to cases where the executive partner is a corporation) of a private equity fund falls under any subparagraph of paragraph (1) (excluding subparagraph 6) or any

subparagraph of the attached Table 6, the Financial Services Commission may take any of the following measures: <Amended by Act No. 8863, Feb. 29, 2008>

1. Disposition against the executive partner:
 - (a) Demand for dismissal;
 - (b) Suspension of its duties for six months or less;
 - (c) Issuance of a warning to the institution as a whole;
 - (d) Issuance of a caution to the institution as a whole; and
 - (e) Other measures prescribed by Presidential Decree necessary for correcting or preventing a violation;
2. Disposition against an executive of the executive partner:
 - (a) Demand for dismissal;
 - (b) Suspension of his/her duties for six months or less;
 - (c) Issuance of a reprimand warning;
 - (d) Issuance of a warning for caution; and
 - (e) Other measures prescribed by Presidential Decree necessary for correcting or preventing a violation; and
3. Disposition against an employee of the executive partner:
 - (a) Removal;
 - (b) Suspension of his/her duties for six months or less;
 - (c) Salary reduction;
 - (d) Issuance of a reprimand;
 - (e) Issuance of a caution; and
 - (f) Other measures prescribed by Presidential Decree necessary for correcting or preventing a violation.
- (5) If an executive partner (limited to cases where the executive partner is a private individual) of a private equity fund falls under any subparagraph of paragraph (1) (excluding subparagraph 6) or any subparagraph of the attached Table 6, the Financial Services Commission may take any of the following measures: <Amended by Act No. 8863, Feb. 29, 2008>
 1. Demand for dismissal;
 2. Suspension of his/her duties for six months or less;
 3. Issuance of a reprimand warning;
 4. Issuance of a warning for caution; and
 5. Other measures prescribed by Presidential Decree necessary for correcting or preventing a violation.
- (6) The provisions of [Article 422](#) (3) and [423 through 425](#) shall apply *mutatis mutandis* to the dispositions, etc. against private equity funds and their executive partners.

Article 278-2 (Special Cases concerning Private Equity Funds for Corporate Financial Stability)

- (1) The term "private equity fund for corporate financial stability" in this Article means a private equity fund, the objective of which is to divide, to its investors, the profits accruing from investment and management performed as prescribed in paragraph (2) for the purpose of ensuring the normalization of management and financial stability of a financial restructuring company (excluding a financial institution prescribed by the [Act on the Structural Improvement of the Financial Industry](#); hereafter the same shall apply in this Article) falling under any of the following subparagraphs:
 1. A company showing signs of insolvency pursuant to subparagraph 5 of [Article 2 of the Corporate Restructuring Promotion Act](#);
 2. A company which has filed an application for commencing rehabilitation procedures with the court pursuant to [Article 34](#) or [35 of the Debtor Rehabilitation and Bankruptcy Act](#);
 3. A company which has filed a petition for bankruptcy with the court pursuant to [Article 294](#) or [295 of the Debtor Rehabilitation and Bankruptcy Act](#);
 4. A company which has entered into a financial restructuring agreement prescribed by Presidential Decree with a creditor financial institution (referring to a financial institution prescribed by Presidential Decree);
 5. A company which intends to implement corporate restructuring or financial restructuring, such as the merger, conversion, reorganization, etc. of a corporation (including its subsidiaries), as prescribed by Presidential Decree;
 6. Other companies which require the implementation of financial restructuring or the normalization of management thereof, and meet requirements prescribed by Presidential Decree.
- (2) Notwithstanding [Article 270](#), a private equity fund for corporate financial stability shall manage its assets in any of the following manners in the rate not less than that prescribed by Presidential Decree which is not less than 50/100 of the invested amount within a period prescribed by Presidential Decree which is not shorter than six months from the date its partners have made investment, and may manage the residual assets after being managed in aforementioned manners, as prescribed by Presidential Decree:
 1. Purchase and sale of securities issued by a financial restructuring company;

2. Purchase and sale of an obligation, such as loan, the creditor of which is a financial restructuring company, its accompanying security right and other rights;
 3. Purchase and sale of assets having economic value, such as real estate, goodwill, etc, retained by a financial restructuring company;
 4. Borrowing of capital and guarantee of payment to a financial restructuring company within the extent not exceeding the total amount of assets;
 5. Investment in equity securities of a special purpose company under paragraph (3).
 - (3) A special purpose company, the shareholders or partners of which are private equity funds for corporate financial stability and the rate of investment by the shareholders or partners of which is not less than the rate prescribed by Presidential Decree may, notwithstanding [Article 271](#) (1) 2, manage its property in any of the methods under paragraph (2) 1 through 4 (in applying subparagraph 4, the total amount of assets means the total amount of assets of the special purpose company) and other methods prescribed by Presidential Decree. In such cases, [Article 270](#) (4) and (6) (referring to cases applied *mutatis mutandis* under [Article 271](#) (5)) shall not be applicable.
 - (4) A private equity fund for corporate financial stability may borrow money, or may guarantee the repayment of debts for a financial restructuring company or other persons related to a financial restructuring company, notwithstanding [Article 83](#). In such cases, the aggregate of the amount borrowed and the amount of debt guarantee may not exceed 200/100 of the property of the private equity fund for corporate financial stability, and the ceiling under [Article 271](#) (3) shall be computed by adding the amount borrowed and the amount of debt guarantee by the private equity fund for corporate financial stability to the amount borrowed by a special purpose company under paragraph (3).
 - (5) A person who manages a fund prescribed in [Article 13 \(1\) 2 through 5 of the National Finance Act](#) may invest the fund in a private equity fund for corporate financial stability in accordance with the management plan of the relevant fund within the rate prescribed by Presidential Decree which is not more than 10/100 of the amount of surplus funds of the relevant funds. In such cases, the amount invested by the fund shall be computed by adding the amount invested in the special purpose company under paragraph (3).
 - (6) A private equity fund for corporate financial stability and the special purpose company under paragraph (3) shall not dispose of the equity securities acquired within the period of not exceeding six months: *Provided*, That the equity securities may be disposed of even within the period of not exceeding six months where keeping on holding the equity securities is likely to impede the profits of the partners, and in other cases prescribed by Presidential Decree which obtain prior approval by the Financial Services Commission.
 - (7) The method of calculating investment rate to the property of a private equity fund for corporate financial stability and the property of the special purpose company under paragraph (3), and other necessary matters for the management, restrictions on the management of, method of calculating the ceiling on capital borrowing, etc. by the private equity fund for corporate financial stability and the special purpose company under paragraph (3) shall be prescribed by Presidential Decree.
- [This Article Newly Inserted by Act No. 10063, Mar. 12, 2010 ;Date of Expiration: Refer to the Addenda]

CHAPTER XI SPECIAL CASES CONCERNING FOREIGN COLLECTIVE INVESTMENT SECURITIES

Article 279 (Registration, etc. of Foreign Collective Investment Scheme)

- (1) A foreign collective investment business entity (referring to a person who engages in a business under the Acts and subordinate statutes of a foreign country, which corresponds to the collective investment business hereunder; hereinafter the same shall apply) of a foreign investment trust (referring to an investment trust created under the Acts and subordinate statutes of a foreign country, which is similar to the investment trust hereunder; hereinafter the same shall apply) or a foreign undisclosed investment association (referring to an undisclosed investment trust established under the Acts and subordinate statutes of a foreign country, which is similar to the undisclosed investment association hereunder; hereinafter the same shall apply), or a foreign investment company, etc. (referring to an investment company, etc. established incorporated under the Acts and subordinate statutes of a foreign country; hereinafter the same shall apply) shall, when it intends to sell foreign collective investment securities (referring to those similar to the collective investment securities hereunder, which have been issued in a foreign country in accordance with the Acts and subordinate statutes of the foreign country; hereinafter the same shall apply) within this country, register the relevant foreign collective investment scheme (referring to one similar to the collective investment scheme hereunder and created or established in accordance with the Acts and subordinate statutes of a foreign country; hereinafter the same shall apply) with the Financial Services Commission. <Amended by Act No. 8863, Feb. 29, 2008>
- (2) A foreign collective investment business entity of a foreign investment trust or a foreign undisclosed investment association, or a foreign investment company, etc. shall, when it intends to register a

foreign collective investment scheme in accordance with paragraph (1), satisfy both the requirements of qualification for a foreign collective investment business entity and the requirements of qualification for sale of foreign collective investment securities as prescribed by Presidential Decree. In this regard, different requirements of qualification for a foreign collective investment business entity and different requirements of qualification for sale of foreign collective investment securities may be determined and applied in cases where the sale of foreign collective investment securities only to the persons specifically enumerated by Presidential Decree among professional investors is intended.

- (3) The provisions of [Article 182](#) (2) through (9) shall apply *mutatis mutandis* to the registration of a foreign collective investment scheme in accordance with paragraph (1). In this regard, the term "this Act" in paragraph (2) 2 of the same Article shall be construed as "laws of the country in which the foreign collective investment scheme was created or established."

Article 280 (Domestic Sale of Foreign Collective Investment Securities)

- (1) In selling foreign collective investment securities, a foreign collective investment business entity of a foreign investment trust or a foreign undisclosed investment association, or a foreign investment company, etc. shall execute sales through an investment trader or investment broker.
- (2) A foreign collective investment business entity shall prepare an asset management report under [Article 88](#) at least once every three months and furnish it to the investors of the relevant foreign collective investment scheme.
- (3) An investor may request a foreign collective investment business entity of a foreign investment trust or a foreign undisclosed investment association, a foreign investment company, etc., or the investment trader or the investment broker that sold the relevant foreign investment securities, in writing, to allow him/her to inspect account books and documents, as specified further by Presidential Decree, related to the collective investment property in which the investment has an interest or to issue a certified copy or an abstract of such, and the foreign collective investment business entity of a foreign investment trust or a foreign undisclosed investment association, the foreign investment company, etc., or the investment trader or the investment broker that sold the relevant foreign investment securities shall not reject such request, unless there is a justifiable reason prescribed by Presidential Decree.
- (4) A foreign collective investment business entity of a foreign investment trust or a foreign undisclosed investment association, or a foreign investment company, etc. shall provide public notice of, and post, the base price of the relevant collective investment securities daily: *Provided*, That a different interval for the public notice and posting of the base price may be prescribed by the relevant collective investment agreement, not exceeding 15 days, in cases where it is difficult to provide public notice of, and post, the base price daily, as prescribed further by Presidential Decree.
- (5) Matters concerning the methods of selling foreign collective investment securities and furnishing reports in relation to domestic sales of foreign collective investment securities and other necessary matters shall be prescribed by Presidential Decree.

Article 281 (Supervision and Inspection on Foreign Collective Investment Business Entity, etc.)

- (1) The Financial Services Commission may order a foreign collective investment business entity of a foreign investment trust or a foreign undisclosed investment association, or a foreign investment company, etc. to take measures as may be necessary for public disclosure, etc. of the relevant collective investment property in order to protect investors and maintain sound trade practice. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (2) [Article 419](#) (excluding paragraphs (2) through (4) and (8)) shall apply *mutatis mutandis* to the inspection on a foreign collective investment business entity of a foreign investment trust or a foreign undisclosed investment association, or a foreign investment company, etc.

Article 282 (Revocation of Registration of Foreign Collective Investment Scheme)

- (1) The Financial Services Commission may revoke the registration of a foreign collective investment scheme in any of the following cases: *<Amended by Act No. 8863, Feb. 29, 2008>*
1. If it made the registration under [Article 279](#) (1) or the revised registration under [Article 182](#) (8), which shall be applicable *mutatis mutandis* pursuant to [Article 279](#) (3), by falsity or in any other fraudulent manner;
 2. If it fails to satisfy the requirements for the registration under the subparagraphs of [Article 182](#) (2), which shall be applicable *mutatis mutandis* pursuant to [Article 279](#) (3);
 3. If it fails to make a revised registration under [Article 182](#) (8), which shall be applicable *mutatis mutandis* pursuant to [Article 279](#) (3);
 4. If it fails to satisfy the qualification requirements for a foreign collective investment business entity or the qualification requirements for sale of foreign collective investment securities under [Article 279](#) (2);
 5. If it violates [Article 280](#);
 6. If it does not comply with an order issued pursuant to [Article 281](#) (1); and
 7. If there is a possibility of seriously undermining investors' interests or if it is deemed difficult to

- continue its existence as a foreign collective investment scheme, as prescribed further by Presidential Decree.
- (2) The Financial Services Commission shall, whenever it intends to revoke the registration of a foreign collective investment scheme pursuant to paragraph (1), hold a hearing. <Amended by Act No. 8863, Feb. 29, 2008>
 - (3) [Articles 424](#) and [425](#) shall apply *mutatis mutandis* to the revocation of registration of a foreign collective investment scheme.

PART VI FINANCIAL SERVICES-RELATED INSTITUTIONS

CHAPTER I KOREA FINANCIAL INVESTMENT ASSOCIATION

Article 283 (Incorporation)

- (1) The Korea Financial Investment Association shall be incorporated for the purposes of maintaining business practice between members, assuring fair trade, protecting investors, and promoting the sound development of financial investment services.
- (2) The Association shall be incorporated as a membership organization.
- (3) The Association shall complete its establishment by the registration of incorporation at the location of the head office in accordance with Presidential Decree.
- (4) The provisions of the [Civil Act](#) related to an incorporated association shall apply *mutatis mutandis* to the Association except as otherwise provided for in this Act.

Article 284 (Prohibition on Using Similar Names)

Any person other than the Association shall not use "Financial Investment Association," "Securities Dealers Association," "Futures Association," "Asset Management Association," or any other similar name.

Article 285 (Membership)

- (1) Any person prescribed by Presidential Decree as qualified to be a financial investment firm or to conduct any other business related to financial investment services shall be eligible to join the membership of the Association.
- (2) The Association may collect membership dues from members under the conditions prescribed by the articles of association.

Article 286 (Business)

- (1) The Association shall perform the business falling under each of the following subparagraphs as prescribed by the articles of incorporation: <Amended by Act No. 10063, Mar. 12, 2010>
 1. Self-regulation to maintain sound trade practice among the members and to protect the interest of investors;
 2. Self-resolution of disputes arising from the conduct of business of its members (limited to cases where any related party applies for mediation);
 3. Registration and management of experts falling under each of the following items:
 - (a) Investment advisors (referring to persons who solicit investment or provide investment advisory services);
 - (b) Analysts (referring to persons who conduct research and analysis, or conduct the review and approval thereof);
 - (c) Fund managers (referring to persons who manage collective investment property, trust property or discretionary investment property);
 - (d) Others prescribed by Presidential Decree for the protection of investors or sound trade practice;
 4. Prior deliberation in cases where a financial investment business entity newly deals with an over-the-counter derivative falling under any of the following items: << Date of Expiration: December 31, 2011 >>
 - (a) An over-the-counter derivative, the underlying assets of which fall under [Article 4](#) (10) 4 or 5;
 - (b) An over-the-counter derivative for ordinary investors;
 5. Over-the-counter transactions of stock certificates that are not listed on the securities market;
 6. Research and study of related regulations for financial investment services;
 7. Investor education and the establishment and operation of the foundation therefor;
 8. Training business with respect to financial investment services;
 9. Business delegated by this Act, or other Acts and subordinate statutes;
 10. Business prescribed by Presidential Decree, other than subparagraphs 1 through 9;
 11. Business incidental to subparagraphs 1 through 10.
- (2) The Association shall, when it performs the business falling under each of the subparagraphs of

paragraph (1), operate the business under subparagraphs 1, 2, and 4 of the same paragraph independently from other business, and establish separate organizations for such purpose.
<Amended by Act No. 10063, Mar. 12, 2010>

Article 287 (Articles of Incorporation)

- (1) The articles of incorporation of the Association shall include the following matters:
 1. Objectives;
 2. Name;
 3. Matters regarding the organization. In such cases, the organization shall be separately managed in accordance with Presidential Decree based on the types of financial investment services and the scope of financial investment products;
 4. Matters regarding its offices;
 5. Matters regarding its business;
 6. Matters regarding the qualification, rights, and obligations of its members;
 7. Matters regarding admission, expulsion, and other restrictive measures (including recommendation of restrictive measures against executives or employees by the members);
 8. Matters regarding membership dues;
 9. Methods of publication;
 10. Other matters prescribed by Presidential Decree as relevant to the management of the Association.
- (2) The Association shall, when it intends to change the matters prescribed by Presidential Decree in the articles of incorporation, obtain approval from the Financial Services Commission. <Amended by Act No. 8863, Feb. 29, 2008>

Article 288 (Self-Resolution of Disputes)

- (1) The Association shall prescribe rules on dispute resolution necessary for conducting the self-resolution of disputes under [Article 286](#) (1) 2.
- (2) The Association may, if necessary for dispute resolution, request that related parties confirm the fact or submit relevant documents.
- (3) The Association may, if necessary to hear the opinions of related parties or other interested persons, request that they attend a meeting and state their opinions.

Article 288-2 (Deliberative Committee of Over-the-Counter Derivatives)

- (1) The Association shall establish a deliberative committee of over-the-counter derivatives (hereafter referred to as the "Committee" in this Article) to conduct preliminary deliberation on over-the-counter derivatives under [Article 286](#) (1) 4.
- (2) The Committee shall be comprised of not less than five, but not more than ten members, including one Chairperson.
- (3) Meetings of the Committee shall adopt resolutions by the attendance of a majority of all incumbent members and the affirmative vote of 2/3 of the members present.
- (4) The Committee shall, in conducting preliminary deliberation duties under paragraph (1), take account of matters under the following subparagraphs:
 1. Matters concerning the possibility of providing information on change in the prices of underlying assets in cases of over-the-counter derivatives, the underlying assets of which fall under [Article 4](#) (10) 4 or 5;
 2. Matters concerning the appropriateness of a sales plan, including the feasibility of risk-hedging structures, substantiality of explanatory materials distributed to ordinary investors, qualifications of and training for investment advisors, etc. in cases of over-the-counter derivatives for ordinary investors;
 3. Other matters deemed, by the Committee, necessary for the protection of investors.
- (5) The Committee may, if deemed necessary to conduct the preliminary deliberation duties under paragraph (1), request for the verification of the fact, the presentation of material, any other relevant matters to a financial investment business entity, etc.
- (6) The Committee shall report, without delay, to the Governor of the Financial Supervisory Service if any resolution under paragraph (3) is adopted.
- (7) The Association shall provide for regulations necessary for the composition and operation of the Committee, including matters under the following subparagraphs:
 1. Matters concerning the qualifications of, and method of designating, the Chairperson and members;
 2. Matters concerning the term of office of the Chairperson and members;
 3. Matters concerning securing the independence in the operation and decision-making of the Committee;
 4. Matters concerning the effect of the deliberating procedures and decision-making of the Committee.

[This Article Newly Inserted by Act No. 10063, Mar. 12, 2010] <<Date of Expiration: December 31, 2011>>

Article 289 (Application Mutatis Mutandis)

Articles 24, 54, and 63 shall apply *mutatis mutandis* to the Association. <Amended by Act No. 9407, Feb. 3, 2009>

Article 290 (Reporting on Rules of Business)

The Association shall, when it establishes, amends, or repeals rules with respect to its business, report thereon to the Financial Services Commission without delay. <Amended by Act No. 8863, Feb. 29, 2008>

Article 291 (Securities Training Institute)

The Association may establish a securities training institute to improve qualifications of persons who engage in financial investment services and to share professional knowledge about financial investment services.

Article 292 (Inspection on Association)

Article 419 (excluding paragraphs (2) through (4) and (8)) shall apply to the inspection on the Association.

Article 293 (Measures against Association)

- (1) The Financial Services Commission may take measures falling under any of the following subparagraphs where the Association falls under any of subparagraphs of attached Table 7: <Amended by Act No. 8863, Feb. 29, 2008>
1. To suspend all or part of its business for up to six months;
 2. To order transfer of contract;
 3. To order correction or suspension of violation;
 4. To order the Association to publicize or disclose measures taken due to violation;
 5. Institutional warning;
 6. Institutional caution; or
 7. Other measures prescribed by Presidential Decree as necessary to correct or prevent violation.
- (2) The Financial Services Commission may take measures falling under any of the following subparagraphs where any executive of the Association falls under any of the subparagraphs of attached Table 7: <Amended by Act No. 8863, Feb. 29, 2008>
1. Request for dismissal;
 2. Suspension from office for up to six months;
 3. Disciplinary warning;
 4. Cautionary warning;
 5. Caution; or
 6. Other measures prescribed by Presidential Decree as necessary to correct or prevent violation.
- (3) The Financial Services Commission may request that the Association take measures falling under any of the following subparagraphs where any employee of the Association falls under any of the subparagraphs of the attached Table 7: <Amended by Act No. 8863, Feb. 29, 2008>
1. Dismissal;
 2. Suspension from office for up to six months;
 3. Salary reduction;
 4. Reprimand;
 5. Warning;
 6. Caution; or
 7. Other measures prescribed by Presidential Decree as necessary to correct or prevent violation.
- (4) [Article 422](#) (3), [423](#) (excluding subparagraph 1), [424](#) (excluding paragraph (2)) and [425](#) shall apply *mutatis mutandis* to the measures, etc. against the Association and its executives or employees.

CHAPTER II KOREA SECURITIES DEPOSITORY

SECTION 1 Establishment and Supervision

Article 294 (Establishment)

- (1) The Korea Securities Depository shall be established in order to promote a centralized deposit of securities, etc. (referring to securities and others prescribed by Presidential Decree; hereafter in this Chapter, the same shall apply), transfer of securities between accounts, and settlement subsequent to transactions and smooth circulation.
- (2) The Securities Depository shall be incorporated as a corporation.
- (3) The Securities Depository shall complete its establishment by the registration of incorporation at the location of the head office in accordance with Presidential Decree.

Article 295 (Prohibition on Using Similar Names)

Any person other than the Korea Securities Depository shall not use the name "Korea Securities Depository" or any other name similar thereto.

Article 296 (Business)

The Securities Depository shall conduct the business falling under each of the following subparagraphs in order to achieve its objectives:

1. Centralized deposit of securities, etc.;
2. Transfer of securities, etc. between accounts;
3. Delivery and payment of securities, etc. subsequent to transactions on the securities market, and notification to the Exchange of the result of settlement execution;
4. Delivery and payment of securities, etc. subsequent to transactions outside the securities market;
5. Deposit of securities, etc. by designating an account with a foreign corporation that runs business similar to the Korea Securities Depository (hereinafter referred to as "foreign securities depository") and transfer between accounts and the delivery and payment of securities, etc. subsequent to transactions;
6. Transfer agent business of securities (including the agent business of the payment of dividend, interest, and redemption of securities, etc. and the agent business of issuing securities);
7. Locking-up of securities, etc.;
8. Duties assigned under this Act, other Acts and subordinate statutes other than subparagraphs 1 through 7;
9. Duties incidental to those under subparagraphs 1 through 8; and
10. Others 10. Others prescribed by the articles of incorporation.

Article 297 (Securities Market Settlement Institution)

The Securities Depository shall conduct the delivery and payment of securities subsequent to transactions on the securities market.

Article 298 (Prohibition on Securities Depository Business)

- (1) Any person other than the Securities Depository shall not run any business receiving securities, etc. and executing settlements by means of transfer between accounts instead of giving and receiving such securities, etc.
- (2) Any person other than the Securities Depository shall not issue securities depository receipts in the Republic of Korea.

Article 299 (Articles of Incorporation)

- (1) The articles of incorporation of the Securities Depository shall describe matters falling under each of the following subparagraphs:
 1. Objectives;
 2. Name;
 3. Location of major offices;
 4. Matters regarding stocks and capital;
 5. Matters regarding the qualifications to acquire stocks and the limit of ownership;
 6. Matters regarding the general meeting of shareholders and the board of directors;
 7. Matters regarding executives;
 8. Matters regarding accounting; and
 9. Methods of publication.
- (2) The Securities Depository shall, when it intends to amend the articles of incorporation, obtain approval from the Financial Services Commission. <Amended by Act No. 8863, Feb. 29, 2008>

Article 300 (Application Mutatis Mutandis of Commercial Act)

The provisions of the [Commercial Act](#) (excluding [Articles 517 through 521-2](#)) with respect to a stock company shall apply *mutatis mutandis* to the Securities Depository, unless there is any special provision for the Securities Depository under this Act or any order issued in accordance with this Act.

Article 301 (Executives)

- (1) Executives of the Securities Depository shall be composed of the president, an executive director, directors and auditors.
- (2) The president shall be appointed by a general meeting of shareholders and appointment shall be approved by the Financial Services Commission. <Amended by Act No. 8863, Feb. 29, 2008>
- (3) A full-time auditor shall be appointed by a general meeting of shareholders.
- (4) [Article 24](#) shall apply *mutatis mutandis* to the executives of the Securities Depository.
- (5) Full-time executives or employees of the Securities Depository shall not have special interest in any financial investment firm or other financial services-related institutions with respect to the financing, distribution of profit and loss, and other business.

Article 302 (Rules on Deposit Business)

- (1) The Securities Depository shall prescribe rules on deposit business concerning the deposit of

- securities, etc., and management of deposited securities, etc. under [Article 309](#) (3) 2.
- (2) The rules on deposit business under paragraph (1) shall include matters falling under each of the following subparagraphs:
1. Matters regarding the designation or revocation of securities, etc. to be deposited under [Article 308](#) and the management thereof;
 2. Matters regarding the opening and closing of an account of a depositor;
 3. Matters regarding the preparation and keeping of a depositor's account book;
 4. Matters regarding the deposit and return of securities, etc. to be deposited under [Article 308](#) and the transfer between accounts;
 5. Matters regarding the creation and extinction of collateral right to deposited securities, etc. under [Article 309](#) (3) 2 and the indication and cancellation of trust property;
 6. Matters regarding the exercise of rights of deposited securities, etc. under [Article 309](#) (3) 2; and
 7. Others necessary for the management of deposited securities, etc. under [Article 309](#) (3) 2.

Article 303 (Rules on Settlement Business)

- (1) The Securities Depository shall determine rules on settlement business to conduct settlement business subsequent to transactions of securities, etc. In this case, rules on settlement business shall not conflict with the Membership Regulations under [Article 387](#) and the business regulations under [Article 393](#).
- (2) The rules on settlement business referred to in paragraph (1) shall include matters falling under each of the following subparagraphs:
1. Matters regarding the admission and expulsion, and rights and obligations of settlement members of the Securities Depository;
 2. Matters regarding the opening and management of a settlement account;
 3. Matters regarding the deadline of settlement;
 4. Matters regarding the delivery of and payment of securities, etc.;
 5. Matters regarding the notification to the Exchange of the result of settlement execution subsequent to transactions of securities on the securities market; and
 6. Other necessary matters for the settlement execution.

Article 304 (Application Mutatis Mutandis)

[Articles 54, 63, 413](#) (limited to the businesses under subparagraphs 1 through 4 of [Articles 296](#)) of this Act and [Article 4 of the Act on Real Name Financial Transactions and Guarantee of Secrecy](#) shall apply *mutatis mutandis* to the Securities Depository.

Article 305 (Approval and Report on Business Rules)

- (1) The Securities Depository shall obtain approval from the Financial Services Commission when it intends to establish, amend or repeal the business rules under [Article 296](#) (5), rules on deposit business under [Article 302](#), and rules on settlement business under [Article 303](#). *<Amended by Act No. 8863, Feb. 29, 2008>*
- (2) *Deleted. <by Act No. 8863, Feb. 29, 2008>*
- (3) The Securities Depository shall, when it establishes, amends or repeals the rules on the businesses other than those referred to in paragraph (1), report thereon to the Financial Services Commission without delay. *<Amended by Act No. 8863, Feb. 29, 2008>*

Article 306 (Inspection on Securities Depository)

Article 419 (excluding paragraphs (2) through (4) and (8)) shall apply *mutatis mutandis* to the inspection on the Securities Depository.

Article 307 (Measures against Securities Depository)

- (1) The Financial Services Commission may take measures falling under any of the following subparagraphs where the Securities Depository falls under any of the subparagraphs of the attached Table 8: *<Amended by Act No. 8863, Feb. 29, 2008>*
1. To suspend all or part of its business for up to six months;
 2. To order transfer of contract;
 3. To order correction or suspension of violation;
 4. To order the Securities Depository to publicize or disclose measures taken due to violation;
 5. Institutional warning;
 6. Institutional caution; or
 7. Other measures prescribed by Presidential Decree as necessary to correct or prevent violation.
- (2) The Financial Services Commission may take a measure falling under any of the following subparagraphs where any executive of the Securities Depository falls under any of the following subparagraphs of Schedule 8: *<Amended by Act No. 8863, Feb. 29, 2008>*
1. Request for dismissal;
 2. Suspension from office for up to six months;
 3. Disciplinary warning;
 4. Cautionary warning;

5. Caution; or
 6. Other measures prescribed by Presidential Decree as necessary to correct or prevent violation.
- (3) The Financial Services Commission may request that the Securities Depository take measures falling under any of the following subparagraphs where any employee falls under any of the following subparagraphs of Schedule 8: <Amended by Act No. 8863, Feb. 29, 2008>
1. Dismissal;
 2. Suspension from office for up to six months;
 3. Salary reduction;
 4. Reprimand;
 5. Warning;
 6. Caution; or
 7. Other measures prescribed by Presidential Decree as necessary to correct or prevent violation.
- (4) [Articles 422](#) (3), [423](#) (excluding subparagraph 1), [424](#) (excluding paragraph (2)) and [425](#) shall apply *mutatis mutandis* to the measures, etc. against the Securities Depository and its executives or employees.

SECTION 2 Systems Related to Deposit of Securities

Article 308 (Designation of Securities to be Deposited)

Securities, etc. (hereinafter referred to as "securities, etc. to be deposited") that may be deposited in the Securities Depository shall be designated by the Securities Depository.

Article 309 (Deposit in Securities Depository)

- (1) Any person who intends to deposit securities, etc. in the Securities Depository shall open an account in the Securities Depository.
- (2) Any person who has opened an account pursuant to paragraph (1) (hereinafter referred to as "depositor") may deposit securities, etc. held by the person himself/herself and securities, etc. deposited by investors in the Securities Depository by obtaining the consent of investors.
- (3) The Securities Depository shall prepare and keep a depositor's account book indicating the matters falling under each of the following subparagraphs, and establish distinction between the portion owned by the depositor and the portion deposited by the investors: <Amended by Act No. 8863, Feb. 29, 2008>
 1. Name and address of the depositor;
 2. Type and number of securities, etc. which are deposited (hereinafter referred to as "deposited securities, etc.") and the names of issuers; and
 3. Other matters prescribed by Ordinance of the Prime Minister.
- (4) The Securities Depository may keep deposited securities in a mixed form according to the types and items.
- (5) Where a depositor or its investor acquires or subscribes for securities, etc. or requests issuance of securities, etc. based on other grounds, the issuer of such securities, etc. may, upon the request of the depositor or its investor, issue or register (referring to a registration under the [State Bond Act](#) or the [Registration of Bonds and Debentures Act](#); hereafter in this Section, the same shall apply) such securities, etc. under the name of the Securities Depository on behalf of the depositor or its investor.

Article 310 (Investor's Deposit of Securities in Depositor)

- (1) A depositor who re-deposits securities, etc. deposited by investors in the Securities Depository shall prepare and keep an investor's account book indicating each of the following subparagraphs: <Amended by Act No. 8863, Feb. 29, 2008>
 1. Names and addresses of investors;
 2. Type and number of deposited securities, etc. and names of issuers; and
 3. Others prescribed by Ordinance of the Prime Minister.
- (2) The depositor shall, when it indicates the matters pursuant to paragraph (1), deposit securities, etc. in the Securities Depository without delay, specifying that such securities, etc. are deposited by investors.
- (3) The depositor shall, when it indicates the matters under paragraph (1), keep securities, etc. separately from its own until it deposits such securities, etc. in the Securities Depository pursuant to paragraph (2).
- (4) Securities, etc. indicated in an investor's account book under paragraph (1) shall be deemed to be deposited in the Securities Depository at the time of the indication.

Article 311 (Effect of Statement in Account Book)

- (1) Any person who is stated in an investor's account book and the depositor's account book shall be deemed to hold the respective securities.

- (2) Where a transfer between accounts is stated for the purpose of a transfer of securities, etc. in an investor's account book or depositor's account book or where securities, etc. are stated to be pledged for the purpose of a creation of pledge and such pledgees are stated in such account books, securities, etc. shall be deemed to have been delivered.
- (3) Notwithstanding [Article 3 \(2\) of the Trust Act](#), a trust of deposited securities, etc. may oppose a third party by stating in a depositor's account book or the investor's account book that such securities, etc. are part of the trust properties.
- (4) Notwithstanding provisions of [Article 335 \(3\) of the Commercial Act](#), a settlement shall be effective to an issuer, where a sale or purchase transaction on the securities markets is settled by means of a transfer between accounts in an investor's account book or depositor's account book before the stock certificates thereof are issued.

Article 312 (Presumption of Rights)

- (1) A depositor and its investors shall be presumed to have a co-ownership share on deposited securities, etc. according to the type, item, and quantity of securities, etc. indicated respectively in the investor's account book and depositor's account book.
- (2) Any investor of a depositor and its pledgees may request that a depositor return securities, etc. corresponding to a co-ownership share of the investor, and the depositor may request that the Securities Depository return securities, etc. corresponding to the co-ownership share. In this case, the pledgees' consent shall be required for deposited securities, etc. designated as rights of pledge.
- (3) Where the bankruptcy or dissolution of a depositor, or any other cause prescribed by Presidential Decree occurs, the Securities Depository may limit the return or inter-account transfer of the portion deposited by investors among deposited securities, etc. based on the standards and methods prescribed by Ordinance of the Prime Minister. <Amended by Act No. 8863, Feb. 29, 2008>

Article 313 (Liability for Coverage)

- (1) Where deposited securities, etc. come to fall short, the Securities Depository and a depositor provided for in [Article 310](#) (1) shall make up such shortfall according to the methods and procedures prescribed by Presidential Decree. In this case, the Securities Depository and a depositor may exercise rights of indemnification to a person who is liable for such shortfall.
- (2) The depositor referred to in paragraph (1) shall bear liability for coverage pursuant to paragraph (1), even after closing an account under [Article 309](#) (1): *Provided*, That such liability ceases where five years has passed from the date on which the account is closed.

Article 314 (Exercise of Rights of Deposited Securities)

- (1) The Securities Depository may exercise rights to deposited securities, etc. upon the request of a depositor or the investors thereof. In this case, the request of investors shall undergo the depositor.
- (2) The Securities Depository may request a registration of deposited securities, etc. or a change of an entry in the register in the name of the Securities Depository.
- (3) Where an entry in the register is changed in the name of the Securities Depository pursuant to paragraph (2), the Securities Depository may exercise rights as a shareholder on the matters prescribed by [Article 358-2 of the Commercial Act](#), matters stated in the roster of shareholders and stock certificates, even if a depositor does not make any request.
- (4) An issuer of stock certificates shall, when it makes a notification or public notice on the convocation of a general meeting of shareholders, notify or publicize the matters regarding the exercise of voting rights as prescribed by paragraph (5) to shareholders holding stock certificates an entry of which is changed in the name of the Securities Depository.
- (5) Where any shareholder holding stock certificates an entry of which is changed in the name of the Securities Depository fails to express his/her intention to exercise voting rights directly or by proxy, or not to exercise voting rights, the Securities Depository may exercise such voting rights: *Provided*, That the same shall not apply to cases falling under any of the following subparagraphs: <Amended by Act No. 8863, Feb. 29, 2008>
 1. Where an issuer of such stock certificates fails to make a notification or public notice specifying matters regarding the exercise of voting rights by the Securities Depository pursuant to paragraph (4);
 2. Where an issuer of such stock certificates requests that the Financial Services Commission prevent the Securities Depository from exercising voting rights;
 3. Where the objective of a general meeting of shareholders falls under any of the matters prescribed by [Articles 360-3](#), [360-16](#), [374](#), [438](#), [518](#), [519](#), [522](#), [530-3](#) and [604 of the Commercial Act](#);
 4. Where shareholder exercises voting rights directly or by proxy at a general meeting of shareholders; or

5. Where an issuer of such stock certificates is an investment company.
- (6) Matters of which an issuer is required to notify the Securities Depository in order to exercise rights of the Securities Depository under paragraph (1) and matters necessary for exercising voting rights, etc. by the Securities Depository pursuant to paragraph (5) shall be prescribed by Presidential Decree.
- (7) Paragraph (3) shall apply to non-bearer securities among deposited securities, etc.

Article 315 (Exercise of Rights by Beneficial Shareholders)

- (1) Co-owners of stocks of deposited securities, etc. (hereinafter referred to as "beneficial shareholder") shall be deemed to hold stocks equivalent to a co-ownership share under [Article 312 \(1\)](#) in exercising rights as a shareholder.
- (2) A beneficial shareholder shall not exercise rights under [Article 314 \(3\)](#): *Provided*, That the same shall not apply to notification made to shareholders of a company, and a request for access to the roster of shareholders under [Article 396 \(2\) of the Commercial Act](#) and the copies thereof.
- (3) Where an issuer of stock certificates of deposited securities, etc. specifies a certain period or a certain date pursuant to [Article 354 of the Commercial Act](#), the issuer shall notify the Securities Depository of such fact without delay, and the Securities Depository shall notify the issuer concerned or a transfer agent of the matters referred to in the following subparagraphs with respect to beneficial shareholders on the first day of the period or on the date (hereafter in this Article referred to as "specified date for the closing of the roster of shareholders") without delay:
 1. Names and addresses; and
 2. Type and number of stocks under paragraph (1).
- (4) The Securities Depository may request that a depositor as prescribed in [Article 310 \(1\)](#) publicize the matters referred to in subparagraphs of paragraph (3) with respect to beneficial shareholders on specified date for the closing of the roster of shareholders. In this case, a depositor that has received such request shall publicize such matters without delay.
- (5) Where an issuer (referring to the person prescribed by Presidential Decree in case of securities deposit receipts related to securities, etc., and other securities prescribed by Presidential Decree; hereafter in this paragraph, the same shall apply) of securities, etc. whose tender offer statement has been submitted requests that the Securities Depository communicate matters regarding beneficial shareholders in order to identify stockholding status by fixing a certain date, the Securities Depository shall notify an issuer of securities, etc. or transfer agent of the matters falling under each of the following subparagraphs with respect to beneficial shareholder on specified date:
 1. Names and addresses; and
 2. Type and number of stocks under paragraph (1).
- (6) The Securities Depository may request that an depositor referred to in [Article 310 \(1\)](#) publicize the matters falling under each of the subparagraphs of paragraph (5) with respect to beneficial shareholders on specified date. In this case, a depositor who has received such request shall notify thereof without delay.

Article 316 (Preparation of Register of Beneficial Shareholders)

- (1) An issuer or transfer agent who receives a notification pursuant to [Article 315 \(3\)](#) shall prepare and keep a roster of beneficial shareholders indicating matters regarding the notification and date thereof.
- (2) The statement in the roster of beneficial shareholders with respect to stocks certificates of which are deposited in the Securities Depository shall have the same effect as the statement in the roster of shareholders.
- (3) Where a person stated as a shareholder in the roster of shareholders is deemed the same as a person stated as a beneficial shareholder in the roster of beneficial shareholders, an issuer or transfer agent under paragraph (1) shall aggregate the number of stocks on the roster of shareholders and those on the register of beneficial shareholders in exercising rights as a shareholder.

Article 317 (Civil Execution)

Matters necessary for compulsory execution, execution of provisional seizure and provisional disposition, or auction with respect to deposited securities shall be determined by Supreme Court Regulations.

Article 318 (Certificate of Beneficial Ownership)

- (1) Where a depositor or its investors requests the issuance of documents proving deposit of securities, etc. in order to exercise rights as a shareholder (hereafter in this Article, referred to as "certificate of beneficial ownership"), the Securities Depository shall issue them under the conditions prescribed by Ordinance of the Prime Minister. In this case, the request of investors shall undergo a depositor. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (2) The Securities Depository shall, when it issues a certificate of beneficial ownership pursuant to

paragraph (1), notify an issuer concerned of the fact without delay.

- (3) A depositor or its investors shall, when it files a certificate of beneficial ownership issued pursuant to paragraph (1) with an issuer, oppose the issuer notwithstanding [Article 337 \(1\) of the Commercial Act](#).

Article 319 (Exercise of Voting Rights by Beneficial Owners)

- (1) Co-owners of beneficiary certificates of an investment trust of deposited securities, etc. (hereafter in this Article, referred to as "beneficial owner") shall be deemed to hold beneficiary certificates of an investment trust equivalent to a co-ownership share under [Article 312 \(1\)](#) in exercising rights as a beneficiary.
- (2) In cases of the beneficiary certificates of an investment trust an entry of which entry is changed in the name of the Securities Depository, a beneficial owner shall not exercise rights as a beneficiary with regard to entries of the roster of beneficiaries, beneficiary certificates of the investment trust, and the matters under [Article 358-2 of the Commercial Act](#) that is applied *mutatis mutandis* pursuant to [Article 189 \(9\)](#): *Provided*, That the same shall not apply to notification to the beneficiaries of a collective investment manager that manages investment trust properties.
- (3) A collective investment manager that manages investment trust properties shall, when it has specified a certain date pursuant to [Article 237 \(8\) 4](#), notify the Securities Depository thereof without delay, and the Securities Depository shall notify the collective investment manager of the matters falling under each of the following subparagraphs with respect to beneficial owners on the specified date only when it intends to hold a general meeting of beneficiaries:
1. Names and addresses; and
 2. Type and number of beneficiary certificates of the investment trust under paragraph (1).
- (4) The Securities Depository may request that a depositor under [Article 310 \(1\)](#) publicize the matters falling under each of the subparagraphs of paragraph (3) with respect to beneficial owners on a certain date under paragraph (3). In this case, a depositor who has received such request shall notify a depositor thereof without delay.
- (5) The Securities Depository that receives a notification pursuant to paragraph (4) shall prepare and keep the roster of beneficial owners indicating matters regarding the notification and date thereof.
- (6) Where beneficiary interest on the beneficiary certificates of the investment trust deposited in the Securities Depository is stated in the roster of beneficial owners, such statement shall have the same effect equivalent to the statement in the roster of beneficiaries.
- (7) Where a person stated as a beneficiary in the roster of beneficiaries is deemed as the same person stated as a beneficial owner in the roster of beneficial owners, the Securities Depository and a collective investment manager that manages investment trust properties shall aggregate the number of accounts of beneficiary certificates stated in the roster of beneficiaries and the number of accounts of beneficiary certificates stated in the roster of beneficial owners in exercising rights as a beneficiary.
- (8) Where a depositor or its investor requests the issuance of documents (hereafter in this Article referred to as "beneficial owner's statement") that demonstrate the deposit of beneficiary certificates of an investment trust in order to exercise rights as a beneficiary, the Securities Depository may issue a beneficial owner's statement according to the methods prescribed by Ordinance of the Prime Minister. In this case, the request of investors shall undergo a depositor.
<Amended by Act No. 8863, Feb. 29, 2008>
- (9) The Securities Depository shall, when it issues a beneficial owner's statement pursuant to paragraph (8), notify a collective investment manager that manages investment trust properties thereof without delay.
- (10) Notwithstanding [Article 337 \(1\) of the Commercial Act](#) that is applied pursuant to [Article 189 \(9\)](#), a depositor or its investor may oppose a collective investment manager when a depositor or its investor has filed a beneficial owner's statement issued pursuant to paragraph (8) with a collective investment manager that manages investment trust properties.

Article 320 (Special Cases for Deposit by Foreign Securities Depository)

- (1) [Articles 310, 313, 314 \(4\) through \(6\), 315, and 316 \(3\)](#) shall not apply to a foreign securities depository: *Provided*, That the same shall apply to cases where such foreign securities depository requests an application.
- (2) [Articles 309 \(5\), 314 \(4\) through \(6\), 315, 316, and 318](#) shall not apply to cases where any issuer of deposited securities, etc. is a foreign corporation, etc.: *Provided*, That the same shall apply to cases where such foreign corporation, etc. requests an application.

Article 321 (Report and Confirmation)

The Securities Depository may request that a depositor submit a report or data concerning deposit business, provide access to the relevant books, or confirm the custody of securities, etc. kept under the depositor's own custody.

Article 322 (Control of Securities)

- (1) A listed corporation and a transfer agent shall comply with Securities Handling Regulations established by the Securities Depository with respect to the printed form, issuance, retirement, replacement, or effacement of securities, etc. and other matters regarding the control thereof.
- (2) The Securities Depository may control the printed form of securities, etc. which a listed corporation keeps as back-up for issuance of securities, etc. (hereinafter referred to as "back-up certificates, etc.").
- (3) The Securities Depository may, if necessary, ask the listed corporation and transfer agent for the submission of data related to the procedure for handling securities, etc. under paragraph (1) and the control of back-up certificates, etc., and have its staff confirm the data.
- (4) Where an unlisted corporation intends to use printed forms under Securities Handling Regulations of the Securities Depository for its issuance of securities, the unlisted corporation shall obtain approval from the Securities Depository. In this case, paragraphs (1) through (3) shall apply.
- (5) Where a listed corporation becomes an unlisted corporation, paragraphs (1) through (3) shall apply to such corporation until the printed forms under Securities Handling Regulations of the Securities Depository and securities, etc. issued using such printed forms are entirely effaced.

Article 323 (Description of Issuance and Notification of Description of Irregular Securities)

- (1) An issuer of securities, etc. to be deposited shall, when it issues new securities, etc., notify the Securities Depository of the type of such securities, etc. and other matters prescribed by Ordinance of the Prime Minister without delay. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (2) Where an issuer of securities, etc. to be deposited receives a notification of orders with respect to the seizure, provisional seizure or provisional disposition of securities, etc. or where an issuer receives a report (including a public summon or nullification judgment pursuant to the [Civil Procedure Act](#)) that securities, etc. are stolen, lost or destroyed, the issuer shall notify the Securities Depository of the type of such securities, etc. and other matters prescribed by Ordinance of the Prime Minister without delay. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (3) The Securities Depository that is notified pursuant to paragraphs (1) and (2) shall publicize the notification.

CHAPTER III SECURITIES FINANCE COMPANY

Article 324 (Authorization)

- (1) Any person who intends to run business under [Article 326](#) (1) (hereinafter referred to as "securities financing business") shall obtain authorization from the Financial Services Commission. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (2) Any person who intends to obtain authorization under paragraph (1) shall meet all the requirements falling under each of the following subparagraphs:
 1. The person is required to be a stock company under the [Commercial Act](#);
 2. Equity capital is required to be not less than 2 billion won and to exceed a minimum amount prescribed by Presidential Decree;
 3. Business plan is required to be proper and sound;
 4. The person is required to have human resources, data-processing equipment, and other physical facilities sufficient to protect investors and run businesses;
 5. An executive is required not to fall under any of the subparagraphs of [Article 24](#);
 6. A major shareholder (referring to a major shareholder under [Article 12](#) (2) 6 (a)) is required to have sufficient contribution capacity, sound financial status and social standing; and
 7. The person is required to establish a system to prevent conflict of interest.
- (3) Any person who intends to obtain authorization under paragraph (1) shall file an application for authorization with the Financial Services Commission. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (4) The Financial Services Commission shall, when it receives an application for authorization under paragraph (3), review an application for authorization, make a decision on either granting or denying authorization within three months, and notify the applicant of the result thereof and the reasons therefor in writing without delay. When authorization statement is found to be defective, the Financial Services Commission may request that the applicant supplement such application. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (5) In calculating the review period referred to in paragraph (4), the periods prescribed by Ordinance of the Prime Minister, including the supplementation period for application for authorization, shall not be added to the review period. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (6) The Financial Services Commission may, when it grants authorization pursuant to paragraph (4), add necessary conditions for securing sound management and for protecting investors. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (7) Any person who has obtained authorization with conditions pursuant to paragraph (6) may request that the Financial Services Commission change or cancel conditions where there is any change in

the circumstances or any other reasonable grounds. In this case, the Financial Services Commission shall make a decision on either accepting or denying such request within two months and notify an applicant of the result thereof in writing without delay. <Amended by Act No. 8863, Feb. 29, 2008>

- (8) The Financial Services Commission shall, when it grants authorization pursuant to paragraph (4), make a public notice of the matters falling under each of the following subparagraphs through the official gazette and its Internet Web site, etc.: <Amended by Act No. 8863, Feb. 29, 2008>
1. Details of authorization;
 2. Conditions on authorization (limited to cases where any condition is added); and
 3. Where any condition on authorization is changed or canceled, the details thereof.
- (9) A securities finance company shall maintain requirements for authorization under each subparagraph of paragraph (2) (in cases of subparagraphs 2 and 6, referring to eased requirements prescribed by Presidential Decree) in running its businesses after obtaining authorization.
- (10) Matters regarding an application for authorization pursuant to paragraphs (1) through (8) including entries of a statement of authorization, accompanying documents, etc., as well as the methods and procedures of reviewing authorization, and other necessary matters shall be prescribed by Presidential Decree.

Article 325 (Prohibition on Using Similar Names)

Any person other than a securities finance company shall not use the name "securities finance" or any other name similar thereto.

Article 326 (Business)

- (1) Securities financing business shall be as follows: <Amended by Act No. 8863, Feb. 29, 2008>
1. To lend money or securities to a broker or dealer in relation to purchasing or selling financial investment products, issuing or underwriting securities, or soliciting an offer, offering, and accepting an offer;
 2. To lend money or securities necessary for the transactions on the securities market and derivatives market through the Exchange, which is a clearing house under [Article 378](#) (1);
 3. To loan money by taking securities as collateral; and
 4. Other business approved by the Financial Services Commission.
- (2) A securities finance company may run business falling under any of the following subparagraphs other than its securities financing business by obtaining permission, authorization, registration, etc. under the conditions prescribed by this Act or related Acts: <Amended by Act No. 8863, Feb. 29, 2008>
1. Business prescribed by Presidential Decree among brokerage and dealing;
 2. Trust service;
 3. Custody and management of collective investment properties;
 4. Lending and borrowing of securities;
 5. Lock-up business; or
 6. Other business approved by the Financial Services Commission.
- (3) A securities finance company shall, when it runs the trust service under subparagraph 2 of paragraph (2), be deemed as a financial institution conducting the trust service concurrently. <Amended by Act No. 9407, Feb. 3, 2009>

Article 327 (Executives)

- (1) A full-time executive of a securities finance company shall be a person other than executives or employees of a financial investment firm.
- (2) [Article 24](#) shall apply to the executives of a securities finance company.
- (3) Any full-time executive or employee of a securities finance company shall not have a special interest in any financial investment firms and financial services related institution (excluding the securities finance companies hiring the full-time executives or employees) with respect to the financing, distribution of profit and loss, and other matters regarding the business prescribed by Presidential Decree.

Article 328 (Application Mutatis Mutandis)

[Articles 54](#), [63](#) and [64](#) shall apply *mutatis mutandis* to a securities finance company.

Article 329 (Issuance of Corporate Bonds)

- (1) Notwithstanding [Article 470 of the Commercial Act](#), a securities finance company may issue corporate bonds up to 20 times the aggregate amount of its capital and reserve.
- (2) A securities finance company may temporarily issue corporate bonds in excess of the limit for the purpose of the redemption of corporate bonds issued pursuant to paragraph (1). In this case, the limit referred to in paragraph (1) shall be met within one month after issuance.
- (3) Necessary matters for the issuance of corporate bonds by a securities finance company pursuant to paragraph (1) shall be prescribed by Presidential Decree.

Article 330 (Deposit of Money by Financial Investment Firms)

- (1) A securities finance company may receive the deposit of money from financial investment firms, financial services-related institutions (excluding the securities finance company), the Exchange, listed corporations, and others designated by Ordinance of the Prime Minister. <Amended by Act No. 8863, Feb. 29, 2008>
- (2) A securities finance company may, if necessary for the business under paragraph (1), issue debt instruments under the conditions prescribed by Ordinance of the Prime Minister. <Amended by Act No. 8863, Feb. 29, 2008>
- (3) In cases of paragraphs (1) and (2), the [Bank of Korea Act](#) and the [Banking Act](#) shall not apply.

Article 331 (Supervision)

- (1) The Financial Services Commission shall supervise a securities finance company pursuant to the provisions under this Act, and may issue an order to take necessary measures. <Amended by Act No. 8863, Feb. 29, 2008>
- (2) Deleted. <by Act No. 8863, Feb. 29, 2008>
- (3) [Articles 45](#) and [46 of the Banking Act](#) shall apply to the supervision for maintaining the sound management of securities finance companies. In this case, the Financial Services Commission shall establish separate prudential management guidelines, taking into account the nature of securities finance companies. <Amended by Act No. 8863, Feb. 29, 2008>

Article 332 (Approval of Discontinuation of Business)

- (1) A securities finance company shall, when it intends to discontinue or dissolve business under [Article 326](#) (1), obtain approval from the Financial Services Commission. <Amended by Act No. 8863, Feb. 29, 2008>
- (2) The Financial Services Commission shall, when it grants approval pursuant to paragraph (1), make it available to the public through the official gazette and the Internet website, etc. <Amended by Act No. 8863, Feb. 29, 2008>
- (3) The methods and procedures for the approval under paragraph (1) and necessary matters regarding handling approval shall be prescribed by Presidential Decree.

Article 333 (Report on Articles of Incorporation and Rules)

- (1) A securities finance company shall, when it amends the articles of incorporation, report thereon to the Financial Services Commission without delay. <Amended by Act No. 8863, Feb. 29, 2008>
- (2) A securities finance company shall, when it establishes, amends or repeals the rules on its business, report thereon to the Financial Services Commission without delay. <Amended by Act No. 8863, Feb. 29, 2008>

Article 334 (Inspection on Securities Finance Companies)

Article 419 (excluding paragraphs (2) through (4) and (8)) shall apply *mutatis mutandis* to the inspection on a securities finance company.

Article 335 (Measures against Securities Finance Companies)

- (1) The Financial Services Commission may revoke authorization under [Article 324](#) (1) where a securities finance company falls under any of the following subparagraphs: <Amended by Act No. 8863, Feb. 29, 2008>
 1. Where authorization under [Article 324](#) (1) is made through false or other fraudulent methods;
 2. Where any requirement for authorization is violated;
 3. Where any obligation to maintain requirements for authorization under [Article 324](#) (9) is violated;
 4. Where any business is conducted during a period of suspension;
 5. Where any order of correction or suspension issued by the Financial Services Commission is not complied with;
 6. Any case falling under each of the subparagraphs of the attached Table 9 as prescribed by Presidential Decree;
 7. Any case prescribed by Presidential Decree where any finance-related Acts and subordinates statutes prescribed by Presidential Decree are violated; or
 8. Other cases prescribed by Presidential Decree as likely to significantly undermine the interest of investors or make it difficult to conduct the business concerned.
- (2) The Financial Services Commission may take measures falling under each of the following subparagraphs where a securities finance company falls under any subparagraph of paragraph (1) (excluding subparagraph 6) or under any subparagraph of the attached Table 9: <Amended by Act No. 8863, Feb. 29, 2008>
 1. To suspend all or a part of business for up to six months;
 2. To order the transfer of trust contract;
 3. To order correction or suspension of activities in violation;
 4. To order the securities finance company to publicize or post measures that have been taken due to violation;
 5. Institutional warning;
 6. Institutional caution; or

7. Other measures prescribed by Presidential Decree as necessary to correct or prevent violation.
- (3) The Financial Services Commission may take measures falling under any of the following subparagraphs where any executive of a securities finance company falls under any subparagraph of paragraph (1) (excluding subparagraph 6) or under any subparagraph of the attached Table 9: *<Amended by Act No. 8863, Feb. 29, 2008>*
1. Request for dismissal;
 2. Suspension from office for up to six months;
 3. Disciplinary warning;
 4. Cautionary warning;
 5. Caution; or
 6. Other measures prescribed by Presidential Decree as necessary to correct or prevent violation.
- (4) The Financial Services Commission may request a securities finance company to take measures falling under any of the following subparagraphs where any employee of the securities finance company falls under any subparagraph of paragraph (1) (excluding subparagraph 6) or any subparagraph of the attached Table 9: *<Amended by Act No. 8863, Feb. 29, 2008>*
1. Dismissal;
 2. Suspension from office for up to six months;
 3. Salary reduction;
 4. Reprimand;
 5. Warning;
 6. Caution; or
 7. Other measures prescribed by Presidential Decree as necessary to correct or prevent violation.
- (5) [Articles 422](#) (3), [Articles 423 through 425](#) shall apply *mutatis mutandis* to the measures, etc. against a securities finance company and its executives or employees. *<Amended by Act No. 8863, Feb. 29, 2008>*

CHAPTER IV MERCHANT BANKS

Article 336 (Business of Merchant Banks)

- (1) Business of a merchant bank (referring to an entity that obtains authorization from the Financial Services Commission pursuant to [Article 3 of the Merchant Banks Act](#); hereinafter the same shall apply) shall be as follows: *<Amended by Act No. 8863, Feb. 29, 2008>*
1. Issue, discount, trade, arrange, underwrite and guarantee bills whose maturities come within a period prescribed by Presidential Decree up to one year;
 2. Make investments and loans for equipment or operating capital;
 3. Underwrite securities and make a public offering of outstanding securities or to intermediate or arrange a public offering of new or outstanding securities, or act by proxy for that purpose;
 4. Induce foreign capital and make overseas investments, to arrange international financing, or to borrow and sublease foreign capital;
 5. Issue bonds;
 6. Provide services on management consultation or mergers and acquisitions of enterprises;
 7. Payment guarantees; and
 8. Business incidental to subparagraphs 1 through 7 prescribed by Presidential Decree.
- (2) A merchant bank may perform any business falling under the following subparagraphs other than business under paragraph (1) by obtaining permission, authorization, registration, etc. under the conditions prescribed by this Act or related Acts:
1. Equipment rental business under the [Specialized Credit Finance Business Act](#);
 2. Collective investment scheme service (limited to the establishment and termination of an investment trust and the management of investment trust properties);
 3. Trust service other than money trust;
 4. Brokerage and dealing of securities (excluding the business falling under subparagraph 3 of paragraph (1));
 5. Foreign exchange business under the [Foreign Exchange Transactions Act](#); or
 6. Others prescribed by Presidential Decree as related to the business falling under each subparagraph of paragraph (1), or under subparagraphs 1 through 5.
- (3) Necessary matters regarding methods, procedures, and their compliance in performing business under each subparagraph of paragraph (1) shall be prescribed by Presidential Decree.

Article 337 (Establishment of Branches)

A merchant bank shall obtain authorization from the Financial Services Commission in accordance with the standards and methods prescribed by Presidential Decree when it intends to establish any branches or offices, or other business offices similar thereto (including a sub-office or management office that conducts merely a part of business, or any other similar office; hereinafter referred to as

"branches, etc."). <Amended by Act No. 8863, Feb. 29, 2008>

Article 338 (Prohibition on Using Similar Names)

Any entity other than a merchant bank shall not use "merchant bank" or any other similar name.

Article 339 (Matters subject to Authorization)

- (1) A merchant bank obtain authorization from the Financial Services Commission when it intends to discontinue or dissolve its business under [Article 336](#) (1). <Amended by Act No. 8863, Feb. 29, 2008>
- (2) A merchant bank shall report any matter falling under the following subparagraphs to the Financial Services Commission within seven days from the date of occurrence: *Provided*, That in the case of subparagraph 3, the merchant bank shall report to the Financial Services Commission in advance: <Amended by Act No. 8863, Feb. 29, 2008>
 1. Alteration of articles of incorporation;
 2. Change in business methods; and
 3. Relocation of the head office, or relocation or discontinuation of branches, etc.

Article 340 (Issuance of Bonds)

- (1) A merchant bank may, notwithstanding [Article 470 of the Commercial Act](#), issue bonds up to ten times its equity capital.
- (2) A merchant bank may issue bonds in excess of the limit temporarily for repayment of bonds issued pursuant to paragraph (1).
- (3) Others necessary for the issuance of bonds shall be prescribed by Presidential Decree.

Article 341 (Special Cases for Collective Investment Scheme Service)

- (1) [Article 250](#) (3) (limited to subparagraphs 1 and 2), (5) and (6) shall apply *mutatis mutandis* to a merchant bank.
- (2) Where a merchant bank provides services including the establishment and termination of an investment trust and the management of investment trust properties, a merchant bank shall appoint executives (including the persons prescribed by Presidential Decree as equivalent to executives in their positions; hereafter in this paragraph, the same shall apply), prohibit executives or employees from concurrently performing any business falling under the following subparagraphs, and establish a system to prevent conflict of interest prescribed by Presidential Decree including prohibition from jointly using data-processing equipment or offices and limitation on the exchange of information among executives or employees who are performing different businesses: *Provided*, That executives may concurrently perform business under subparagraph 2 and business prescribed by Presidential Decree as unlikely to be in conflict of interest with business under subparagraph 2 among business under subparagraph 1:
 1. Business under [Article 336](#) (excluding business under subparagraph 2); and
 2. Establishment and termination of an investment trust and management of investment trust properties.

Article 342 (Credit Limit on Same Borrower)

- (1) No merchant bank shall extend credit (referring to lending, discount of bills, payment guarantee, purchase of securities for financial support, and other direct or indirect transactions of a merchant bank entailing credit risk; hereafter in this Chapter, the same shall apply) in excess of 25/100 of the merchant bank's equity capital (referring to the amount calculated by adding up BIS Tier one capital and BIS Tier two capital; hereafter in this Chapter, the same shall apply) to the same individual or corporation, and any person who shares credit risk with it (hereafter in this Article, referred to as "same borrower").
- (2) No merchant bank shall extend credit in excess of the limit prescribed by Presidential Decree up to 25/100 of the merchant bank's capital equity to any executive or affiliate of the merchant bank or any person who shares credit risk with it (hereafter in this Article, referred to as "related person").
- (3) Where any individual credit which a merchant bank extends to the same borrowers exceeds 10/100 of the merchant bank's equity capital, the total amount of such credits shall not exceed five times the merchant bank's equity capital as of the end of each month.
- (4) No merchant bank shall extend credit in excess of 20/100 of the merchant bank's equity capital to the same individual or corporation, respectively.
- (5) A merchant bank may, notwithstanding paragraphs (1) through (4), extend credit in excess of the credit limit under paragraphs (1) through (4) in a case falling under either of the following subparagraphs as prescribed by Presidential Decree:
 1. Where it is necessary to promote the national economy and the merchant bank's effectiveness to secure bonds; or
 2. Where a merchant bank exceeds the credit limit under paragraphs (1) through (4) due to changes in its equity capital or changes in the composition of the same borrowers although it has not extended further credits.
- (6) Where a merchant bank exceeds the credit limit prescribed under paragraphs (1) through (4)

- pursuant to subparagraph 2 of paragraph (5), the merchant bank shall ensure that it meets the credit limit under paragraphs (1) through (4) within one year from the date on which it exceeds such credit line: *Provided*, That the Financial Services Commission may set an extended period in any inevitable case as prescribed by Presidential Decree. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (7) The specific scope of equity capital, credit extension and the same borrowers under paragraph (1), and related persons under paragraph (2) shall be prescribed by Presidential Decree.

Article 343 (Restrictions on Transactions with Major Shareholders)

- (1) A merchant bank shall not exceed the limit prescribed by Presidential Decree up to 25/100 of its equity capital when it extends credit to its major shareholders (including its specially related persons; hereafter in this Article, the same shall apply), and major shareholders shall not accept credit extension from the merchant bank in excess of the limit.
- (2) A merchant bank shall seek a resolution made by the board of directors in advance when it extends credit (including transactions prescribed by Presidential Decree; hereafter in this Article, the same shall apply) to its major shareholders in excess of the amount prescribed by Presidential Decree within the scope of paragraph (1) or when it intends to acquire the stocks issued by major shareholders in excess of the amount prescribed by Presidential Decree. In this case, the resolution shall be made by the unanimous consent of the board of directors.
- (3) Where a merchant bank extends credit to its major shareholders in excess of the amount prescribed by Presidential Decree within the scope referred to in paragraph (2) or intends to acquire stocks issued by major shareholders in excess of the amount prescribed by Presidential Decree, the merchant bank shall report thereon to the Financial Services Commission without delay and publicize it through the Internet website, etc. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (4) A merchant bank shall, in accordance with Presidential Decree, collect and report matters regarding credit extension to its major shareholders and report acquisition of stocks issued by major shareholders to the Financial Services Commission on a quarterly basis, and publicize such matters through the Internet Web site, etc. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (5) A merchant bank shall meet the conditions under paragraph (1) within the period prescribed by Presidential Decree when the limit provided for in paragraph (1) exceeds the minimum due to the changes in equity capital or major shareholders although it has not extended further credits.
- (6) Notwithstanding paragraph (5), a merchant bank may extend the period for credit extension after obtaining approval from the Financial Services Commission where there is any reasonable ground for doing so based on the deadline of credit extension and the scope of credit. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (7) A merchant bank that intends to obtain approval under paragraph (6) shall file a detailed proposal with the Financial Services Commission to meet the limit under paragraph (1) three months before the period under paragraph (5) expires, and the Financial Services Commission shall make a decision on either granting or denying the approval and notify the merchant bank thereof within a month from the date on which the proposal is filed. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (8) The Financial Services Commission may order a merchant bank or its major shareholders to file necessary documents when the merchant bank or its major shareholders are found to be in violation of paragraphs (1) through (7). *<Amended by Act No. 8863, Feb. 29, 2008>*
- (9) The Financial Services Commission may take measures falling under each of the following subparagraphs against a merchant bank in cases prescribed by Presidential Decree as likely to significantly undermine the sound management of a merchant bank due to a weak financial structure, including cases where the liability of major shareholders (limited to incorporated companies) of the merchant bank exceeds the assets thereof: *<Amended by Act No. 8863, Feb. 29, 2008>*
1. Prohibition on the initial credit extension to major shareholders;
 2. Prohibition on the initial acquisition of securities issued by major shareholders; and
 3. Other measures prescribed by Presidential Decree such as restrictions, etc. on transactions for financial support to major shareholders.

Article 344 (Investment limit of Securities)

- (1) Except for the cases prescribed by Presidential Decree, a merchant bank shall not invest in securities in excess of 100/100 of its equity capital. In this case, Government bonds and monetary stabilization bonds issued by the Bank of Korea shall not be included in the calculation of the investment limit.
- (2) The Financial Services Commission may, if necessary, establish and publicize the investment limit of securities and derivative-linked securities within the investment limit under paragraph (1) in accordance with Presidential Decree. *<Amended by Act No. 8863, Feb. 29, 2008>*

Article 345 (Prohibition Related to Fund Support)

- (1) A merchant bank that belongs to a business group subject to the limitations on cross-shareholding shall not conduct any activities falling under the following subparagraphs along with a financial institution (referring to a financial institution pursuant to the [Act on the Structural Improvement of the](#)

[Financial Industry](#); hereafter in this paragraph, the same shall apply) or a company that belongs to other business groups subject to the limitations on cross-shareholding:

1. Cross-shareholding or credit extension of stocks with voting rights of other financial institutions or companies for the purpose of avoiding the limit under [Articles 342 through 344](#);
 2. Acquisition of stocks by means of cross-shareholding in order to circumvent the restriction on the acquisition of treasury stocks pursuant to the [Commercial Act](#) and other Acts and subordinate statutes; or
 3. Other activities prescribed by Presidential Decree as likely to undermine the interests of depositors or investors.
- (2) A merchant bank shall not exercise its voting rights on stocks acquired in violation of paragraph (1).
 (3) A merchant bank shall not extend credit for the purpose of purchasing its own stocks.
 (4) The Financial Services Commission may take necessary measures within a period up to six months such as ordering the merchant bank which has acquired stocks or rendered credits in violation of paragraph (1) or (3) to dispose of the stocks concerned or recover the credits. <Amended by Act No. 8863, Feb. 29, 2008>

Article 346 (Holding of Assets Required for Reserve)

A merchant bank shall, in accordance with Presidential Decree, hold assets required for reserve in order to ensure repayment of liabilities and urgent withdrawals.

Article 347 (Restriction on Acquisition of Real Restate)

- (1) A merchant bank shall not acquire or hold real estate except for business purposes: *Provided*, That the same shall not apply where the merchant bank has acquired real estate by exercising its collateral rights.
- (2) A merchant bank shall not acquire real estate for business purposes in excess of 100/100 of its equity capital.
- (3) A merchant bank shall dispose of real estate acquired other than for business purposes or acquired pursuant to the proviso to paragraph (1) in accordance with Presidential Decree.
- (4) The scope of real estate for business purposes under the main sentence of paragraph (1) shall be prescribed by Presidential Decree.

Article 348 (Prohibition on Holding Concurrent Positions)

A full-time executive of a merchant bank shall, when it intends to engage in full-time work of any other profit-making corporation prescribed by Presidential Decree, obtain approval from the Financial Services Commission. <Amended by Act No. 8863, Feb. 29, 2008>

Article 349 (Penalties)

- (1) The Financial Services Commission may, when a merchant bank violates [Article 343](#) (1), impose penalties on the merchant bank within the scope of 20/100 of the amount of credit extension exceeding the limit. <Amended by Act No. 8863, Feb. 29, 2008>
- (2) [Articles 430](#) through 434 shall apply to the imposition of penalties under paragraph (1).

Article 350 (Application Mutatis Mutandis)

[Articles 23](#) (excluding paragraph (4)), [24](#), [25](#) (excluding paragraph (3)), [26](#), [28](#), [29](#), [31 through 33](#), [35](#), [36](#), [416](#), and [418](#) (limited to subparagraphs 4 through 9) shall apply *mutatis mutandis* to a merchant bank. In this case, a "financial investment firm" (excluding the financial investment firm prescribed by Presidential Decree taking into account the size of its assets, etc.; hereafter in this Article, the same shall apply) under [Articles 25](#) (1), [26](#) (1) and [29](#) (1) shall be deemed a "merchant bank", respectively, a "financial investment firm" (excluding the discretionary investment advisory company or non-discretionary investment advisory company prescribed by Presidential Decree taking into account the size of its assets, etc.; hereafter in this Article, the same shall apply) under [Article 28](#) (2) shall be deemed a "merchant bank", a "financial investment firm" (excluding integrated financial investment firms; hereafter in this Section, the same shall apply) under [Article 31](#) (1) shall be deemed a "merchant bank", and a "financial investment firm" (limited to subparagraphs 6 through 9 in the case of an integrated financial investment firm) under [Article 418](#) other than each subparagraph shall be deemed a "merchant bank".

Article 351 Deleted. <by Act No. 9407, Feb. 3, 2009>

Article 352 (Relations with Other Acts)

- (1) The [Bank of Korea Act](#) and the [Banking Act](#) shall not apply to a merchant bank.
- (2) Where a merchant bank runs the business provided for in [Article 336](#), this Act or each relevant Act shall apply according to the type of the business except for any special provision in this Section.

Article 353 (Inspection on Merchant Banks)

[Article 419](#) (excluding paragraphs (2) through (4) and (8)) shall apply *mutatis mutandis* to inspection on a merchant bank.

Article 354 (Measures against Merchant Banks)

- (1) The Financial Services Commission may revoke authorization where a merchant bank falls under any of the following subparagraphs: <Amended by Act No. 8863, Feb. 29, 2008>
 1. Where any authorization requirement is violated;
 2. Where any business is run during a period of suspension;
 3. Where any order of correction or suspension from the Financial Supervisory Commission is not complied with;
 4. Any case falling under any of the subparagraphs of the attached Table 10 as prescribed by Presidential Decree;
 5. Any case prescribed by Presidential Decree where any finance-related Acts and subordinate statutes, etc. prescribed by Presidential Decree are violated; or
 6. Others prescribed by Presidential Decree as likely to undermine interest of investors or to make it difficult to maintain the business.
- (2) The Financial Services Commission may take measures falling under any of the following subparagraphs where a merchant bank falls under any subparagraph of paragraph (1) or under any subparagraph of the attached Table 10: <Amended by Act No. 8863, Feb. 29, 2008>
 1. To suspend all or a part of the business for up to six months;
 2. To order the transfer of contract;
 3. To order correction or suspension of activities in violation;
 4. To order the merchant bank to publicize or post measures that have been taken due to violation;
 5. Institutional warning;
 6. Institutional caution; or
 7. Other measures prescribed by Presidential Decree as necessary to correct or prevent violation.
- (3) The Financial Services Commission may take measures falling under any of the following subparagraphs where any executive of a merchant bank falls under any subparagraph of paragraph (1) (excluding subparagraph 4) or under any subparagraph of the attached Table 10: <Amended by Act No. 8863, Feb. 29, 2008>
 1. Request for dismissal;
 2. Suspension from office for up to six months;
 3. Disciplinary warning;
 4. Cautionary warning;
 5. Caution; or
 6. Other measures prescribed by Presidential Decree as necessary to correct or prevent violation.
- (4) The Financial Services Commission may request that a merchant bank take measures falling under any of the following subparagraphs where any employee of a merchant bank falls under any subparagraph of paragraph (1) (excluding subparagraph 4) or under any subparagraph of the attached Table 10: <Amended by Act No. 8863, Feb. 29, 2008>
 1. Dismissal;
 2. Suspension from office for up to six months;
 3. Salary reduction;
 4. Reprimand;
 5. Warning;
 6. Caution; or
 7. Other measures prescribed by Presidential Decree as necessary to correct or prevent violation.
- (5) [Articles 422](#) (3) and [423 through 425](#) shall apply *mutatis mutandis* to measures, etc. against a merchant bank and executives or employees thereof.

CHAPTER V FUND BROKERAGE COMPANY

Article 355 (Authorization for Fund Brokerage Companies)

- (1) Any person who intends to conduct the business of brokering fund transactions between financial institutions, etc. prescribed by Presidential Decree shall obtain authorization from the Financial Services Commission. <Amended by Act No. 8863, Feb. 29, 2008>
- (2) Any person who intends to obtain authorization pursuant to paragraph (1) shall meet all the requirements falling under each of the following subparagraphs:
 1. The person is required to be a stock company under the [Commercial Act](#);
 2. The equity capital is required to be not less than one billion won and to exceed the minimum amount prescribed by Presidential Decree;
 3. The business plan is required to be proper and sound;
 4. The person is required to have sufficient human resources, data-processing equipment, and other physical facilities to protect investors and to run its business;
 5. Any executive is required not to fall under any of the subparagraph of [Article 24](#); and
 6. Any major shareholder (referring to a major shareholder under [Article 12](#) (2) 6 (a)) is required to have sufficient contribution capability and sound financial status and social standing.

- (3) Any person who intends to obtain authorization pursuant to paragraph (1) shall file an application for authorization with the Financial Services Commission. <Amended by Act No. 8863, Feb. 29, 2008>
- (4) The Financial Services Commission shall, when it receives an application for authorization under paragraph (3), review the application for authorization, make a decision on either granting or denying such authorization within three month, and notify the applicant of the result and the reasons therefor in writing without delay. In the case of denial, the Commission may, when the application is found to be defective, request that the applicant supplement such application. <Amended by Act No. 8863, Feb. 29, 2008>
- (5) In calculating the review period referred to in paragraph (3), the periods prescribed by Ordinance of the Prime Minister, including the supplementation period for an application for authorization, shall not be added to the review period. <Amended by Act No. 8863, Feb. 29, 2008>
- (6) The Financial Services Commission may, when it grants authorization pursuant to paragraph (4), add necessary conditions for securing sound management and for protecting investors. <Amended by Act No. 8863, Feb. 29, 2008>
- (7) Any person who has obtained authorization with conditions pursuant to paragraph (6) may request that the Financial Services Commission change or cancel the conditions where there is any change in the circumstances or any other reasonable grounds. In this case, the Financial Services Commission shall make a decision on either accepting or denying such request within two months and notify the applicant of the result thereof in writing without delay. <Amended by Act No. 8863, Feb. 29, 2008>
- (8) The Financial Services Commission shall, when it grants authorization pursuant to paragraph (4), publicize the matters falling under each of the following subparagraphs through the official gazette and the Internet website, etc.: <Amended by Act No. 8863, Feb. 29, 2008>
 1. Details of the authorization;
 2. Conditions on the authorization (limited to cases where any condition is added.); and
 3. Where any condition of the authorization is changed or canceled, the details thereof.
- (9) A fund brokerage company shall maintain requirements for authorization under each subparagraph of paragraph (2) (in the case of subparagraphs 2 and 6, referring to the eased requirements prescribed by Presidential Decree) in carrying on its business after obtaining authorization.
- (10) Matters regarding an application for authorization pursuant to paragraphs (1) through (8) including the entries of application for authorization and accompanying documents, etc., as well as the methods and procedures of reviewing the authorization, and other necessary matters shall be prescribed by Presidential Decree.

Article 356 (Prohibition on Using Similar Names)

Any person other than a fund brokerage company shall not use "fund brokerage" or any other similar name.

Article 357 (Restrictions on Activities of Fund Brokerage Companies)

- (1) A Fund brokerage company shall not provide any financial investment service (excluding the financial investment service prescribed by Presidential Decree as having similar economic substance with the brokerage of fund transactions pursuant to [Article 355](#) (1)).
- (2) [Articles 31 through 33, 339](#) (excluding subparagraph 2 of paragraph (3)), [348](#) and [416](#) shall apply to a fund brokerage company.
- (3) Necessary methods and procedures, etc. to conduct the brokerage of fund transactions under [Article 355](#) (1) shall be prescribed by Presidential Decree.

Article 358 (Inspection on Fund Brokerage Companies)

[Article 419](#) (excluding paragraphs (2) through (4), and (8)) shall apply to inspection on a fund brokerage company.

Article 359 (Measures against Fund Brokerage Companies)

- (1) The Financial Services Commission may revoke authorization under [Article 355](#) (1) where a fund brokerage company falls under any of the following subparagraphs: <Amended by Act No. 8863, Feb. 29, 2008>
 1. Where authorization under [Article 355](#) (1) is made through false or other fraudulent methods;
 2. Where any requirement for authorization is violated;
 3. Where any obligation to maintain requirements for authorization under [Article 355](#) (9) is violated;
 4. Where any business is run during a period of suspension;
 5. Where any order of correction or suspension from the Financial Services Commission is not complied with;
 6. Any case falling under any of the subparagraphs of the attached Table 11 as prescribed by Presidential Decree;
 7. Any case prescribed by Presidential Decree where any finance-related Acts and subordinate statutes prescribed by Presidential Decree are violated; or
 8. Others prescribed by Presidential Decree as likely to significantly undermine the interests of

- investors or to make it difficult to conduct the business concerned.
- (2) The Financial Services Commission may take measures falling under any of the following subparagraphs where a fund brokerage company falls under any subparagraph of paragraph (1) (excluding subparagraph 6) or under any subparagraph of the attached Table 11: *<Amended by Act No. 8863, Feb. 29, 2008>*
1. To suspend all or part of the business for up to six months;
 2. To order transfer of contract;
 3. To order of correction or suspension of violation;
 4. To order the fund brokerage company to publicize or post measures that have been taken due to violation;
 5. Institutional warning;
 6. Institutional caution; or
 7. Other measures prescribed by Presidential Decree as necessary to correct or prevent violation.
- (3) The Financial Services Commission may take measures falling under any of the following subparagraphs where any executive of a fund brokerage company falls under any subparagraph of paragraph (1) (excluding subparagraph 6) or under any subparagraph of the attached Table 11: *<Amended by Act No. 8863, Feb. 29, 2008>*
1. Request for dismissal;
 2. Suspension from office for up to six months;
 3. Disciplinary warning;
 4. Cautionary warning;
 5. Caution; or
 6. Other measures prescribed by Presidential Decree as necessary to correct or prevent violation.
- (4) The Financial Services Commission may request that a fund brokerage company take measures falling under any of the following subparagraphs where any employee of the fund brokerage company falls under any subparagraph of paragraph (1) (excluding subparagraph 6) or under any subparagraph of the attached Table 11: *<Amended by Act No. 8863, Feb. 29, 2008>*
1. Dismissal;
 2. Suspension from office for up to six months;
 3. Salary reduction;
 4. Reprimand;
 5. Warning;
 6. Caution; or
 7. Other measures prescribed by Presidential Decree as necessary to correct or prevent violation.
- (5) [Article 422](#) (3) and [423 through 425](#) shall apply *mutatis mutandis* to measures, etc. against a fund brokerage company and its executives or employees.

CHAPTER VI SHORT-TERM FINANCE COMPANY

Article 360 (Short-term Financing Business of Financial Institutions)

- (1) Any person who intends to run the business prescribed by Presidential Decree as the business of issuing, discounting, trading, arranging and underwriting bills maturities of which come within the period prescribed by Presidential Decree for up to one year, the business of guarantee, and the business prescribed by Presidential Decree as incidental thereto (hereinafter, referred to as "short-term financing business") obtain authorization from the Financial Services Commission. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (2) Any person who intends to obtain authorization under paragraph (1) shall meet all the requirements falling under each of the following subparagraphs:
1. The person is required to be a bank or other financial institution prescribed by Presidential Decree;
 2. The equity capital is required to be not less than 20 billion won and to exceed the minimum amount prescribed by Presidential Decree;
 3. The business plan is required to be proper and sound;
 4. The person is required to have sufficient human resources, data-processing equipment, and other physical facilities to protect investors and run its business; and
 5. The major shareholder (referring to a major shareholder [Article 12](#) (2) 6 (a)) is required to have sufficient contribution capacity and sound financial status and social standing.
- (3) Any person who intends to obtain authorization under paragraph (1) shall file an application for authorization with the Financial Services Commission. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (4) The Financial Services Commission shall, when it receives an application for authorization under paragraph (3), review such application for authorization, make a decision on either granting or denying authorization within three months, and notify the applicant of the results thereof and the reasons therefor in writing without delay. In the case of denial, the Commission may, when an application is found to be defective, request that the applicant supplement such application.

<Amended by Act No. 8863, Feb. 29, 2008>

- (5) In calculating the review period referred to in paragraph (3), the periods prescribed by Ordinance of the Prime Minister, including the supplementation period for a deficient application, shall not be added to the review period. <Amended by Act No. 8863, Feb. 29, 2008>
- (6) The Financial Services Commission may, when it grants authorization pursuant to paragraph (4), add necessary conditions for securing sound management and for protecting investors. <Amended by Act No. 8863, Feb. 29, 2008>
- (7) Any person who has obtained an authorization with conditions pursuant to paragraph (6) may request that the Financial Services Commission change or cancel the conditions where there is any change in circumstances or any other reasonable grounds. In this case, the Financial Services Commission shall make a decision on either accepting or denying such request within two months and notify the applicant of the result thereof in writing without delay. <Amended by Act No. 8863, Feb. 29, 2008>
- (8) The Financial Services Commission shall, when it grants an authorization pursuant to paragraph (4), make a public notice of the matters falling under each of the following subparagraphs through the official gazette and the Internet website, etc.: <Amended by Act No. 8863, Feb. 29, 2008>
 1. Details of the authorization;
 2. Conditions on authorization (limited to cases where any condition is added.); and
 3. Where any condition of authorization is changed or canceled, the details thereof.
- (9) A short-term finance company shall maintain requirements for authorization (in the case of subparagraphs 2 and 5, referring to the eased requirements prescribed by Presidential Decree) under each subparagraph of paragraph (2) in carrying on its business after obtaining authorization.
- (10) Matters regarding an application for authorization pursuant to paragraphs (1) through (8) including the entries of application for authorization and accompanying documents, etc., as well as the methods and procedures of reviewing the authorization, and other necessary matters shall be prescribed by Presidential Decree.

Article 361 (Application Mutatis Mutandis)

Articles 33, 339 (excluding subparagraphs 1 and 3 of paragraph (2)), 342, 352 (1), and 416 shall apply *mutatis mutandis* to a short-term finance company within the scope of authorization that has been granted for a short-term financing business.

Article 362 (Exemption from Deeming as Short-term Financing Business)

- (1) Where a person who obtains the authorization of financial investment services for brokerage or dealing runs brokerage or dealing of commercial paper securities, such business shall not be deemed as a short-term financing business.
- (2) Where a short-term finance company (including a merchant bank) runs the business concerned, such business shall not be deemed as brokerage or dealing of commercial paper securities.

Article 363 (Inspection on Short-term Finance Company)

Article 419 (excluding paragraphs (2) through (4), and (8)) shall apply *mutatis mutandis* to an inspection on a short-term finance company.

Article 364 (Measures against Short-term Finance Company)

- (1) The Financial Services Commission may revoke authorization under paragraph 360 (1) where a short-term finance company falls under any of the following subparagraphs: <Amended by Act No. 8863, Feb. 29, 2008>
 1. Where authorization under [Article 360](#) (1) is obtained through false or other fraudulent methods;
 2. Where any requirement for authorization is violated;
 3. Where obligation to maintain requirements for authorization under [Article 360](#) (9) is violated;
 4. Where any business is run during a period of suspension;
 5. Where any order of correction or suspension issued by the Financial Services Commission is not complied with;
 6. Any case falling under the subparagraphs of the attached Table 12 as prescribed by Presidential Decree;
 7. Any case prescribed by Presidential Decree where any finance-related Acts and subordinate statutes, etc. prescribed by Presidential Decree are violated; or
 8. Others prescribed by Presidential Decree as likely to undermine the interests of investors or make it difficult to conduct business.
- (2) The Financial Services Commission may take measures falling under any of the following subparagraphs where a short-term finance company falls under any of the subparagraphs of paragraph (1) (excluding subparagraph 6) or under any of the subparagraphs of the attached Table 12: <Amended by Act No. 8863, Feb. 29, 2008>
 1. To suspend all or a part of the business for up to six months;
 2. To order the transfer of contract;
 3. To order correction or suspension of activities in violation;

4. To order the company to publicize or post measures that have been taken due to violation;
 5. Institutional warning;
 6. Institutional caution; or
 7. Other measures prescribed by Presidential Decree as necessary to correct or prevent violation.
- (3) The Financial Services Commission may take measures falling under any of the following subparagraphs where any executive of a short-term finance company falls under any of the subparagraphs of paragraph (1) (excluding subparagraph 6) or under any of the subparagraphs of the attached Table 12: *<Amended by Act No. 8863, Feb. 29, 2008>*
1. Request for dismissal;
 2. Suspension from office for up to six months;
 3. Disciplinary warning;
 4. Cautionary warning;
 5. Caution; or
 6. Other measures prescribed by Presidential Decree as necessary to correct or prevent violation.
- (4) The Financial Services Commission may request that a short-term finance company take measures falling under any of the following subparagraphs where any employee of the short-term finance company falls under each subparagraph of paragraph (1) (excluding subparagraph 4) or under any of the subparagraphs of the attached Table 12: *<Amended by Act No. 8863, Feb. 29, 2008>*
1. Dismissal;
 2. Suspension from office for up to six months;
 3. Salary reduction;
 4. Reprimand;
 5. Warning;
 6. Caution; or
 7. Other measures prescribed by Presidential Decree as necessary to correct or prevent violation.
- (5) [Articles 422](#) (3) and 423 through 425 shall apply to the measures, etc. against a short-term finance company and its executives or employees.

CHAPTER VII TRANSFER AGENT

Article 365 (Registration of Transfer Agents)

- (1) Any person who intends to make changes of entries in a register as an agent shall be registered with the Financial Services Commission. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (2) Any person who intends to be registered pursuant to paragraph (1) shall meet all the requirements falling under the following subparagraphs:
 1. The person is required to be the Securities Depository or a bank with branches nationwide;
 2. The person is required to be equipped with physical facilities prescribed by Presidential Decree, such as data-processing equipment, etc.; and
 3. The person is required to have a system to prevent conflict of interest prescribed by Presidential Decree.
- (3) Any person who intends to be registered pursuant to paragraph (1) shall file a registration application with the Financial Services Commission. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (4) The Financial Services Commission shall, when it receives a registration application under paragraph (3), review the registration application and make a decision on either accepting or denying registration within two months, and notify the applicant of the result thereof and the reasons therefor in writing without delay. When the registration application is found to be defective, the Commission may request that the applicant supplement such application. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (5) In calculating the review period under (4), the periods prescribed by Ordinance of the Prime Minister, including the supplementation period for the registration application, shall not be added to the review period. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (6) The Financial Services Commission shall not, when it makes a decision on the registration under paragraph (4), reject the registration unless any cause falling under the following subparagraphs occurs: *<Amended by Act No. 8863, Feb. 29, 2008>*
 1. Where any registration requirement under paragraph (2) is not satisfied;
 2. Where a registration application under paragraph (3) is prepared falsely; or
 3. Where the request for supplementation in the latter part of paragraph (4) is not complied with.
- (7) The Financial Services Commission shall, when it decides to accept the registration under paragraph (4), describe the necessary matters in the register of the transfer agent, and make a public notice of the registration through the official gazette and the Internet website, etc. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (8) A transfer agent shall maintain the registration requirements under paragraph (2) in its conduct of business.

- (9) Matters regarding the application of registration pursuant to paragraphs (1) through (7), including entries of application form and accompanying documents as well as the methods and procedures of reviewing the registration, and other necessary matters shall be prescribed by Presidential Decree.

Article 366 (Incidental Business of Transfer Agents)

A transfer agent may conduct the business of paying dividends, interests, and redemption amount of securities and issuing securities as an agent.

Article 367 (Application Mutatis Mutandis)

Articles 54, 63 (limited to executives or employees in charge of the change of entries in the register of securities), 64 and 416 shall apply *mutatis mutandis* to a transfer agent.

Article 368 (Inspection on Transfer Agents)

Article 419 (excluding paragraphs (2) through (4), and (8)) shall apply to an inspection on a transfer agent.

Article 369 (Measures against Transfer Agents)

- (1) The Financial Services Commission may revoke registration under [Article 365](#) (1) where a transfer agent falls under any of the following subparagraphs: <Amended by Act No. 8863, Feb. 29, 2008>
1. Where authorization under [Article 365](#) (1) is obtained by means of false or other fraudulent methods;
 2. Where any obligation to maintain requirements for registration under [Article 365](#) (8) is violated;
 3. Where any business is conducted during a period of suspension;
 4. Where any order of correction or suspension issued by the Financial Services Commission is not complied with;
 5. Any case falling under the subparagraphs of the attached Table 13 as prescribed by Presidential Decree;
 6. Any case prescribed by Presidential Decree where any finance-related Acts and subordinates statutes prescribed by Presidential Decree are violated; or
 7. Other cases prescribed by Presidential Decree as likely to significantly undermine the interest of investors or make it difficult to conduct the business concerned.
- (2) The Financial Services Commission may take measures falling under any of the following subparagraphs where a transfer agent falls under any of subparagraphs of paragraph (1) (excluding subparagraph 5) or under any of subparagraphs of the attached Table 13: <Amended by Act No. 8863, Feb. 29, 2008>
1. To suspend all or a part of business for up to six months;
 2. To order to transfer a proxy contract regarding the change of entries in the register or other contracts;
 3. To order correction or suspension of violation;
 4. To order the transfer agent to publicize or post measures that have been taken due to violation;
 5. Institutional warning;
 6. Institutional caution; or
 7. Other measures prescribed by Presidential Decree as necessary to correct or prevent violation.
- (3) The Financial Services Commission may take measures falling under any of the following subparagraphs where any executive of a transfer agent falls under any of the subparagraphs of paragraph (1) (excluding subparagraph 5) or under any of the subparagraphs of the attached Table 13: <Amended by Act No. 8863, Feb. 29, 2008>
1. Request for dismissal;
 2. Suspension from office for up to six months;
 3. Disciplinary warning;
 4. Cautionary warning;
 5. Caution; or
 6. Other measures prescribed by Presidential Decree as necessary to correct or prevent violation.
- (4) The Financial Services Commission may request that a transfer agent take measures falling under any of the following subparagraphs when an employee of the transfer agent falls under any of the subparagraphs of paragraph (1) (excluding subparagraph 5) or under any of the subparagraphs of the attached Table 13: <Amended by Act No. 8863, Feb. 29, 2008>
1. Dismissal;
 2. Suspension from office for up to six months;
 3. Salary reduction;
 4. Reprimand;
 5. Warning;
 6. Caution; or
 7. Other measures prescribed by Presidential Decree as necessary to correct or prevent violation.
- (5) [Article 422](#) (3) and [Articles 423 through 425](#) shall apply to disciplinary actions taken against a transfer agent and its executives or employees.

CHAPTER VIII FINANCIAL SERVICES-RELATED ORGANIZATION

Article 370 (Establishment of and Supervision on Financial Services-related Organizations)

- (1) Any person who intends to establish an organization comprised of investors, stock-listed corporations or other persons prescribed by Presidential Decree for the protection of investors or sound trade practice shall obtain authorization from the Financial Services Commission. <Amended by Act No. 8863, Feb. 29, 2008; Act No. 9407, Feb. 3, 2009>
- (2) The Financial Services Commission shall, when he/she intends to grant authorization under paragraph (1), review the following matters: <Amended by Act No. 8863, Feb. 29, 2008>
 1. Purpose of establishment;
 2. Financial Status and prospect of revenue and expense of the organization concerned;
 3. Composition of promoters and executives; and
 4. Contribution to the securities market and derivatives market.
- (3) Necessary matters regarding authorization under paragraph (1) shall be prescribed by Presidential Decree.
- (4) Where any organization obtaining authorization under paragraph (1) modifies the articles of incorporation, it shall, without delay, report to the Financial Services Commission. <Amended by Act No. 8863, Feb. 29, 2008>

Article 371 (Inspection on Financial Services-related Organizations)

Article 419 (excluding paragraphs (2) through (4) and (8)) shall apply *mutatis mutandis* to an inspection on a financial services-related organization.

Article 372 (Measures against Financial Services-related Organizations)

- (1) The Financial Services Commission may revoke authorization under [Article 370](#) (1) where a financial services related organization falls under any of the following subparagraphs: <Amended by Act No. 8863, Feb. 29, 2008>
 1. Where authorization under [Article 370](#) (1) is obtained through false or other fraudulent methods;
 2. Where any requirement for authorization is violated;
 3. Where any business except for those pursuant to the objectives under the articles of incorporation is carried out; or
 4. Others prescribed by Presidential Decree as likely to undermine the protection of investors or sound trade practice.
- (2) [Articles 423](#) (excluding subparagraph 2), 424 (1) and 424 (2) and 425 shall apply to the revocation of authorization for a financial-services-related organization. <Amended by Act No. 8863, Feb. 29, 2008>

PART VII KOREA EXCHANGE

CHAPTER I GENERAL PROVISIONS

Article 373 (Establishment)

There shall be established a Korea Exchange to fix and stabilize fair prices in transactions of securities and exchange-traded derivatives as well as to facilitate the stability and efficiency of other transactions.

Article 374 (Application of Commercial Act)

Except as otherwise provided in this Act, the provisions of the [Commercial Act](#) on stock companies shall apply to the Exchange.

CHAPTER II ORGANIZATION, ETC.

Article 375 (Capital, etc.)

- (1) The Exchange shall be a stock company with a capital of not less than 100 billion won.
- (2) The Exchange shall locate its head office in *Busan* Metropolitan City and may, if necessary, establish other branches.

Article 376 (Articles of Incorporation)

- (1) The articles of incorporation of the Exchange shall include the following matters:
 1. Objectives;
 2. Trade name;

3. Total number of stocks to be issued by the Exchange;
 4. Price per stock;
 5. Total number of stocks issued at the time of the establishment of the Exchange;
 6. Methods of public notice by the Exchange;
 7. Matters regarding the division into the securities market, the KOSDAQ, the derivatives market, etc.;
 8. Matters regarding the establishment, amendment and repeal of the regulations of the Exchange;
 9. Matters regarding executives and executive members of the Exchange;
 10. Matters regarding the board of directors, subcommittees established thereunder and the director nomination committee;
 11. Matters regarding the audit committee;
 12. Matters regarding the market supervision committee; and
 13. Matters regarding the performance of business.
- (2) The Exchange shall, when it intends to amend the articles of incorporation, obtain approval of the Financial Services Commission. In this case, the Financial Services Commission shall take into account the autonomous operation of each market with respect to granting the approval. <Amended by Act No. 8863, Feb. 29, 2008>

Article 377 (Duties)

The Exchange shall perform the following duties:

1. Establishment and operation of the securities market, the KOSDAQ and the derivatives market;
2. Transactions of securities and exchange-traded derivatives;
3. Transaction confirmation, debt acquisition, deduction, confirmation of settlement securities, settlement item, and settlement amount, settlement execution guarantee, follow-up measures on settlement failure, or settlement instruction as a result of transactions on the securities market and the derivatives market;
4. Delivery of items subsequent to transactions of exchange-traded derivatives and the payment of money;
5. Listing of securities;
6. Deciding types of transactions of exchange-traded derivatives and items thereof;
7. Report and disclosure of a listed corporation;
8. Surveillance of abnormalities in trading prescribed by Presidential Decree, including abnormal fluctuation of prices or volumes of securities or exchange-traded derivatives (hereinafter referred to as "abnormal trading"), and the investigation of members (any person designated by Membership Regulations under [Article 387](#) (1) as qualified to participate in the trading on the securities market, the KOSDAQ, or the derivatives market; hereinafter the same shall apply);
9. Auction of securities;
10. Self-resolution of disputes (limited to cases where any related party applies for resolution) arising from transactions in the securities market, the KOSDAQ and the derivatives market;
11. Duties incidental to the establishment of the securities market, the KOSDAQ and the derivatives market;
12. Duties assigned by this Act and other Acts other than those referred to in subparagraphs 1 through 11; and
13. Other duties prescribed by the articles of incorporation.

Article 378 (Clearing Institution and Settlement Institution)

- (1) The Exchange shall, as a clearing institution, perform transaction confirmation, debt acquisition, deduction, confirmation of settlement securities, settlement item, and settlement amount, settlement execution guarantee, follow-up measures on settlement failure, or settlement instruction as a result of transactions on the securities market and derivatives market.
- (2) The Exchange shall perform delivery of items and payment of money on the derivatives market as a settlement institution.

Article 379 (Prohibition of Use of Similar Names)

An entity other than the Exchange shall not use "Korea Exchange", "Korea Financial Products Exchange", "Korea Financial Investment Products Exchange", "Korea Securities and Futures Exchange", "Securities Exchange", "Futures Exchange", "Derivatives Exchange", "Securities Market", "Marketable Securities Market", "KOSDAQ", "Futures Market", "Derivatives Market" or others confused therewith in its firm name or trade name.

Article 380 (Executives)

- (1) The Exchange shall have not more than 15 executives as prescribed in each of the following subparagraphs:
 1. One chief executive officer;
 2. One member of the audit committee who is a full-time director;
 3. One chairman of the market supervision committee; and
 4. Not more than 12 directors.

- (2) The term of executives shall be three years, and executives may be reappointed for one further term as prescribed by the articles of incorporation.
- (3) The chief executive officer shall be appointed at a general meeting of shareholders after the recommendation from the director nomination committee (hereinafter referred to as "nomination committee") under [Article 385](#) (1) from among persons who have experience and knowledge in finance as prescribed by Presidential Decree and who are unlikely to undermine the sound management of the Exchange and fair trade order.
- (4) Where the chief executive officer appointed pursuant to paragraph (3) is found to be unable to perform his/her duties as prescribed by Presidential Decree, the Financial Services Commission may request for the dismissal of the chief executive officer by clearly indicating the reasons therefor within one month from the date on which the chief executive officer is appointed. In this case, the chief executive officer shall be suspended from duties, and the Exchange shall appoint a new chief executive officer within two months. <Amended by Act No. 8863, Feb. 29, 2008>
- (5) Outside directors (referring to a person who is not engaged in full-time work and who meets all the requirements prescribed by the articles of incorporation; hereafter in this Chapter, the same shall apply) of the Exchange and a member of the audit committee who is a full-time director shall be appointed at the general meeting of shareholders after the recommendation of the nomination committee. In this case, when the total number of stocks with voting rights of the Exchange held by the largest shareholder, its specially-related persons, and other persons prescribed by Presidential Decree exceeds 3/100 (in cases where the articles of incorporation prescribe a lower portion, the portion) of outstanding stocks with voting rights of the Exchange, such shareholders shall not exercise the excess portion of the voting rights in the appointment and dismissal of the member of the audit committee who is a full-time director.
- (6) A person falling under any of the subparagraphs of [Article 26](#) (3) shall not become a member of the audit committee of the Exchange who is a full-time director and the person shall be dismissed from office where the person is found to fall under any of the subparagraphs of [Article 26](#) (3) after being appointed as a member of the audit committee of the Exchange who is a full-time director: *Provided*, That the person who serves, or has served, as a member of the audit committee of the Exchange who is a full-time director may, notwithstanding [Article 26](#) (3) 2, become a member of the audit committee of the Exchange who is a full-time director.

Article 381 (Board of Directors)

- (1) The Exchange shall have the board of directors composed of persons referred to in subparagraphs of [Article 380](#) (1). In this case, a majority of such members shall be outside directors.
- (2) For the purpose of the effective performance of business of the board of directors, a subcommittee for each market shall be established in the board of directors pursuant to [Article 393-2 of the Commercial Act](#) as a committee which reviews and resolves the matters delegated by the board of directors.
- (3) Other necessary matters for the composition and operation of the board of directors and subcommittees shall be prescribed by the articles of incorporation.

Article 382 (Qualification for Executives)

- (1) [Article 24](#) shall apply *mutatis mutandis* to executives of the Exchange.
- (2) [Article 25](#) (5) (excluding subparagraphs 1 and 2) shall apply *mutatis mutandis* to outside directors of the Exchange.

Article 383 (Prohibition, etc. of Use of Information)

- (1) A person who is or was an employee or executive of the Exchange shall neither disclose any confidential information which comes to his/her knowledge in the course of performing his/her duties to other persons nor use such confidential information for any other purpose.
- (2) A full-time employee or executive of the Exchange shall not have any special interest prescribed by Presidential Decree with financial investment firms and financial services-related organizations such as financing, distribution of profit and loss, or any other matters regarding the business.
- (3) [Article 63](#) shall apply *mutatis mutandis* to employees and executives of the Exchange.

Article 384 (Audit Committee)

- (1) The Exchange shall establish the audit committee.
- (2) [Articles 26](#) (2) through [26](#) (6) shall apply *mutatis mutandis* to the audit committee.

Article 385 (Director Nomination Committee)

- (1) The Exchange shall have a director nomination committee for the proper appointment of a chief executive officer and outside directors.
- (2) A chief executive officer shall appoint the persons falling under each of the following subparagraphs as a member of the director nomination committee, and the chairman of the committee shall be elected by mutual voting among members:
 1. Five outside directors;
 2. Two persons recommended by the Association;

3. One person representing stock-listed corporations on the securities market as prescribed by Presidential Decree; and
 4. One person representing stock-listed corporations on the KOSDAQ as prescribed by Presidential Decree.
- (3) Necessary matters for the composition and operation of the candidate recommendation committee shall be determined by the articles of incorporation.

CHAPTER III MARKETS

Article 386 (Establishment of Markets)

- (1) Trading markets for financial investment products established by the Exchange shall be as follows:
1. The securities market;
 2. The KOSDAQ; and
 3. The derivatives market.
- (2) Any person other than the Exchange shall not establish the markets under paragraph (1) or any other similar facility and shall not trade securities or exchange-traded derivatives through any other similar facility.

Article 387 (Members)

- (1) The Exchange shall establish the Membership Regulations in order to manage its members (hereinafter referred to as "Membership Regulations").
- (2) Members shall be classified under the following subparagraphs:
1. Clearing member of the Exchange;
 2. Non-clearing member; and
 3. Other members prescribed by Presidential Decree.
- (3) Membership Regulations should include the matters falling under each of the following subparagraphs:
1. Matters regarding the qualifications of members;
 2. Matters regarding the admission and expulsion of members;
 3. Matters regarding the rights and obligations of members; and
 4. Others necessary for managing members.

Article 388 (Eligibility for Trading in Market)

- (1) Any person who is not a member of the Exchange shall not make transactions on the securities market and the derivatives market: *Provided*, That the same shall not apply to cases where the Membership Regulations prescribe that the person is eligible to trade specific securities.
- (2) Any person who is eligible to make transactions on the securities market pursuant to the proviso to paragraph (1) shall be deemed as a member of the Exchange in the application of subparagraph 8 of [Article 377](#), [Articles 387](#), [389](#), [394](#), [395](#), [396](#) (2), [397](#) through [400](#), [404](#) or [426](#) (6).

Article 389 (Conclusion of Transactions)

- (1) Where a member is suspended from trading or loses its eligibility, the Exchange shall have the member or any other member conclude the transactions initiated by the member concerned on the securities market or the derivatives market. In this case, the member who loses its eligibility shall be deemed eligible until concluding those transactions.
- (2) Where the Exchange has any other member conclude transactions pursuant to paragraph (1), a delegation contract shall be deemed to be concluded between the ineligible member and the delegated member.

Article 390 (Listing Regulations)

- (1) The Exchange shall prescribe the Listing Regulations of securities (hereinafter referred to as "Listing Regulations") for reviewing the securities to be listed and for managing listed securities. In this case, the Exchange may prescribe Listing Regulations of the securities market and the KOSDAQ separately.
- (2) Listing Regulations shall include matters falling under each of the following subparagraphs:
1. Matters regarding listing standards and listing review of securities;
 2. Matters regarding de-listing and de-listing standards for securities;
 3. Matters regarding suspension of transactions of securities and its revocation; and
 4. Others necessary for the management of listed corporations and listed securities.

Article 391 (Disclosure Regulations)

- (1) The Exchange shall prescribe Disclosure Regulations of stock-listed corporations (hereinafter referred to as "Disclosure Regulations") to report, disclose and manage the matters related to the corporation that has listed stock certificates, and other securities prescribed by Presidential Decree (hereafter in this Article and [Article 392](#), referred to as "stock-listed corporation"). In this case, the Exchange may prescribe Listing Regulations of the securities market and the KOSDAQ separately.

- (2) Disclosure Regulations shall include the following matters:
1. Matters regarding which a stock-listed corporation is required to make a report;
 2. Matters regarding the methods and procedures that a stock-listed corporation is required to follow in making a report or disclosure;
 3. Matters regarding the requests made by the Exchange to report or confirm as to whether a rumor and news concerning the listed corporation of stock certificates, etc. is true or not and as to the cause of remarkable changes in the price or trading volumes of securities issued by the listed corporation of stock certificates, etc.;
 4. Matters excluded from the disclosure or report taking into account the protection of investors and confidentiality in management of the stock-listed corporation;
 5. Matters regarding the disclosure of details reported by the stock-listed corporation;
 6. Matters as to the standards to decide whether a stock-listed corporation has committed a violation or what type of violation has been committed under subparagraphs 1 through 4 as well as the measures taken in response to the violation;
 7. Matters regarding the management of the stock-listed corporation such as the suspension of transactions;
 8. Matters regarding the compliance with supervision over the report obligation of the stock-listed corporation; and
 9. Other necessary matters regarding the report or disclosure by the stocklisted corporation.

Article 392 (Securing Effectiveness of Disclosure)

- (1) Where any case falling under the following subparagraphs occurs to a stock-listed corporation, a bank shall notify the Exchange thereof without delay:
1. Where any issued bill or check is defaulted; or
 2. Where any current account transaction with the bank is suspended or prohibited.
- (2) The Exchange may request that any administrative agency or any other related agency provide or exchange necessary information in accordance with Presidential Decree where it is deemed necessary to promptly inform investors of the matters that are likely to materially affect investors' decisions with respect to the report obligation pursuant to [Article 391](#) (2) 1 and the report or confirmation obligation pursuant to [Article 391](#) (2) 3. In this case, the agency that receives such request shall cooperate with the Exchange unless there is any special cause.
- (3) Where a stock-listed corporation makes a report pursuant to [Article 391](#), the Exchange shall send such report to the Financial Services Commission without delay. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (4) The Financial Services Commission shall, when it receives a report under paragraph (3), make it available to the public through the Internet Web sites, etc. *<Amended by Act No. 8863, Feb. 29, 2008>*

Article 393 (Business Regulations)

- (1) The matters falling under each of the following subparagraphs with respect to transactions on the securities market shall be prescribed by Securities Market Business Regulation of the Exchange. In this case, the Exchange may prescribe Business Regulations for the securities market and the KOSDAQ, separately:
1. Matters regarding the type of transactions and the consignment thereof;
 2. Matters regarding the opening, closing, suspension, or temporary closing of the securities market;
 3. Matters regarding the methods of conclusion of transaction contracts and settlement thereof:
Provided, That delivery of securities and payment shall be excluded;
 4. Matters regarding the regulation of transactions, such as payment of margin; and
 5. Matters necessary for transactions.
- (2) Matters falling under each of the following subparagraphs in respect of transactions on the derivatives market shall be prescribed by Derivatives Market Business Regulations of the Exchange:
1. Matters regarding the consignment of transactions of exchange-traded derivatives;
 2. Matters regarding the types and items of transactions of exchangetraded derivatives;
 3. Matters regarding the settlement month of transactions of exchangetraded derivatives;
 4. Matters regarding the opening, closing, suspension, or temporary closing of the derivatives market;
 5. Matters regarding the methods of conclusion of transaction contracts and restrictions thereof;
 6. Matters regarding good faith deposits and member margin;
 7. Matters regarding the methods of settlement; and
 8. Other necessary matters for transactions of exchange-traded derivatives and the consignment thereof.

Article 394 (Joint Compensation Fund for Damages)

- (1) Any member of the Exchange shall set aside a joint compensation fund (hereinafter, referred to as the "joint fund") in the Exchange in order to compensate for damages incurred from the failure to repay liabilities with respect to transactions on the securities market or the derivatives market:

Provided, That the same shall not apply to the members designated by the Exchange as those who are not liable to execute the settlement of transactions on the securities market or the derivatives market.

- (2) The Exchange shall set aside separate joint funds under paragraph (1) for the securities market and the derivatives market, respectively.
- (3) Any member of the Exchange (excluding a member referred to in the proviso to paragraph (1)) shall take a joint responsibility for damages incurred from the failure to repay the debt incurred from transactions on the securities market or the derivatives market within the scope of the joint fund under paragraphs (1) and (2).
- (4) The amount of the total reserve of the joint fund under paragraph (1), rate of the reserve for each member, method for the reserve, usage and operation thereof, repayment and others necessary for its management shall be prescribed by Presidential Decree.

Article 395 (Fidelity Guarantee Money)

- (1) Any member of the Exchange shall deposit fidelity guarantee money in the Exchange in order to guarantee the repayment of debt which is likely to be incurred as a result of transactions on the securities market or the derivatives market.
- (2) The Exchange shall not offset the claims entitled by the repayment or acquisition of debt with the fidelity guarantee money on behalf of members pursuant to [Article 398](#).
- (3) Any person who has consigned the transactions of securities or exchange-traded derivatives to a member shall have rights to be paid in preference to other creditors with respect to the claims entitled from the consignment.
- (4) Necessary matters regarding the minimum limit and management, etc. of fidelity guarantee money and the administration thereof shall be prescribed by Membership Regulations of the Exchange.

Article 396 (Good Faith Deposit and Member Margin)

- (1) Any member of the Exchange shall receive a good faith deposit from a consignor with respect to the consignment of the transactions on the derivatives market under the conditions prescribed by Derivatives Market Business Regulations of the Exchange.
- (2) Any member of the Exchange shall, when it executes transactions on the securities market or the derivatives market, set aside a member margin in the Exchange as prescribed by Securities Market Business Regulations and Derivatives Market Business Regulations in order to guarantee the repayment of debt to the Exchange.

Article 397 (Appropriation of Member Margin and Fidelity Guarantee Money for Repayment of Debt)

The Exchange may appropriate a member's exchange margin and guarantee money for the repayment of the debt where the member fails to repay debt to the Exchange or any other member with respect to the transactions on the securities market and the derivatives market.

Article 398 (Repayment by Exchange)

- (1) The Exchange may exercise or acquire claims of its members, or repay or undertake the debt thereof with respect to transactions on the securities market or the derivatives market on behalf of the members as prescribed by Securities Market Business Regulations and Derivatives Market Business Regulations in order to facilitate the transactions on the securities market or the derivatives market.
- (2) Where the repayment or undertaking of debt under paragraph (1) causes damages to the Exchange, the member concerned shall take responsibility for such debt to the Exchange as prescribed by Securities Market Business Regulations and Derivatives Market Business Regulations.

Article 399 (Exchange's Liability for Damage)

- (1) The Exchange shall be liable for damages incurred from violation of transaction contracts by any member on the securities market or the derivatives market.
- (2) Where the Exchange compensates for damages pursuant to paragraph (1), the compensation fund set aside pursuant to [Article 394](#) shall be appropriated in preference.
- (3) Where the Exchange has compensated for damages pursuant to paragraphs (1) and (2), the Exchange shall be entitled to the right to indemnification for the compensated amount and all the expenses incurred therefrom against the member who has violated a transaction contract.
- (4) The amount of money collected in accordance with paragraph (3) shall be, in preference, appropriated for such amount as the Exchange has compensated and all the expenses incurred therefrom, and the remainder shall be reserved in the joint fund.
- (5) Matters regarding the exercise of right to indemnification referred to in paragraph (3) shall be prescribed by Presidential Decree.

Article 400 (Repayment Order)

- (1) Where a member of the Exchange causes any damage to the Exchange or any other member as a result of the failure to repay debt incurred from transactions on the securities market or the

- derivatives market, the Exchange or the other member shall have a right to be paid in preference to any other creditor with respect to fidelity guarantee money, member margin, and joint fund.
- (2) The Exchange shall have a right to be paid in preference to any other creditor with respect to money, securities, and items paid for the settlement of transactions on the securities market or the derivatives market.
 - (3) Where money, securities and items are delivered prior to the settlement and a member causes any damage to the Exchange from the failure of the settlement, the Exchange shall have a right to be paid in preference to any other creditor with respect to the property of such member: *Provided*, That the same shall not apply to the claims secured by Chonsegwon (right of registered lease on deposit basis), right of pledge, or a mortgage which is created prior to the settlement date.
 - (4) The preferential right of the Exchange under paragraphs (1) through (3) shall override the right to fidelity guarantee money of the entruster under [Article 395](#) (3).

Article 401 (Publication of Quotations)

The Exchange shall make public the quotations (excluding the quotations formed in the course of arranging for transactions of listed stock certificates by an electronic securities brokerage; hereafter in this Article, the same shall apply) of securities and exchange-traded derivatives falling under each of the following subparagraphs in accordance with Presidential Decree:

1. Daily trading volume, daily settled price, and the highest, lowest and closing prices of securities;
2. Daily trading volume, daily settled price, and the highest, lowest and closing prices or agreed amount of each item of exchange-traded derivatives; and
3. Other quotations prescribed by Presidential Decree as necessary for the sound formation of quotations and the protection of investors.

CHAPTER IV MARKET SUPERVISION AND DISPUTE RESOLUTION

Article 402 (Market Supervision Committee)

- (1) The Exchange shall establish the market supervision committee in order to conduct the business falling under each of the following subparagraphs:
 1. Market surveillance, investigation of abnormal trading and supervision of members;
 2. Cross-market surveillance among the securities market, the KOSDAQ, and the derivatives market;
 3. Discipline of members or decision on the requests for disciplinary measures against executives or employees concerned as a result of the investigation of abnormal trading, supervision of members, cross-market surveillance among the securities market, the KOSDAQ, and the derivatives market;
 4. Self-resolution of disputes under subparagraph 10 of [Article 377](#);
 5. Establishment, amendment and repeal of the Market Surveillance Regulations under [Article 403](#) and the Dispute Resolution Regulation under [Article 405](#) (1);
 6. Other business incidental to subparagraphs 1 through 5.
- (2) The market supervision committee shall be comprised of members falling under each of the following subparagraphs: *<Amended by Act No. 8863, Feb. 29, 2008>*
 1. The chairman of the market supervision committee (hereafter referred to as the "chairman of the market supervision committee" in this Article);
 2. *Deleted; <by Act No. 8863, Feb. 29, 2008>*
 3. Two persons recommended by the Chairman of the Financial Services Commission;
 4. Two persons recommended by the Association.
- (3) The term of office of members of the market supervision committee shall be three years, and the members may be reappointed for another term as prescribed by the articles of incorporation.
- (4) The chairman of the market supervision committee shall be appointed at the general meeting of shareholders after the recommendation of the market supervision committee from among the persons who have experience and knowledge of finance prescribed by Presidential Decree and who are unlikely to undermine the sound management of the Exchange and fair trade order.
- (5) Where the chairman of the market supervision committee appointed under paragraph (4) is found to be unable to perform its duties, the Financial Services Commission may request the dismissal of the chairman by specifically indicating the reasons therefor within one month from the date on which the chairman is appointed. In such cases, the chairman shall be suspended from performing its duties, and the Exchange shall appoint a new chairman within two months. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (6) [Article 24](#) shall apply *mutatis mutandis* to the eligibility of members of the market supervision committee.
- (7) No person who serves, or has served, as a member of the market supervision committee shall use or divulge any confidential information in connection with its duties.
- (8) Where a member of the market supervision committee falls under any of the following subparagraphs, the Financial Services Commission may request that the member be suspended

from duties, or be dismissed from office within a fixed period of up to six months: <Amended by Act No. 8863, Feb. 29, 2008>

1. Where a member divulges or uses any confidential information in violation of paragraph (7);
 2. Others prescribed by Presidential Decree as likely to undermine the protection of investors or sound trade practice.
- (9) Other matters necessary for the composition and operation of the market supervision committee shall be prescribed by its articles of incorporation.

Article 403 (Market Surveillance Regulations)

The market supervision committee shall establish Market Surveillance Regulations including the following matters and perform its duties in accordance with those Regulations:

1. Matters regarding the market surveillance, investigation of abnormal trading, and supervision of members;
2. Matters regarding cross-market surveillance among the securities market, the KOSDAQ, and the derivatives market;
3. Matters regarding the discipline of members or decision on the requests for disciplinary measures against executives or employees concerned as a result of the investigation of abnormal trading, supervision of members, and cross-market surveillance on the securities market, the KOSDAQ, and the derivatives market; and
4. Other matters incidental to the matters specified in subparagraphs 1 and 3.

Article 404 (Investigation of Abnormal Trading or Supervision of Members)

(1) In a case falling under any of the following subparagraphs, the Exchange may request that a financial investment firm (limited to a broker or dealer who runs financial investment services for securities or exchange-traded derivatives) submit relevant data after specifying the reasons therefor in writing, and examine business, financial status, books, documents and other materials related to the members:

1. In order to identify trading circumstances of securities or trading items of exchange-traded derivatives in cases where abnormal trading on the securities market (including cases where transaction of listed stock certificates in accordance with [Article 78](#) are arranged) or the derivatives market is suspected; or
2. In order to ensure that members comply with Business Regulations of the Exchange.

(2) The Exchange may, if necessary for an investigation or supervision under paragraph (1), request that a member submit reports, materials related to abnormal trading or violations in Business Regulation, or that related persons attend and make a statement.

(3) Where a member rejects a request for submission of materials or for attendance and statement, or the member does not cooperate with the supervision pursuant to paragraph (1), the Exchange may suspend membership or restrict transactions of securities and exchange-traded derivatives under the conditions prescribed by Market Surveillance Regulations.

Article 405 (Self-Resolution of Disputes)

(1) The market surveillance committee shall establish Dispute Resolution Regulations necessary for the self-resolution of disputes under subparagraphs 10 of [Article 377](#).

(2) The market surveillance committee may, if necessary for dispute resolution, request that the parties concerned validate the facts or submit relevant materials.

(3) The market surveillance committee may, if deemed necessary to hear the opinions of the parties and other interested persons, request that they appear and make statements.

CHAPTER V REGULATIONS ON OWNERSHIP

Article 406 (Restrictions on Stockholding)

(1) No one shall hold stocks in excess of 5/100 of the total number of outstanding stocks with voting rights issued by the Exchange except for cases falling under any of the following subparagraphs: <Amended by Act No. 8863, Feb. 29, 2008>

1. Where a collective investment scheme holds the stocks (excluding cases where a private equity fund holds the stocks);
2. Where the approval from the Financial Services Commission is obtained for the necessity of cooperating with foreign exchanges (referring to the persons who perform the functions equivalent to the Exchange in foreign countries in accordance with foreign Acts and subordinate statutes; hereinafter the same shall apply);
3. Where the Government holds the stocks; or
4. Others prescribed by Presidential Decree as likely to undermine the fair operation of the Exchange.

(2) Any case falling under the following subparagraphs shall be deemed as stockholding restricted by paragraph (1):

1. To hold rights to exercise voting rights of the stocks in accordance with trust contracts or other contracts or the provisions of relevant Acts or to hold rights to instruct the exercise of voting rights of the stocks;
 2. To hold stocks by specially-related persons as prescribed by Presidential Decree; or
 3. Other cases prescribed by Presidential Decree as equivalent to subparagraphs 1 and 2.
- (3) Where the stocks are held in violation of paragraph (1), the excess portion of the voting rights shall not be exercised and the person who holds the stocks in violation of paragraph (1) shall adjust the quantity of stockholding within the limit provided for in paragraph (1) without delay.
- (4) The Financial Services Commission may order the person who fails to comply with paragraph (3) to dispose of the excess portion of stocks within a period of up to six months. <Amended by Act No. 8863, Feb. 29, 2008>

Article 407 (Charges for Compelling Compliance)

- (1) Where the person who receives an order to dispose of stocks pursuant to [Article 406](#) (4) fails to comply with such order within any given period, the Financial Services Commission shall order the person to dispose of the stocks within a further prescribed period again, and where such order is not complied with within the prescribed period, the Commission shall impose charges for compelling the compliance which do not exceed 5/100 of the acquisition value of the stocks to be disposed of. <Amended by Act No. 8863, Feb. 29, 2008>
- (2) The Financial Services Commission shall notify any intent to impose and collect charges for compelling the compliance under paragraph (1) in written form prior to the imposition under paragraph (1). <Amended by Act No. 8863, Feb. 29, 2008>
- (3) The Financial Services Commission shall impose the charges for compelling the compliance under paragraph (1) in a written form indicating the information, such as the reasons for imposition, the amount, the payment deadline and the receipt period of those charges, the method of filing an objection thereagainst, and the agencies to receive the objection. <Amended by Act No. 8863, Feb. 29, 2008>
- (4) The Financial Services Commission may repeatedly impose and collect charges for compelling the compliance under paragraph (1) up to twice a year starting from the date when the stock disposal is ordered pursuant to [Article 406](#) (4), until the order is complied with. <Amended by Act No. 8863, Feb. 29, 2008>
- (5) Where the person who receives an order to dispose of stocks complies with the order, the Financial Services Commission shall suspend the imposition of new charges for compelling the compliance and collect the charges for compelling the compliance that have already been imposed. <Amended by Act No. 8863, Feb. 29, 2008>
- (6) [Articles 430](#) (excluding paragraph (2)) through 434 shall apply to the imposition and collection of charges for compelling the compliance.

Article 408 (Approval of Business Transfer)

The Exchange shall obtain approval from the Financial Services Commission when the Exchange intends to carry out a business transfer, merger, split-off, split-and-merger, or comprehensive exchange or transfer of stocks. <Amended by Act No. 8863, Feb. 29, 2008>

Article 409 (Approval of Listing and De-listing Securities Issued by Exchange)

- (1) The Exchange shall, when it lists or de-lists securities issued by the Exchange itself, obtain approval of the Financial Services Commission. <Amended by Act No. 8863, Feb. 29, 2008>
- (2) The Exchange shall, when it lists securities pursuant to paragraph (1), conduct any investigation of abnormal trading, surveillance of members, ongoing disclosure and any other management of such listing by itself and report the results thereof to the Financial Services Commission. <Amended by Act No. 8863, Feb. 29, 2008>

CHAPTER VI SUPERVISION

Article 410 (Report and Inspection)

- (1) The Financial Services Commission may, if necessary for the protection of investors or sound trade practice, order the Exchange to submit reports or reference related to its business and property, and have the Governor of the Financial Supervisory Service inspect the business, financial status, books, documents, or other materials related to the Exchange. <Amended by Act No. 8863, Feb. 29, 2008>
- (2) Any person who conducts an inspection pursuant to paragraph (1) shall present a certificate indicating its authority to related persons.
- (3) The Governor of the Financial Supervisory Service shall, when he/she conducts an inspection pursuant to paragraph (1), report the result to the Financial Services Commission. In this case, when the Exchange is found to violate any provision of this Act, or other orders or disciplinary

actions taken under this Act, the Governor shall accompany a written opinion as to how to take actions in response to such violation.

- (4) [Article 419](#) (9) shall apply *mutatis mutandis* to the inspection on the Exchange.

Article 411 (Measures against Exchange)

- (1) The Financial Services Commission may take measures falling under each of the following subparagraphs where the Exchange falls under any of the following subparagraphs of the attached Table 14: <Amended by Act No. 8863, Feb. 29, 2008>

1. To suspend all or a part of its business for up to six months;
2. To order transfer of contract;
3. To order correction or suspension of violation;
4. To order the Exchange to publicize or disclose the measures taken due to violation;
5. Institutional warning;
6. Institutional caution; or
7. Other measures prescribed by Presidential Decree necessary to correct or prevent violation.

- (2) The Financial Services Commission may take measures falling under each of the following subparagraphs where an executive of the Exchange falls under any of the following subparagraphs of the attached Table 14: <Amended by Act No. 8863, Feb. 29, 2008>

1. Request for dismissal;
2. Suspension from office for up to six months;
3. Disciplinary warning;
4. Cautionary warning;
5. Caution; or
6. Other measures prescribed by Presidential Decree necessary to correct or prevent violation.

- (3) The Financial Services Commission may request that the Exchange take any measures falling under any of the following subparagraphs, where any employee of the Exchange falls under any of the subparagraphs of the attached Table 14: <Amended by Act No. 8863, Feb. 29, 2008>

1. Dismissal;
2. Suspension from office for up to six months;
3. Salary reduction;
4. Reprimand;
5. Warning;
6. Caution; or
7. Other measures prescribed by Presidential Decree necessary to correct or prevent violation.

- (4) [Articles 422](#) (3), [423](#) (excluding subparagraph 1), [424](#) (excluding paragraph (2)) and [425](#) shall apply *mutatis mutandis* to the measures, etc. against the Exchange, and its executives or employees.

Article 412 (Approval of Regulations of Exchange)

- (1) The Exchange shall obtain approval from the Financial Services Commission where the Exchange intends to establish, amend, or repeal Membership Regulations, Securities Market Business Regulations, Derivatives Market Business Regulations, Listing Regulations, Disclosure Regulations, Market Surveillance Regulations, Dispute Resolution Regulations, and other regulations on business. <Amended by Act No. 8863, Feb. 29, 2008>

- (2) Deleted. <by Act No. 8863, Feb. 29, 2008>

Article 413 (Disposition in Emergency)

The Financial Services Commission may, if it finds that the transactions of securities cannot be normally made because of natural disaster, warfare, disturbance, sudden and significant change in economic conditions or other incidents similar thereto, order the alteration of opening hours of the Exchange, suspension of transactions or temporary closing of the securities market, or take other necessary measures. <Amended by Act No. 8863, Feb. 29, 2008>

Article 414 (Market Efficiency Committee)

- (1) The Financial Services Commission shall establish a market efficiency committee in order to review matters regarding the reduction of transaction costs on the securities market, the KOSDAQ, and the derivatives market. <Amended by Act No. 8863, Feb. 29, 2008>

- (2) Where any organization established by this Act or any other organization prescribed by Presidential Decree intends to change its commissions or invest more than the amount prescribed by Presidential Decree in data-processing facility, the organization shall proceed through the deliberation of the market efficiency committee.

- (3) Necessary matters regarding the composition and operation of the market efficiency committee shall be prescribed by Presidential Decree.

PART VIII SUPERVISION AND DISCIPLINARY ACTION

CHAPTER I ORDER AND APPROVAL

Article 415 (Supervision)

The Financial Services Commission shall supervise a financial investment firm to ensure that it appropriately complies with this Act or other orders or disciplinary actions taken under this Act in order to protect investors and maintain sound trade order. <Amended by Act No. 8863, Feb. 29, 2008>

Article 416 (Financial Services Commission's Authority to Issue Orders)

The Financial Services Commission may order a financial investment firm to take necessary measures with respect to matters falling under each of the following subparagraphs for the purpose of protecting investors and sustaining the sound trade practice: *Provided*, That the Commission may order a trustor to take necessary measures with respect to matters on the restriction on trading volume of exchange-traded derivatives under subparagraph 7. <Amended by Act No. 8863, Feb. 29, 2008; Act No. 9407, Feb. 3, 2009>

- 1 1 .Matters regarding the management of proprietary property of the financial investment firm;
2. Matters regarding the custody and management of investors' properties;
3. Matters regarding the operation of financial investment firms and improvement of their businesses;
4. Matters regarding various disclosures;
5. Matters regarding the maintenance of business practice;
6. Matters regarding the business methods;
7. Matters regarding the restriction on trading volume of exchange-traded derivatives or over-the-counter derivatives; and
- 8 8 .Others prescribed by Presidential Decree as necessary for the protection of investors or sound trade practice.

Article 417 (Matters subject to Approval)

(1) A financial investment firm shall, when it intends to perform any act falling under each of the following subparagraphs (limited to subparagraphs 4 through 7 in the case of an integrated financial investment firm) obtain approval of the Financial Services Commission: <Amended by Act No. 8863, Feb. 29, 2008>

1. Merger, split-off, or split and merger;
2. Comprehensive exchange or transfer of stocks;
3. Dissolution;
4. Transfer or acquisition by merger of all the financial investment services (including cases equivalent to such business) falling under any of [Articles 6 \(1\) 1](#) through [6 \(1\) 3](#) and [6 \(1\) 6](#);
5. Transfer or acquisition by merger of all the financial investment services (including cases equivalent to such business) falling under any of [Article 6 \(1\) 4](#) and [6 \(1\) 5](#);
6. Discontinuation of all financial investment services (including cases equivalent to such business) falling under any of [Article 6 \(1\) 1](#) through [6 \(1\) 3](#) and [6 \(1\) 6](#);
7. Discontinuation of all the financial investment services (including cases equivalent to such business) falling under any of [Article 6 \(1\) 4](#) and [6 \(1\) 5](#); or
8. Other activities prescribed by Presidential Decree as necessary for the protection of investors or creditors.

(2) The Financial Services Commission shall, when it grants approval under paragraph (1), announce the details of such approval in the official gazette and on its Web site. <Amended by Act No. 8863, Feb. 29, 2008>

(3) The standards and methods for approval under paragraph (1) and other matters necessary to handle such approval shall be provided for by Presidential Decree.

Article 418 (Reporting Items)

In a case falling under any of the following subparagraphs, a financial investment firm (in the case of an integrated financial investment firm, limited to subparagraphs 6 through 9) shall report thereon to the Financial Services Commission in accordance with Presidential Decree: <Amended by Act No. 8863, Feb. 29, 2008>

1. Where the trade name is changed;
2. Where any material matter prescribed by Presidential Decree in the articles of incorporation is changed;
3. Where any executive is appointed or dismissed (including resignation);
4. Where the largest shareholder is changed;
5. Where the portion of stocks held by a major shareholder or its specially-related persons is changed in excess of 1/100 of the total number of outstanding stocks with voting rights;
6. Where part of the financial investment services falling under any of [Articles 6 \(1\) 1](#) through [6 \(1\) 3](#) and [6 \(1\) 6](#) is transferred or acquired;
7. Where part of the financial investment services falling under any of [Articles 6 \(1\) 4](#) and [6 \(1\) 5](#) is

- transferred or acquired;
- 8. Where part of the financial investment services falling under any of [Articles 6](#) (1) 1 through 6 (1) 3 and 6 (1) 6 is discontinued;
- 9. Where part of the financial investment services falling under any of [Articles 6](#) (1) 4 and 6 (1) 5 is discontinued;
- 10. Where any branch or business office is newly established or closed;
- 11. Where the location of the head office is changed;
- 12. Where the business of the head office, branch, or any other business office is suspended or resumed; or
- 13. Others prescribed by Presidential Decree as necessary for the protection of investors or sound trade practice.

CHAPTER II INSPECTION AND DISPOSITIONS

Article 419 (Inspection on Financial Investment Business Entity)

- (1) Each financial investment business entity shall receive inspections conducted by the Governor of the Financial Supervisory Service on the status of its business and property.
- (2) If the Monetary Policy Committee concludes it necessary in connection with the business of a financial investment business entity under subparagraph 3 or 4 of [Article 40](#) for implementation of the monetary and credit policy and management of the payment settlement system, the Bank of Korea may demand the financial investment business entity that engages in the business under subparagraph 3 or 4 of [Article 40](#) to submit relevant materials. In this case, the scope of the materials so demanded shall be limited to the minimum as may be necessary, considering the work load of the financial investment business entity.
- (3) If the Monetary Policy Committee concludes it necessary in connection with the business of a financial investment business entity under subparagraph 3 or 4 of [Article 40](#) for implementation of the monetary and credit policy, the Bank of Korea may demand the Governor of the Financial Supervisory Service to conduct an inspection or a joint inspection together with the Bank of Korea on the business of a financial investment business entity that engages in the business under subparagraph 3 or 4 of Article 40.
- (4) The [Articles 87 and 88 of the Bank of Korea Act](#) and [Article 62 of the Act on the Establishment, etc. of Financial Services Commission](#) shall apply *mutatis mutandis* to the method and procedure for the demands under paragraphs (2) and (3). <Amended by Act No. 8863, Feb. 29, 2008>
- (5) The Governor of the Financial Supervisory Service may, if deemed necessary for conducting an inspection pursuant to paragraph (1), demand the financial investment business entity to submit a report on its business or property, submit relevant materials, bring witnesses for testimony, and give testimony or state an opinion.
- (6) Each person who conducts an inspection pursuant to paragraph (1) shall carry an identification showing his/her authority, and shall present it to the people concerned.
- (7) The Governor of the Financial Supervisory Service shall, upon completion of an inspection pursuant to paragraph (1), submit a report thereon to the Financial Services Commission. In this case, if there is any violation of this Act or an order or disposition issued or made pursuant to this Act, his/her written opinion on the countermeasures against such as violation shall be attached thereto. <Amended by Act No. 8863, Feb. 29, 2008>
- (8) The Governor of the Financial Supervisory Service may, in accordance with Presidential Decree, entrust part of inspection works under paragraph (1) to the Exchange or Association.
- (9) The Financial Services Commission may determine, and give notification of, the methods and procedures for inspection, the standards for measures for the results of inspection, and other matters relating to inspection works. <Amended by Act No. 8863, Feb. 29, 2008>

Article 420 (Dispositions against Financial Investment Business Entities)

- (1) If a financial investment business entity comes to fall under any of the following subparagraphs, the Financial Services Commission may revoke authorization of the financial investment business under [Article 12](#) or the registration of the financial investment business under [Article 18](#): <Amended by Act No. 8863, Feb. 29, 2008>
 - 1. If it obtained authorization of a financial investment business or registered by falsity or in any other fraudulent way;
 - 2. If it violates a condition of authorization;
 - 3. If it breaches duties to maintain requirements for authorization under [Article 15](#) or requirements for registration under [Article 20](#);
 - 4. If it continues to run business during a period of suspension of business;
 - 5. If it does not comply with an order issued by the Financial Services Commission to rectify or discontinue;

6. If it falls under any subparagraph of the attached Table 1, as prescribed further by Presidential Decree;
 7. If it violates any of the finance-related laws and statutes specified by Presidential Decree, as prescribed further by Presidential Decree; or
 8. If there is a possibility of undermining investors' interests seriously or it is found difficult to continue its financial investment business, as prescribed further by Presidential Decree.
- (2) A financial investment business entity (excluding a concurrently-run financial investment business entity) shall be dissolved upon the revocation of authorization for and the registration of the financial investment business related to its business pursuant to paragraph (1).
- (3) The Financial Services Commission may take any of the following measures, if a financial investment business entity falls under any subparagraph of paragraph (1) (excluding subparagraph 6) or any subparagraph of the attached Table 1: *<Amended by Act No. 8863, Feb. 29, 2008>*
1. Suspension of its business entirely or partially for six months or less;
 2. Order to transfer the trust contract and other contracts;
 3. Order to correct or discontinue violation;
 4. Order to publicly disclose or notify the fact that it becomes subjected to a measure due to its violation;
 5. Institutional warning;
 6. Institutional caution; or
 7. Other measures specified by Presidential Decree as necessary for correcting or preventing violation.

Article 421 (Special Cases Concerning Revocation, etc. of Authorization or Registration of Branch Offices, etc. of Foreign Financial Investment Business Entities)

- (1) The Financial Services Commission may take a measure, against a branch office or any other sales office of a foreign financial investment business entity, to revoke the licence for the financial investment business under [Article 12](#) or the registration of the financial investment business under [Article 18](#), if any of the following events occurs to the foreign financial investment business entity: *<Amended by Act No. 8863, Feb. 29, 2008>*
1. Dissolution;
 2. Bankruptcy;
 3. Disappearance as a consequence of a merger, business transfer, etc.;
 4. Discontinuance of a business corresponding to the financial investment business in which the domestic branch office or other sales office engages, or revocation of authorization for or the registration of such a business;
 5. Suspension or stoppage of a business corresponding to the financial investment business in which the domestic branch office or other sales office engages; or
 6. When it violates any law or statute of the foreign country concerned (applicable only where it is deemed difficult for the domestic branch office or other sales office to continue its business due to such a violation).
- (2) If any of the events set forth in subparagraphs of paragraph (1) occurs, the branch office or any other sales office of the foreign financial investment business entity shall report the fact to the Financial Services Commission without delay. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (3) A branch office or any other sales office of a foreign financial investment business entity shall commence liquidation proceedings immediately when both of authorization for and the registration of the financial investment business related to its business are revoked.
- (4) Paragraphs (1) and (2) shall apply *mutatis mutandis* to the revocation, etc. of the registration of an offshore investment advisory business entity or an offshore discretionary business entity. In this case, the term "foreign financial investment business entity" in the part above subparagraphs of paragraph (1) shall be construed as "offshore investment advisory business entity or offshore discretionary investment business entity", the term "branch office or any other sales office of a foreign financial investment business entity" as "offshore investment advisory business entity or offshore discretionary investment business entity", the term "financial investment business in which the domestic branch office or any other sales office engages" in subparagraphs 4 and 5 of the same paragraph as "investment advisory business entity or discretionary investment business", the term "domestic branch office or any other sales office" in subparagraph 6 of the same paragraph as "offshore investment advisory business entity or offshore discretionary investment business entity", and the term "branch office or any other sales office of a foreign financial investment business entity" in paragraph (2) as "offshore investment advisory business entity or offshore discretionary investment business entity".

Article 422 (Dispositions against Executives or Employees)

- (1) The Financial Services Commission may take any of the following measures, if an executive of a financial investment business entity falls under any subparagraph of [Article 420](#) (1) (excluding subparagraph 6) or any subparagraph of the attached Table 1: *<Amended by Act No. 8863, Feb.*

29, 2008>

1. Request for dismissal;
 2. Suspension from office for up to six months;
 3. Disciplinary warning;
 4. Cautionary warning;
 5. Caution; or
 6. Other measures prescribed by Presidential Decree as necessary to correct or prevent violation.
- (2) The Financial Services Commission may demand a financial investment business entity take any of the following measures against any of its employees, if the employee falls under any subparagraph of [Article 420](#) (1) (excluding subparagraph 6) or any subparagraph of the attached Table 1: <Amended by Act No. 8863, Feb. 29, 2008>
1. Removal;
 2. Suspension of his/her duty for six months or less;
 3. Salary reduction;
 4. Reprimand;
 5. Warning;
 6. Caution; or
 7. Other measure prescribed by Presidential Decree as necessary for correcting or preventing such violation.
- (3) When the Financial Services Commission takes a measure against an executive or employee of a financial investment business entity or demands such a financial investment business entity to take a measure against any of its executives or employees pursuant to the paragraph (1) or (2) of this Article, it may also take another measure against a person responsible for control and supervision or demand such a measure: *Provided*, That such measure may be mitigated or exempted if the person responsible for control and supervision has exercised reasonable care in control of and supervision over the executive or employee. <Amended by Act No. 8863, Feb. 29, 2008>

Article 423 (Hearing)

The Financial Services Commission shall hold a hearing, whenever it intends to make or take either of the following dispositions or measures: <Amended by Act No. 8863, Feb. 29, 2008>

1. Revocation of authorization or registration of a financial investment business pursuant to [Article 420](#) (1) or 421 (1) [including the cases as applicable *mutatis mutandis* in paragraph (4) of the same Article]; or
2. Demand for dismissal or removal of an executive or employee of a financial investment business entity pursuant to [Article 422](#).

Article 424 (Keeping Records, Public Disclosure, etc. of Dispositions, etc.)

- (1) The Financial Services Commission shall, when it makes a disposition or takes a measure pursuant to the provisions of [Articles 420 through 422](#), keep and maintain the records of such a disposition or a measure. <Amended by Act No. 8863, Feb. 29, 2008>
- (2) The Financial Services Commission shall, when it takes a measure pursuant to [Article 420](#) (1) or (3) or [421](#) (1) [including the cases as applicable *mutatis mutandis* in paragraph (4) of the same Article], give a public notice of the fact in the official gazette and on its website. <Amended by Act No. 8863, Feb. 29, 2008>
- (3) In case where it is deemed that a retired executive or resigned employee of a financial investment business entity should be subjected to a measure under [Article 422](#) (1) 1 or (2) 1 if he/she were in service or in employment, the Financial Services Commission may require the Governor of the Financial Supervisory Service to notify the relevant financial investment business entity of the details of the measure deemed to be probably given. In this case, the financial investment business entity shall, upon receiving such a notice, inform the retired executive or resigned executive about the notice. <Amended by Act No. 8863, Feb. 29, 2008>
- (4) Paragraph (1) shall apply *mutatis mutandis* to case where a financial investment business entity takes a measure against an executive or employee in compliance with the demand of the Financial Services Commission or where it receives a notice pursuant to paragraph (3). <Amended by Act No. 8863, Feb. 29, 2008>
- (5) A financial investment business entity or any of its executives or employees (including former executives or employees) may inquire the Financial Services Commission about a disposition or measure taken against it or him/her pursuant to [Articles 420 through 422](#) and the details of such a disposition or measure. <Amended by Act No. 8863, Feb. 29, 2008>
- (6) The Financial Services Commission shall, upon receiving a request for inquiry under paragraph (5), inform the requester about whether any disposition or measure has been taken and the details of such a disposition or measure, if any, unless there is a justifiable reason otherwise. <Amended by Act No. 8863, Feb. 29, 2008>

Article 425 (Objection)

- (1) A person who is dissatisfied with the disposition or measure under any provision of [Article 420](#) (1)

- and (3), [Article 421](#) (1) and (4), [Article 422](#) (1) 2 through 6, and [Article 422](#) (3) [which shall be limited to the measure falling under any subparagraph of paragraph (1) 2 through 6] may file an objection, stating the reasons therefor, with the Financial Services Commission within 30 days after such a disposition or measure is notified. <Amended by Act No. 8863, Feb. 29, 2008>
- (2) The Financial Services Commission shall make a decision on an objection filed in accordance with paragraph (1) within 60 days: *Provided*, That the period of time may be extended by 30 days or less, if it is impossible to make a decision within that period of time due to a unavoidable situation. <Amended by Act No. 8863, Feb. 29, 2008>

CHAPTER III INVESTIGATION, ETC.

Article 426 (Reporting and Investigation)

- (1) The Financial Services Commission (or the Securities and Futures Commission in case where a violation of any provision of [Articles 172 through 174](#), [176](#), [178](#), and [180](#) is involved; the same shall apply hereinafter for the purposes of this Article) may, if there is a violation of this Act or an order or a disposition issued or made pursuant to this Act or if it is deemed necessary for protecting investors or maintain the sound trade practice, order any person concerned to submit a report or materials for reference or require the Governor of the Financial Supervisory Service to inspect account books, documents and other materials. <Amended by Act No. 8863, Feb. 29, 2008>
- (2) The Financial Services Commission may demand any person concerned to perform the following actions for the investigation under paragraph (1): <Amended by Act No. 8863, Feb. 29, 2008>
1. Submission of a statement on the facts and the status of the case under investigation;
 2. Attendance of witnesses for a case under investigation; and
 3. Submission of account books, documents, and other materials necessary for the investigation.
- (3) The Financial Services Commission may, if deemed necessary for the investigation of a violation of any provision of [Articles 172 through 174](#), [176](#), [178](#), and [180](#) while conducting an investigation pursuant to paragraph (1), take the following measures: <Amended by Act No. 8863, Feb. 29, 2008>
1. Provisionally keeping in custody accounts books, documents, and other materials submitted in accordance with paragraph (2) 3; and
 2. Entering an office or a place of business of any person concerned and conducting an investigation of business affairs, account books, and other materials therein.
- (4) The Financial Services Commission may, if deemed necessary in conducting the investigation under paragraph (1), demand a financial investment business entity, an institution related to the financial investment business, or the Exchange to submit materials as may be necessary for the investigation in the manner prescribed by Presidential Decree. <Amended by Act No. 8863, Feb. 29, 2008>
- (5) The Financial Services Commission may, if it finds, as a result of the investigation under paragraph (1), that there is a ground set forth in any subparagraph of the attached Table 15, issue an order to correct or take other measure prescribed by Presidential Decree, and may also prescribe and publicly notify the procedure, guidelines for measures, and other matters necessary for the investigation and measures. <Amended by Act No. 8863, Feb. 29, 2008>
- (6) The Exchange shall, when it becomes aware of a suspected violation of this Act or an order or a disposition issued or made pursuant to this Act as a result of its inquiry into an abnormal transaction or supervision over members, notify the Financial Services Commission thereof. <Amended by Act No. 8863, Feb. 29, 2008>
- (7) Each person who conducts an investigation under paragraph (3) 2 shall carry an identification showing his/her authority with him/her and present it to the persons concerned.
- (8) The Financial Services Commission may make a public announcement of the results of the investigation of a person in question, the results of the disposition against such a person, and other information and materials necessary for preventing violations of people concerned. <Amended by Act No. 8863, Feb. 29, 2008>

Article 427 (Seizure and Search for Investigation of Unfair Trading)

- (1) The Securities and Futures Commission may, if deemed necessary for investigating a violation of any provision of [Articles 172](#) through [174](#), [176](#), [178](#), and [180](#) (hereinafter referred to "violation"), may assign public officials specified by Presidential Decree (hereinafter referred to as "investigative officials") among those who work for the Financial Services Commission to interrogate the suspect involved in such as violation, seize goods, or search a place of business, etc. <Amended by Act No. 8863, Feb. 29, 2008>
- (2) Investigative officials shall, whenever they conduct a seizure or search for investigating a violation, carry a warrant for seizure and search issued by a judge upon a public prosecutor's request.
- (3) Investigative officials shall, whenever they conduct an interrogation, seizure, or search pursuant to

- paragraph (1), carry an identification with them showing their authority and present it to the person concerned.
- (4) The provisions of the [Criminal Procedure Act](#) governing seizure and search, execution of a warrant for seizure and search, return of seized goods, etc. shall apply *mutatis mutandis* to a seizure and search and the warrant for seizure and search provided for in this Act.
 - (5) Each investigative official shall, when he/she provisionally keeps something in custody, or completes a seizure or search, make a record of all the proceedings, show it to a witness or the interrogatee for confirmation, and print his/her name and affix his/her seal or write his/her signature thereon jointly with the witness or the interrogatee. In this case, if the witness or interrogatee refuses to, or is unable to, print his/her name and affix his/her seal or write his/her signature thereon, such a situation shall be described therein additionally.
 - (6) Each investigative official shall, upon completion of the investigation of a violation, shall report the results to the Securities and Futures Commission.

CHAPTER IV PENALTY SURCHARGE

Article 428 (Penalty Surcharge on Financial Investment Business Entities)

- (1) The Financial Services Commission may impose a penalty surcharge within the limit of 20/100 of a violated amount (which means the acquisition price in the case of [Article 34](#) (1) 1, the acquisition price exceeding the allowable ratio in the case of subparagraph 2 of the same paragraph, and the credit grant amount in the case of paragraph (2) of the same Article respectively) on a financial investment business entity, if it violates any provision of [Article 34](#) (1) 1 and 2, and 34 (2). *<Amended by Act No. 8863, Feb. 29, 2008>*
- (2) The Financial Services Commission may impose a penalty surcharge on a financial investment business entity in lieu of the disposition of business suspension within the limit of the benefits of a period of suspension of business, in case where it may impose a disposition of business suspension pursuant to [Article 420](#) (3). *<Amended by Act No. 8863, Feb. 29, 2008>*

Article 429 (Penalty Surcharge on Violation in Public Disclosure)

- (1) The Financial Services Commission impose the penalty surcharge on a person who falls under [Article 125](#) (1) within the limit of 3/100 of the amount of public offering or sale written on the relevant registration statement (or two billion won if the amount exceeds two billion won), if the person comes to fall under any of the following subparagraphs: *<Amended by Act No. 8863, Feb. 29, 2008>*
 1. If there is a false description or representation in the statement, prospectus, or any other document submitted as set forth in [Article 119](#), [122](#), or [123](#) concerning a material fact or an omission of description or representation of a material fact therein; or
 2. If the person does not perform its duty to submit a statement, prospectus, or any other document as set forth in [Article 119](#), [122](#), or [123](#).
- (2) The Financial Services Commission may, if a person who falls under any subparagraph of [Article 142](#) (1) comes to fall under any of the following subparagraphs, impose the penalty surcharge on the person within the limit of 3/100 of the total amount of contemplated purchase written on the relevant tender offer statement (or two billion won if the amount exceeds two billion won). In this case, the total amount of contemplated purchase shall be the one calculated by multiplying the quantity of stocks, etc. subject to the tender offer by the tender offer price: *<Amended by Act No. 8863, Feb. 29, 2008>*
 1. If there is a false description or representation in the statement, prospectus, or any other submitted document or public notice as set forth in [Article 134](#), [136](#), or [137](#) concerning a material fact or an omission of description or representation of a material fact therein; or
 2. If the person does not perform its duty to submit or give a public notice of a statement, prospectus, or any other document as set forth in [Article 134](#), [136](#), or [137](#).
- (3) If a corporation that is obligated to submit a business report in accordance with [Article 159](#) (1), [160](#), or [161](#) (1) comes to fall under any of the following subparagraphs, the Financial Services Commission may impose the penalty surcharge on the corporation within the limit of 10/100 of the average daily trading amount, as traded in the securities exchange during the immediately preceding business year, of the stocks (including securities depository receipts related to the stocks; hereafter the same shall apply in this paragraph) issued by the corporation (two billion won if the amount exceeds two billion won or if the stocks issued by the corporation have not been traded in the securities exchange): *<Amended by Act No. 8863, Feb. 29, 2008; Act No. 9407, Feb. 3, 2009>*
 1. If there is a false description or representation in the business report, etc. as set forth in [Article 159](#) (1), [160](#), or [161](#) (1) concerning a material fact or an omission of description or representation of a material fact therein; or

2. If the person does not perform its duty to submit the business report, etc. as set forth in [Article 159](#) (1), [160](#), or [161](#) (1).
- (4) The penalty surcharge under the provisions of paragraphs (1) through (3) shall not be imposed upon the lapse of three years after a violation under any of relevant provisions was committed.

Article 430 (Imposition of Penalty Surcharge)

- (1) The penalty surcharge under [Articles 428](#) and [429](#) shall be imposed only when there is an intentional or grossly negligent act of a person subject to the imposition of a penalty surcharge in connection with violation under the relevant provision.
- (2) The Financial Services Commission shall, when it imposes the penalty surcharge pursuant to [Article 428](#) or [429](#), consider the following factors in accordance with the guidelines prescribed by Presidential Decree: *<Amended by Act No. 8863, Feb. 29, 2008; Act No. 9407, Feb. 3, 2009>*
 1. Facts and seriousness of the violation;
 2. Duration and frequency of the violation;
 3. Scale of benefits acquired by the violation; and
 4. Period of business suspension (limited to cases where penalty surcharges are imposed pursuant to [Article 428](#) (2)).
- (3) If a corporation that violated this Act is merged with another corporation, the Financial Services Commission may deem that such violation was committed by the surviving corporation or newly established corporation after the merger, and impose and collect the penalty surcharge accordingly. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (4) Matters necessary for the imposition of the penalty surcharge shall be prescribed by Presidential Decree.

Article 431 (Presentation of Opinions)

- (1) Before imposing a penalty surcharge, the Financial Services Commission shall give the person concerned or an interested person, etc. an opportunity to present an opinion. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (2) The person concerned or an interested person, etc. under paragraph (1) may attend at a meeting of the Financial Services Commission to make a statement or submit materials as may be necessary. *<Amended by Act No. 8863, Feb. 29, 2008>*

Article 432 (Objection)

- (1) A person who is dissatisfied with the disposition of imposition of a penalty surcharge under [Article 428](#) or [429](#) may file an objection, stating the reasons therefor, with the Financial Services Commission within 30 days after such a disposition is notified. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (2) The Financial Services Commission shall make a decision on an objection filed in accordance with paragraph (1) within 60 days: *Provided*, That the period of time may be extended by 30 days or less, if it is impossible to make a decision within that period of time due to unavoidable circumstances. *<Amended by Act No. 8863, Feb. 29, 2008>*

Article 433 (Extension of Time Limit for Payment of Penalty Surcharge and Installment Payment)

- (1) The Financial Services Commission may, if deemed difficult for a person upon whom a penalty surcharge is imposed (hereinafter referred to as "person obligated to pay a penalty surcharge") to pay the full amount of a penalty surcharge in a lump sum due to any of the following causes, extend the time limit for payment or allow the person to pay it in installments. In this case, the Commission may require the person to offer an asset as security, if deemed necessary to do so: *<Amended by Act No. 8863, Feb. 29, 2008>*
 1. If the person suffers from a serious loss in property due to a disaster, theft, etc.;
 2. If the person's business faces a crucial crisis due to worsened business conditions;
 3. If it is anticipated that the person will suffer severe hardship in finance if the penalty surcharge shall be paid in a lump sum; or
 4. If there is any cause similar to those set forth in subparagraphs 1 through 3.
- (2) A person obligated to pay the penalty surcharge shall, if the person wishes to have the time period for payment of the penalty surcharge extended or pay it in installments in accordance with paragraph (1), file an application with the Financial Services Commission no later than ten days before the time limit for payment. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (3) When a person obligated to pay the penalty surcharge comes to fall under any of the following subparagraphs after the time limit for the payment is extended or the payment in installment is allowed, the Financial Services Commission may revoke the decision on the extension of the time limit for payment or the allowance of the payment in installments and collect the penalty surcharge in at once: *<Amended by Act No. 8863, Feb. 29, 2008>*
 1. If the person fails to pay the installments of the penalty surcharge as allowed within the time limit;
 2. If the person fails to perform an order issued by the Financial Services Commission as necessary for the replacement or preservation of security;

3. If it is deemed impossible to collect the full amount or balance of the penalty surcharge due to compulsory execution, commencement of auction, declaration of bankruptcy, dissolution of the corporation, or the disposition on default of a national or local tax; or
 4. If other grounds equivalent to those under subparagraphs 1 through 3 exist.
- (4) Necessary matters on the extension of the time limit for payment, the allowance of the payment in installments, or security, etc. under the provisions of paragraphs (1) through (3) shall be prescribed by Presidential Decree.

Article 434 (Collection of Penalty Surcharge and Disposition on Default)

- (1) The Financial Services Commission may, if a person obligated to pay the penalty surcharge fails to pay the penalty surcharge within the time limit, collect additional charges as prescribed by Presidential Decree for the period of time beginning on the day following the time limit and ending on the day before the date on which the penalty surcharge is fully paid. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (2) If a person obligated to pay the penalty surcharge within the time limit, the Financial Services Commission may demand the person to pay it within a given period of time, and may collect it in accordance with the practices of the disposition on default on national taxes, if the person fails to pay the penalty surcharge and the additional charge under paragraph (1) within the given period of time. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (3) The Financial Services Commission may entrust the Commissioner of the National Tax Service with the affairs related to the collection of the penalty surcharge and the addition charge under paragraphs (1) and (2) or the disposition on default. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (4) Matters necessary for the collection of the penalty surcharge shall be prescribed by Presidential Decree, in addition to the provisions of paragraphs (1) through (3).

Article 434-2 (Refund of Overpayments or Erroneous Payments)

- (1) The Financial Services Commission shall, when a person obligated to pay penalty surcharges requests the refund of the penalty surcharges excessively or erroneously paid according to such reasons as the adjudication for an objection or judgment of a court, etc., refund such excessive or erroneous payment without delay, and if the Financial Services Commission confirms any excessive or erroneous payment, the Commission shall refund it without the request of a person obligated to pay the penalty surcharges.
- (2) The Financial Services Commission may, when it refunds excessive or erroneous payments pursuant to paragraph (1), appropriate such excessive or erroneous payments to the penalty surcharges if there exists any penalty surcharge to be paid to the Commission by the person subject to the refund.

[This Article Newly Inserted by Act No. 9407, Feb. 3, 2009]

Article 434-3 (Additional Payment on Refund of Penalty Surcharges)

The Financial Services Commission shall, when it refunds penalty surcharges pursuant to [Article 434-2](#) (1), refund the additional payment on refund of penalty surcharges calculated by adding the interest rate for additional payment prescribed by Presidential Decree, accruing for the period from the date of payment of penalty surcharges to the date of refund thereof.

[This Article Newly Inserted by Act No. 9407, Feb. 3, 2009]

Article 434-4 (Disposition on Deficits)

The Financial Services Commission may write off penalty surcharges when a person obligated to pay penalty surcharges has any reason falling under any of the following subparagraphs:

1. Where the allocation amount appropriated to an arrearage after the disposition on default falls short of the arrearage;
2. Where the extinctive prescription for the rights to collect penalty surcharges is complete;
3. Where the whereabouts of a delinquent person is unknown or it is found that he/she has no property;
4. Where it is found that the estimated value of the total property which is the object of a disposition on default is appropriated to the cost of taking such disposition, leaving no room for any balance;
5. Where it is found that the total property which is the object of a disposition on default is appropriated to the repayment of national taxes, local taxes, debts secured with Chonseghwon (right of registered lease on deposit basis), pledge or mortgage, which take precedence over the money to be collected, leaving no room for any balance; or
6. Other reasons prescribed by Presidential Decree as unlikely to collect.

[This Article Newly Inserted by Act No. 9407, Feb. 3, 2009]

PART IX SUPPLEMENTARY PROVISIONS

Article 435 (Reporting on Violation and Protection of Informant)

- (1) Anyone may give the Financial Services Commission (which means the Securities and Futures

Commission, in case where any provision of [Articles 172 through 174](#), [176](#), [178](#), and [180](#) is violated; the same shall apply hereinafter for the purposes of this Article) a report or information on an unfair trading under the provisions of Part IV or any other violation of this Act, if he/she becomes aware of such a violation or has been forced or proposed to commit such a violation. <Amended by Act No. 8863, Feb. 29, 2008>

- (2) The Financial Services Commission shall, upon receiving a report or information in accordance with paragraph (1), handle the case promptly, and shall notify the person who gave the report or information (hereinafter referred to as "informant, etc." for the purposes of this Article) of the results thereof. <Amended by Act No. 8863, Feb. 29, 2008; Act No. 9407, Feb. 3, 2009>
- (3) Deleted. <by Act No. 9407, Feb. 3, 2009>
- (4) The Financial Services Commission shall keep the identification, etc. of the informant, etc. confidential, when it receives a report or an information under paragraph (1). <Amended by Act No. 8863, Feb. 29, 2008>
- (5) Any institution, organization, or company to which an informant, etc. belongs shall not treat the informant, etc. unfavorably in connection with the report or information directly or indirectly.
- (6) An informant, etc. shall not have the protection under this Act, if he gave a report or an information even though he/she knew or was able to know that the facts reported are untrue.
- (7) The Financial Services Commission may pay reward to an informant, etc. <Amended by Act No. 8863, Feb. 29, 2008>
- (8) In addition to the matters prescribed under paragraphs (1) through (7), matters concerning the methods and processing of a report, methods of notifying an informant, etc., the protection of informants, etc., and the payment of rewards shall be prescribed by Presidential Decree. <Amended by Act No. 9407, Feb. 3, 2009>

Article 436 (Electronical Reporting)

- (1) A statement, report, or other document or material may be submitted electronically, when it is submitted to the Financial Services Commission, the Securities and Futures Commission, the Governor of the Financial Supervisory Service, the Association, or the Depository in compliance with this Act. <Amended by Act No. 8863, Feb. 29, 2008>
- (2) The method and procedure for electronic reporting, etc. under paragraph (1) and other necessary matters shall be prescribed by Presidential Decree.

Article 437 (Exchange of Informations with Foreign Financial Investment Supervisory Agencies)

- (1) The Financial Services Commission may exchange informations with the supervisory agency of financial investment business in a foreign country (hereinafter referred to "foreign financial investment supervisory agency"). <Amended by Act No. 8863, Feb. 29, 2008>
- (2) The Financial Services Commission (which means the Securities and Futures Commission, in case where any provision of [Articles 172 through 174](#), [176](#), [178](#), and [180](#) is violated; the same shall apply hereinafter for the purposes of this Article) may, upon receiving a request from a foreign financial investment supervisory agency for investigation or inspection under the methods specified by this Act by stating the purpose, scope, etc. of acts in violation of this Act or foreign Acts and subordinate statutes equivalent to this Act, give cooperation in such a matter. In this case, the Financial Services Commission may provide the foreign financial investment supervisory agency with materials relevant to the investigation or inspection or receive such materials from it under the principle of reciprocity. <Amended by Act No. 8863, Feb. 29, 2008; Act No. 9407, Feb. 3, 2009>
- (3) The Financial Services Commission may furnish a foreign financial investment supervisory agency with materials relevant to an investigation or inspection in accordance with the last sentence of paragraph (2), only when all the following requirements are met: <Amended by Act No. 8863, Feb. 29, 2008; Act No. 9407, Feb. 3, 2009>
 1. The materials relevant for an investigation or inspection, as furnished to the foreign financial investment supervisory agency shall not be used for any purpose other than the intended purpose at the time of furnishing them; and
 2. The materials relevant to the investigation or inspection and the fact that such materials are furnished shall be kept confidential: *Provided*, That the same shall not apply to cases where the materials relevant to the investigation or inspection is used for the disposition, trial, or procedures equivalent thereto with respect to the violations of foreign Acts and statutes equivalent to this Act, within the scope of purpose for the provision of the materials relevant to the investigation or inspection; and
 3. Deleted. <by Act No. 9407, Feb. 3, 2009>
- (4) The Exchange may exchange information with foreign exchanges. In this case, the Exchange shall, in advance, consult with the Financial Services Commission: *Provided*, That the Exchange may not do so in any case in which information disclosed to the public is exchanged or in other cases provided for by Presidential Decree. <Amended by Act No. 8863, Feb. 29, 2008>
- (5) Paragraph (2) shall apply *mutatis mutandis* to any case in which the Exchange exchanges information with foreign exchanges under paragraph (4). In this case, "Financial Services Commission", "foreign financial investment supervisory agency" and "investigation or inspection"

referred to in paragraph (2) shall be read as "Exchange", "foreign exchange" and "examination or supervision", respectively. <Newly Inserted by Act No. 8863, Feb. 29, 2008; Act No. 9407, Feb. 3, 2009>

Article 438 (Delegation or Entrustment of Authority)

- (1) Deleted. <by Act No. 8863, Feb. 29, 2008>
- (2) The Financial Services Commission may delegate part of its authority under this Act to the Securities and Futures Commission, as prescribed by Presidential Decree. <Amended by Act No. 8863, Feb. 29, 2008>
- (3) The Financial Services Commission may entrust part of its authority to the Exchange or the Association, as prescribed by Presidential Decree. <Amended by Act No. 8863, Feb. 29, 2008>
- (4) The Financial Services Commission or the Securities and Futures Commission may delegate part of its authority under this Act to the Governor of the Financial Supervisory Service, as prescribed by Presidential Decree. <Amended by Act No. 8863, Feb. 29, 2008>

Article 439 (Deliberation by the Securities and Futures Commission)

The Financial Services Commission may refer a case to the Securities and Futures Commission for deliberation, when the case falls under any of the following subparagraphs: <Amended by Act No. 8863, Feb. 29, 2008; Act No. 9407, Feb. 3, 2009>

1. When the case involves the establishment of either of the following items:
 - (a) Procedure and guidelines for the inspection and measures under [Article 131](#) (1) or [132](#), the first sentence of paragraph (1) and paragraph (2) of [Article 146](#), the first sentence of paragraph (1) and paragraph (2) of [Article 151](#), the first sentence of paragraph (1) and paragraph (2) of [Article 158](#), or the first sentence of paragraph (1) and paragraph (2) of Article 164;
 - (b) Standards for financial management under [Article 165-16](#); or
 - (c) Procedure and guidelines for the inspection and measures of the Financial Services Commission under [Article 426](#) (5).
2. When the case involves any of the following dispositions, orders, etc.:
 - (a) Measure under [Article 132](#), [146](#) (2), [151](#) (2), [158](#) (2), [164](#) (2), and [165-17](#);
 - (b) Recognition of issuance of non-voting stocks under [Article 165-15](#) (1) 2;
 - (c) Approval for the limitations on the ratio of owned stocks under [Article 167](#) (2);
 - (d) Order under [Article 416](#);
 - (e) Measure following the results of the investigation under [Article 426](#) (5);
 - (f) Disposition of imposition of the penalty surcharge under [Article 428](#) or [429](#); or
 - (g) Disposition of imposition of the fine for negligence under [Article 449](#) (3);
3. Other matters on which the Financial Services Commission deems that deliberation by the Securities and Futures Commission is necessary.

Article 440 (Instruction to and Supervision over the Governor of the Financial Supervisory Service, etc.)

- (1) The Financial Services Commission or the Securities and Futures Commission may, if deemed necessary for exercising the authority under this Act, may order the Governor of the Financial Supervisory Service to change the method of instruction, supervision, and execution of business affairs, and take any other measure necessary for supervision. <Amended by Act No. 8863, Feb. 29, 2008>
- (2) The Financial Supervisory Service shall execute the following affairs under the direction and supervision of the Financial Services Commission or the Securities and Futures Commission in compliance with the Act: <Amended by Act No. 8863, Feb. 29, 2008>
 1. Affairs related to the registration statement;
 2. Affairs related to the tender offer of securities;
 3. Affairs related to the inspection on institutions that shall receive an inspection by the Governor of the Financial Supervisory Service pursuant to this Act;
 4. Affairs related to the control of listed corporations;
 5. Affairs related to the report on business analysis and business status of listed corporations;
 6. Affairs related to supervision over trading of securities and over-the-counter derivatives outside the securities exchange and derivatives market;
 7. Affairs entrusted by the Government;
 8. Other affairs assigned pursuant to this Act; and
 9. Affairs incidental to those under subparagraphs 1 through 8.

Article 441 (Restriction on Trading of Financial Investment Instruments, etc.)

Articles 63 and 383 (1) shall apply *mutatis mutandis* to the following persons: <Amended by Act No. 8863, Feb. 29, 2008>

1. Members of the Financial Services Commission and public officials under the control thereof;
2. Members of the Securities and Futures Commission; and
3. Governor, Deputy governors, Assistant Governors, and Auditor of the Financial Supervisory Service and the employees of the Service.

Article 442 (Liability for Expenses)

- (1) Each issuer (which refers to an investment trust if the securities involved are beneficiary certificates of the investment trust, while it refers to an undisclosed investment association if the securities involved are equity shares of the undisclosed investment association) files a registration statement with the Financial Services Commission shall bear part of the operating expenses of the Financial Services Commission. <Amended by Act No. 8863, Feb. 29, 2008>
- (2) The rate and limit of allocated expenses under paragraph (1) and other matters necessary for the payment of such allocated expenses shall be prescribed by Presidential Decree.

PART X PENAL PROVISIONS**Article 443 (Penal Provisions)**

- (1) A person who falls under any of the following subparagraphs shall be punished by imprisonment for not more than ten years or by a fine not exceeding 500 million won: *Provided*, That a person shall be punished by a fine not exceeding an amount equivalent to three times the profit accrued or the loss avoided by a violation, if the amount equivalent to three times the profit accrued or the loss avoided by the violation exceeds 500 million won:
 1. A person who used or allowed any other person to use material nonpublic information related to the business, etc. of a listed corporation in trading specific securities, etc. or any other transaction in violation of [Article 174](#) (1);
 2. A person who used or allowed any other person to use nonpublic information related to commencement or discontinuance of a tender offer for stocks, etc. in trading specific securities, etc. related to such stocks, etc. or any other transaction in violation of [Article 174](#) (2);
 3. A person who used or allowed any other person to use nonpublic information related to commencement or discontinuance of acquisition or disposal of stocks, etc. in bulk in trading specific securities, etc. related to such stocks, etc. or any other transaction in violation of [Article 174](#) (3);
 4. A person who misled any other person in violation of [Article 176](#) (1) to misunderstand that the trading of listed securities or exchange-traded derivatives is booming, or committed other act as set forth in any subparagraph of the same paragraph with an intention to mislead other person to make wrong judgment;
 5. A person who committed any act set forth in any subparagraph of [Article 176](#) (2) with an intention to attract someone to trade listed securities or exchange-traded derivatives in violation of the same paragraph;
 6. A person who committed an act of engaging in a series of purchases or sales in connection with listed securities or exchange-traded derivatives or entrusting or being entrusted with such an act with an intention to fix or stabilize the market price of the listed securities or exchange-traded derivatives in violation of [Article 176](#) (3);
 7. A person who committed an act set forth in any subparagraph of [Article 176](#) (4) in connection with trading listed securities or exchange-traded derivatives in violation of the same paragraph;
 8. A person who committed an act set forth in any subparagraph of [Article 178](#) (1) in connection with trading or other transaction of financial investment instruments (including public offering, private placement, and public sale of securities); or
 9. A person who disseminated a rumor, used a deceptive scheme, coerced someone by violence or threat with an intention to trade or make any other transaction of financial investment securities (including public offering, private placement, and public sale of securities) or attempt to fluctuate the market price in violation of [Article 178](#) (2).
- (2) The punishment by imprisonment under paragraph (1) shall be aggravated according to the following categories, if the profit accrued or the loss avoided by a violation set forth in any subparagraph of paragraph (1):
 1. Such a person shall be sentenced to imprisonment for life or for no less than five years, if the profit or avoided amount of loss is five billion won or more; or
 2. Such a person shall be sentenced to imprisonment for no less than three years, if the profit or avoided amount of loss is no less than 500 million won, but less than five billion won.
- (3) In case where a person is sentenced to imprisonment under paragraph (1) or (2), the suspension of qualification for not more than ten years may be imposed concurrently.

Article 444 (Penal Provisions)

A person who falls under any of the following subparagraphs shall be sentenced to imprisonment for not more than five years or to a fine not exceeding 200 million won: <Amended by Act No. 9407, Feb. 3, 2009>

1. A person who has engaged in a financial investment business (excluding an investment advisory business and an discretionary investment business) without authorization (including authorization for changes) for the financial investment business in violation of [Article 11](#);
2. A person who obtained authorization for financial investment business (including authorization for

- changes) under [Article 12](#) by falsity or in a fraudulent way;
3. A person who committed an act falling under subparagraph 1 or 2 in violation of [Article 34](#) (1);
 4. A financial investment business entity that granted credit to a person who has violated [Article 34](#) (2) or the person to whom the financial investment business entity granted credit;
 5. A major shareholder (including his/her related persons) who committed an act set forth in any subparagraph of [Article 35](#) (including the cases as applicable *mutatis mutandis* in [Article 350](#)) with the pupses of pursuing his/her own interest in violation of the same Article;
 6. A person who furnished or disclosed an information, etc. about trading to a third party in violation of any provision of paragraphs (1) and (3) through (5) of [Article 4](#) of the Act on Real Name Financial Transactions and Guarantee of Secrecy, which shall apply *mutatis mutandis* pursuant to [Article 42](#) (10), [52](#) (6), or [304](#), and a person who demanded another person to furnish or disclose such an information;
 7. A person who traded financial investment instruments in violation of [Article 70](#) with the property deposited by investors;
 8. A person who committed an act falling under any subparagraph of [Article 71](#) (excluding subparagraph 7), [85](#) (excluding subparagraph 8), [98](#) (1) [including the cases as applicable *mutatis mutandis* in [Article 101](#) (4)], [98](#) (2) (excluding subparagraph 10), or 108 (excluding subparagraph 9) in violation of any corresponding provision of the said Article;
 9. A person who committed an act falling under any subparagraph of [Article 81](#) (1) in managing a collective investment property in violation of the said paragraph;
 - 10.A 10.A person who made a transaction with an interested person in violation of [Article 84](#) (1) in managing a collective investment property;
 11. A person who exercised voting right in violation of any provision of [Article 87](#) (1) through (5) [including the cases as applicable *mutatis mutandis* in [Article 186](#) (2)] or [Article 112](#) (2) through (5);
 12. A person who publicly offered or sold securities in violation of [Article 119](#) [excluding paragraph (5)];
 13. A person who made a false statement or representation of a material fact in any of the following documents or omitted statement or representation of a material fact, a person who wrote his/her signature in accordance with [Article 119](#) (5) or [159](#) (7) [including the cases as applicable *mutatis mutandis* in the last sentence of [Article 160](#) or the last sentence in the part above subparagraphs of [Article 161](#) (1)], while knowing the fact that there is a false statement or representation of a material fact or an omission of a material fact, and a certified public accountant, appraiser, or an expert in credit rating who signed wrote his/her signature on such a document to certify that the document is true and correct, knowing that it is not:
 - (a) Registration statement or supplements to a universal shelf registration statement under [Article 119](#);
 - (b) Corrective registration statement under [Article 122](#);
 - (c) Prospectus under [Article 123](#);
 - (d) Business report under [Article 159](#);
 - (e) Quarterly or half-yearly report under [Article 160](#);
 - (f) Material fact report under [Article 161](#); or
 - (g) Business report, etc. submitted in compliance with an order to correct under [Article 164](#) (2);
 14. A person who did not submit a corrective registration statement in violation of [Article 122](#) (3);
 15. A person who made a false description or representation of a material fact in a public notice or a document that falls under any of the following items, or omitted description or representation of a material fact therein:
 - (a) Public notice of tender offer or tender offer statement under [Article 134](#);
 - (b) Corrective registration statement or public notice under [Article 136](#); or
 - (c) Tender offer prospectus under [Article 137](#) (1);
 16. A person who did not give a public notice in violation of [Article 134](#) (1) or [136](#) (5);
 17. A person who did not file a tender offer statement in violation of [Article 134](#) (2);
 18. A person who made a false description or representation of a material fact specified by Presidential Decree (hereinafter referred to as "material fact" for the purposes of this subparagraph) or omitted description or representation of a material fact in the reporting document under [Article 147](#) or the corrective registration statement under [Article 151](#) (2);
 19. A person who made a false description or representation of a fact that may give a significant impact on the judgement on whether a solicited voting right holder shall delegate his/her voting right (hereinafter referred to as "material fact related to delegation of voting right" for the purposes of this subparagraph) or omitted description or representation of a material fact related to delegation of voting right in the proxy form or reference documents under [Article 154](#) or documents for correction under [Article 156](#);
 - 19-2. A person who made a transaction in violation of [Article 246](#) (5) or (6);
 - 20.A 20.A person who has engaged in a collective investment business in violation of [Article 250](#) (1) or [251](#) (1);
 21. A person who sold foreign collective investment securities in the domestic market without going through an investment trader or an investment broker in violation of [Article 280](#) (1);

22. A person who has engaged in a business without a relevant authorization in violation of [Article 324](#) (1), [355](#) (1), or [360](#) (1);
23. A person who obtained authorization under [Article 324](#) (1), [355](#) (1), or [360](#) (1) by falsity or in a fraudulent way;
24. A person who has run a business after the relevant authorization was revoked pursuant to [Article 335](#) (1), [354](#) (1), [359](#) (1), or [364](#) (1);
25. A merchant bank that granted credit to a person in violation of [Article 343](#) (1) and the person to whom the merchant bank granted credit;
26. A person who has engaged in a financial investment business in violation of [Article 357](#) (1);
27. A person who traded securities or exchange-traded derivatives by opening a market under [Article 386](#) (1) or a similar facility or using such a similar facility in violation of [Article 386](#) (2);
28. A person who has engaged in financial investment business after the relevant authorization was revoked pursuant to [Article 420](#) (1); or
29. A person who disclosed confidential information about the identification, etc. of an informant, etc. in violation of [Article 435](#) (4).

Article 445 (Penal Provisions)

A person who falls under any of the following subparagraphs shall be punished by imprisonment for not more than three years or by a fine not exceeding 100 million won: <Amended by Act No. 8863, Feb. 29, 2008; Act No. 9407, Feb. 3, 2009>

1. A person who has engaged in an investment advisory business or a discretionary investment business without registration of the financial investment business (including the revised registration) in violation of [Article 17](#);
2. A person who made the registration (including the revised registration) of a financial investment business under [Article 18](#) by falsity or in a fraudulent way;
3. A person who lent his/her name to any other person to allow the person to engage in a financial investment business in violation of [Article 39](#);
4. A person who comes to fall under any subparagraph of [Article 45](#) (1) in violation of the said paragraph;
5. A person who committed an act set forth in any subparagraph of [Article 45](#) (2) in violation of the said paragraph;
6. A person who committed an act under subparagraph 1 or 2 of [Article 49](#) [including the cases as applicable *mutatis mutandis* in [Article 52](#) (6)] in violation of the said Article;
7. A person who conducted investment solicitation before being registered in violation of [Article 51](#) (2);
8. A person who engaged any person other than an investment solicitor to solicit investment vicariously in violation of [Article 52](#) (1);
9. A person who used nonpublic information acquired in the course of performing his/her duty for his/her own interest or a third party's interest in violation of [Article 54](#) [including the cases as applicable *mutatis mutandis* in [Article 42](#) (10), [52](#) (6), [199](#) (5), [255](#), [260](#), [265](#), [289](#), [304](#), [328](#), or [367](#)];
10. A 10.A person who committed an act set forth in any subparagraph of [Article 55](#) in violation of the said Article [including the cases as applicable *mutatis mutandis* in [Article 42](#) (10) or [52](#) (6)];
11. A person who did not keep or maintain records of data in violation of [Article 60](#) (1) [including the cases as applicable *mutatis mutandis* in [Article 255](#), [260](#), or [265](#)] or [Article 187](#) (1);
12. A person who did not follow the matter prescribed in [Article 63](#) (1) 1 in trading a financial investment instrument in violation of the said subparagraph [including the cases as applicable *mutatis mutandis* in [Article 289](#), [304](#), [328](#), [367](#), [383](#) (3), or [441](#)];
13. A person who sold collective investment securities or advertised sale of collective investment securities in violation of [Article 76](#) (3);
14. A person who did not distribute the outcomes of acquisition, disposal, etc. in accordance with the asset distribution schedule predetermined for each investment trust property in violation of the first sentence of [Article 80](#) (3);
15. A person who did not dispose of stocks in violation of an order issued pursuant to [Article 87](#) (6) [including the cases as applicable *mutatis mutandis* in [Article 186](#) (2)];
16. A person who acquired its proprietary property with a trust property in violation of [Article 104](#) (2);
17. Deleted; <by Act No. 9407, Feb. 3, 2009>
18. A person who did not undergo an accounting audit in violation of [Article 114](#) (3) or [240](#) (3);
19. A person who purchased stocks, etc. without making a tender offer in violation of [Article 133](#) (3) or [140](#);
- 20.A 20.A person who did not submit a report in violation of [Article 147](#) (1), (3), or (4);
21. A person who solicited someone to exercise voting right by proxy in violation of [Article 152](#) (1) or (3);
22. A person who did not receive an accounting audit in violation of [Article 169](#) (1);
- 22-2. A person who disclosed information that might affect market prices in the derivatives market, used it for the trading of exchange-traded derivatives and their underlying assets or other transactions, or allowed any other person to use it, in violation of [Article 173-2](#) (2);
23. A person who did not register a collective investment scheme in violation of [Article 182](#) (1);

24. A person who made the registration or revised registration under [Article 182](#) (1) or (8) [including the cases as applicable *mutatis mutandis* in [Article 279](#) (3)] or [Article 279](#) (1) by falsity or in a fraudulent way;
- 24-2. A person who used information in violation of [Article 246](#) (7);
25. A person who did not demand withdrawal, revision, or rectification in violation of [Article 247](#) (1);
26. A person who committed an act under any subparagraph of [Article 250](#) (3) [including the cases as applicable *mutatis mutandis* in [Article 251](#) (2) or 341 (1)] in violation of the said paragraph;
27. A person who used an information about collective investment property for the management of the investment trust property managed by it or the sale of collective investment securities sold by it in violation of [Article 250](#) (4) [including the cases as applicable *mutatis mutandis* in [Article 251](#) (2)] or [Article 250](#) (5) [including the cases as applicable *mutatis mutandis* in [Article 251](#) (2) or 341 (1)];
28. A person who committed an act under any subparagraph of [Article 250](#) (6) [including the cases as applicable *mutatis mutandis* in [Article 251](#) (2) or 341 (1)] in violation of the said paragraph;
29. A person who has run a business even after the registration of the business was revoked pursuant to [Article 253](#) (1);
30. A 30.A person who has engaged in a business without registration in violation of [Article 254](#) (1);
31. A person who made the registration under [254](#) (1) by falsity or in a fraudulent way;
32. A person who has run a business even after the registration of the business was revoked pursuant to [Article 257](#) (1);
33. A person who sold foreign collective investment securities without the registration under [Article 279](#) (1);
34. A person who has sold foreign collective investment securities of a foreign collective investment scheme even after the registration of the foreign collective investment scheme was revoked pursuant to [Article 282](#) (1);
35. A person who has engaged in a business of settling accounts by transfers between accounts or a business of issuing securities depository receipts within this country in violation of [Article 298](#);
36. A person who has a special interest in grant of fund, distribution of profit or loss, or any other business affair in violation of [Article 301](#) (5), [327](#) (3), or [383](#) (2);
37. A person who has runs business during a period of suspension of business under [Article 335](#) (2), [354](#) (2), [359](#) (2), or [364](#) (2);
38. A person who closed or dissolved a business without authorization in violation of [Article 339](#) (1) [including the cases as applicable *mutatis mutandis* in [Article 357](#) (2) or 361];
39. A person who has run a business without registration in violation of [Article 365](#) (1);
40. A 40.A person who made the registration under [Article 365](#) (1) by falsity or in a fraudulent way;
41. A person who has run a business even after the registration of the business was revoked pursuant to [Article 369](#) (1);
42. A person who disclosed or used a confidential information in violation of [Article 383](#) (1) [including the cases as applicable *mutatis mutandis* in [Article 441](#)];
43. A person who did not reserve a common fund in violation of [Article 394](#) (1);
44. A person who disclosed or used a confidential information in violation of [Article 402](#) (7);
45. A person who committed an act under any subparagraph of [Article 417](#) (1) (as to a concurrently-run financial investment business entity, only subparagraphs 4 through 7 shall be applicable) without approval in violation of the said paragraph;
46. A person who has run a financial investment business even after the registration of the business was revoked pursuant to [Article 420](#) (1);
47. A person who has run a business even during a period of suspension of business for which authorization was suspended pursuant to [Article 420](#) (3); or
48. A person who did not comply with a demand made by the Financial Services Commission (or the Securities and Futures Commission, in case where a violation of any provision of [Articles 172 through 174](#), [176](#), [178](#), and [180](#) is involved) pursuant to [Article 426](#) (2).

Article 446 (Penal Provisions)

A person who falls under any of the following subparagraphs shall be punished by imprisonment for not more than one year or by a fine not exceeding 30 million won: <Amended by Act No. 8863, Feb. 29, 2008; Act No. 9407, Feb. 3, 2009; Act No. 10063, Mar. 12, 2010>

1. A person who has become a major shareholder by acquiring stocks without approval in violation of [Article 23](#) (1) (including the cases as applicable *mutatis mutandis* in [Article 350](#));
2. A person who failed to dispose of stocks in violation of an order issued pursuant to [Article 23](#) (2) (including the cases as applicable *mutatis mutandis* in [Article 350](#)) to dispose of them;
3. A person who used the words "financial investment", "securities", "derivatives", "futures", "collective investment", "investment trust", "asset management", "investment advice", "discretionary investment", or "trust" in his/her trade name in violation of [Article 38](#);
4. A person who entrusted someone with business in violation of the proviso to [Article 42](#) (1) (including the cases as applicable *mutatis mutandis* in [Article 255](#)), or re-entrusted business in violation of [Article 42](#) (5) (including the cases as applicable *mutatis mutandis* in Article 255);

5. A person who violated an order issued pursuant to [Article 43](#) (2) to cancel or amend an entrustment agreement;
6. A person who committed an act under any subparagraph of [Article 52](#) (2) in violation of the said paragraph;
7. A person who has run an investment solicitation agency even after the registration of the investment solicitor was revoked pursuant to [Article 53](#) (2), or who has run an investment solicitation agency even during a period of suspension of the investment solicitation agency pursuant to the same paragraph of the same Article;
8. A person who advertised for soliciting investment in violation of [Article 57](#) (1) through (4);
9. A person who failed to keep an asset in the Republic of Korea in violation of [Article 65](#) (2);
- 10.A 10.A person who failed to appropriate an asset first for performing obligations owed to persons who have their domicile or abode in the Republic of Korea, in violation of [Article 65](#) (3);
11. A person who received an order for trading financial investment instruments without clearly revealing his/her identity whether he/she is an investment trader or an investment broker, in violation of [Article 66](#);
12. A person who traded financial investment instruments in violation of [Article 67](#);
13. A person who arranged a transaction outside the securities exchange or the derivatives market in violation of Article 68;
14. A person who failed to provide an asset management report, a person who prepared a false report, or a person who prepared and provided a report with a description omitted, in violation of [Article 88](#) or [280](#) (2);
15. A person who failed to make a public disclosure or made a false public disclosure, in violation of [Article 89](#) (including cases as applicable *mutatis mutandis* in [Article 186](#) (2)) or [234-2](#) (2);
16. A person who rejected a request for inspection or delivery in violation of [Article 91](#) (1) (including the cases as applicable *mutatis mutandis* in [Article 186](#) (2)), 113 (1), or 280 (3);
17. A person who violated an order issued pursuant to [Article 95](#) (2) (including the cases as applicable *mutatis mutandis* in [Article 117](#)) or [116](#) (3);
18. A person to whom property is entrusted in violation of [Article 103](#) (1) or (4);
19. A person who managed money that belongs to trust property in violation of [Article 105](#);
- 20.A 20.A person who accepted an offer to acquire or purchase securities in violation of [Article 121](#);
21. A person who failed to submit an investment prospectus, a tender offer prospectus, a proxy form, or a reference document in violation of [Article 123](#) (1), [137](#) (1), or [153](#);
22. A person who let any other person acquire or sold securities without delivering an investment prospectus in violation of [Article 124](#) (1);
23. A person who failed to follow the manner set forth in any subparagraph of [Article 124](#) (2) in soliciting an offer, in violation of the said paragraph;
24. A person who violated a disposition made by the Financial Services Commission pursuant to [Article 132](#), [146](#) (2), [151](#) (2), [158](#) (2), or [164](#) (2);
25. A person who purchased stocks, etc. without delivering a tender offer prospectus in advance, in violation of [Article 137](#) (3);
26. A person who violated an order of disposal or rectification, issued pursuant to [Article 145](#), [150](#) (1) or (3), [167](#) (3), or [168](#) (3);
27. A person who failed to submit corrected documents in violation of the last sentence of [Article 156](#) (3);
28. A person who failed to submit a business report, a quarterly or halfyearly report, or a material fact report in violation of [Article 159](#), [160](#), or [161](#) (1);
29. A person who owned stocks in violation of [Article 167](#) (1);
- 30.A 30.A person who violated an order or disposition issued to require submission of materials or a report under [Article 169](#) (2) (including the cases as applicable *mutatis mutandis* in the last sentence of paragraph (3) of the same Article);
31. A person who failed to submit a report or submitted a false report in violation of [Article 173](#) (1);
32. A person who terminated an investment trust without approval, in violation of [Article 192](#) (1);
33. A person who obtained approval under [Article 192](#) (1) by falsity or in a fraudulent way;
34. A person who failed to terminate an investment trust in violation of [Article 192](#) (2);
35. A person who paid a redemption price in violation of [Article 235](#) (4) or (5) or failed to pay a redemption price;
36. A person who failed to publicly announce or post a base price or publicly announced or posted a false price, in violation of [Article 238](#) (7) or [280](#) (4);
37. A person who failed to manage collective investment property separately in violation of [Article 246](#) (2);
38. A person who failed to make a deposit in violation of [Article 246](#) (3);
39. A person who failed to perform an instruction of a collective investment business entity separately for each collective investment scheme in violation of [Article 246](#) (4);
- 40.A 40.A person who failed to furnish investors with a report on safekeeping and management of assets or prepared a false report to furnish them with it, in violation of [Article 248](#) (1);

41. A person who transferred collective investment securities to any other person in violation of [Article 249](#) (2);
- 41-2. A person who failed to make a report or made a false report in violation of [Article 249-2](#) (6) or (7);
42. A person who has run business during a period of suspension of business under [Article 253](#) (2), [257](#) (2), or [369](#) (2);
43. A person who has engaged in business without registration in violation of [Article 268](#) (3);
44. A person who made the registration under [Article 268](#) (including the revised registration) by falsity or in a fraudulent way;
45. A person who continued management of equity securities, or failed to own or disposed of equity securities, in violation of [Article 270](#) (3), (4) (including cases as applicable *mutatis mutandis* in [Article 271](#) (5)) or (5), or [278-2](#) (2) or (6);
46. A person who failed to dispose of all equity securities of another company, which it had already acquired, in violation of [Article 270](#) (6) (including the cases as applicable *mutatis mutandis* in [Article 271](#) (5));
47. A person who committed an act under any subparagraph of [Article 272](#) (6) 1 through 3 in violation of the said paragraph;
48. A person who transferred equity shares in the contribution, in violation of [Article 273](#) (1);
49. A person who failed to dispose of equity securities, in violation of [Article 274](#) (1) (including the cases applied *mutatis mutandis* in [Article 271](#) (5)) or acquired equity securities, in violation of paragraph (2) of the said Article (including the cases applied *mutatis mutandis* in [Article 271](#) (5));
50. Deleted; <by Act No. 9784, Jun. 9, 2009>
51. A person who failed to submit a report or submitted a false report, in violation of [Article 276](#) (2);
52. A person who has run business after registration of the business was revoked pursuant to [Article 278](#) (1);
53. A person who failed to prepare or keep an account book of depositors or investors or prepared a false account book, in violation of [Article 309](#) (3) or [310](#) (1);
54. A person who used a name "merchant bank", "financial brokerage", or any similar name, in violation of [Article 338](#) or [356](#);
55. A person who granted credit, in violation of any provision of [Article 342](#) (1) through (4) (including the cases applied *mutatis mutandis* in [Article 361](#)) or [345](#) (3);
56. A person who invested in securities, in violation of [Article 344](#);
57. A person who committed an act under any subparagraph of [345](#) (1), in violation of the said paragraph;
58. A person who exercised voting right, in violation of [Article 345](#) (2);
59. A person who failed to comply with a disposition under [Article 345](#) (4);
60. A person who failed to own an asset for payment reserve, in violation of [Article 346](#);
61. A person who acquired or owned real estate, in violation of [Article 347](#) (1) or (2);
62. A person who failed to dispose of real estate, in violation of [Article 347](#) (3);
63. A person who has engaged in registered business during a period of suspension of business pursuant to [Article 420](#) (3).

Article 447 (Concurrent Imposition of Imprisonment and Fine)

- (1) A person who commits a crime under any provision of [Articles 443 through 446](#) may be punished by imprisonment and a fine concurrently.
- (2) When a fine is imposed concurrently pursuant to paragraph (1) upon a person who shall be subject to the aggravated punishment pursuant to [Article 443](#) (2), the fine shall not exceed the amount equivalent to three times the profit accrued from the violation or the loss avoided by such a violation.

Article 448 (Joint Penal Provisions)

If a representative of a corporation (including organizations; hereafter the same shall apply in this Article) or an agent, employee or any other employed person of a corporation or an individual commits any violation falling under the provisions of [Articles 443 through 446](#) in connection with the business of the corporation or the individual, not only shall such offender be punished accordingly, but the corporation or the individual shall be punished by a fine under the relevant Articles: *Provided*, That the same shall not apply to cases where the corporation or the individual has paid due attention to or diligently supervised the relevant business in order to prevent such violation.

[This Article Wholly Amended by Act No. 9407, Feb. 3, 2009]

Article 449 (Fines for Negligence)

- (1) A person who falls under any of the following subparagraphs shall be punished by a fine for negligence not exceeding 50 million won: <Amended by Act No. 9407, Feb. 3, 2009; Act No. 10063, Mar. 12, 2010>
 1. A person who fails to perform the duty to appoint outside directors provided for in [Article 25](#) (1) [including the cases applied *mutatis mutandis* in [Article 350](#)], in violation of the said paragraph;
 2. A person who fails to install the committee on the recommendation of candidates for outside directors, in violation of the first sentence of [Article 25](#) (2) [including the cases applied *mutatis*

- mutandis* in [Article 350](#)];
3. A person who fails to fill one half or more of total number of the committee on the recommendation of candidates with outside directors in organizing the committee, in violation of the last sentence of [Article 25](#) (2) [including the cases as applicable *mutatis mutandis* in [Article 350](#)];
 4. A person who fails to appoint outside directors in compliance with [Article 25](#) (4) [including the cases as applied *mutatis mutandis* in [Article 350](#)];
 5. A person who did not have outside directors in violation of [Article 25](#) (6) [including the cases as applicable *mutatis mutandis* in [Article 350](#)];
 6. A person who did not install an audit committee in violation of [Article 26](#) (1) [including the cases as applicable *mutatis mutandis* in [Article 350](#)];
 7. A person who did not install an audit committee to satisfy all requirements under subparagraphs of [Article 26](#) (2) [including the cases as applicable *mutatis mutandis* in [Article 350](#)], in violation of the said paragraph;
 8. A person who failed to meet the requirements for organization of an audit committee under [Article 26](#) (2) in violation of paragraph (4) of the said Article [including the cases as applicable *mutatis mutandis* in [Article 350](#)];
 9. A person who did not establish the guidelines for internal control in violation of [Article 28](#) (1) [including the cases as applicable *mutatis mutandis* in [Article 350](#)];
 10. A person who did not have a compliance officer in violation of [Article 28](#) (2) [including the cases as applicable *mutatis mutandis* in [Article 350](#)];
 11. A person who appointed or dismissed a compliance officer without a resolution of the board of directors in violation of [Article 28](#) (3) [including the cases as applicable *mutatis mutandis* in [Article 350](#)];
 12. A person who took charge of a duty to execute a business affair under any subparagraph of [Article 28](#) (5) or assign someone to take such a charge in violation of the said paragraph [including the cases as applicable *mutatis mutandis* in [Article 350](#)];
 13. A person who did not submit a business report or prepared and submitted a false report in violation of [Article 33](#) (1) [including the cases as applicable *mutatis mutandis* in [Article 350](#), [357](#) (2), or [361](#)];
 14. A person who did not keep or publicly disclose a document for public disclosure or prepared and kept or publicly disclosed a false document, in violation of [Article 33](#) (2) [including the cases as applicable *mutatis mutandis* in [Article 350](#), [357](#) (2), or [361](#)];
 15. A person who did not submit a report or make a public disclosure or submitted a false report or made a false public disclosure, in violation of [Article 33](#) (3) [including the cases as applicable *mutatis mutandis* in [Article 350](#), [357](#) (2), or [361](#)];
 - 15-2. A person who did not submit a report or submitted a false report, in violation of [Article 33](#) (4) (including the cases as applicable *mutatis mutandis* in [Article 350](#), [357](#) (2) or [361](#));
 16. A person who did not refer a case to the board of director for resolution in violation of [Article 34](#) (3);
 17. A person who did not submit a report or make a public disclosure or submitted a false report or made a false public disclosure, in violation of [Article 34](#) (4) or (5);
 18. A person who violated an order to submit data in accordance with [Article 34](#) (6) or [36](#) [including the cases as applicable *mutatis mutandis* in [Article 350](#)];
 19. A person who did not submit a report in violation of the last sentence of [Article 40](#) or [Article 41](#) (1);
 20. A person who rejected, interfered with, or evaded an inspection, investigation, or verification under [Article 43](#) (1), [53](#) (1), [131](#) (1), [146](#) (1), [151](#) (1), [158](#) (1), [164](#) (1), [321](#), or [419](#) (1) [including the cases as applicable *mutatis mutandis* in [Article 252](#) (2), [256](#) (2), [261](#) (2), [266](#) (2), [281](#) (2), [292](#), [306](#), [334](#), [353](#), [358](#), [363](#), [368](#), or [371](#)];
 21. A person who did not obtain a confirmation in violation of [Article 47](#) (2) [including the cases as applicable *mutatis mutandis* in [Article 52](#) (6)];
 22. A person who committed an act under any of subparagraphs 3 through 5 of [Article 49](#) in violation of the said Article [including the cases as applicable *mutatis mutandis* in [Article 52](#) (6)];
 23. A person who did not establish the working rules on investment recommendation under [Article 50](#) (1) or the guidelines for vicarious investment recommendation under [Article 52](#) (4);
 24. A person who established or amended a standardized contract form without filing a report in violation of [Article 56](#) (1);
 25. A person who filed a report under [Article 56](#) (1) by falsity or in any other fraudulent way;
 - 25-2. A person who made an investment advertisement in violation of [Article 57](#) (6);
 26. A person who did not furnish investors with contract documents in violation of [Article 59](#) (1);
 27. A person who did not give a public notice or an individual notice in violation of [Article 62](#) (1);
 28. A person who did not follow the manner provided for in [Article 63](#) (1) 2 through 4 in trading financial investment instruments on his/her account in violation of the said paragraph [including the cases as applicable *mutatis mutandis* in [Article 289](#), [304](#), [328](#), [367](#), [383](#) (3), or [441](#)];
 29. A person who committed an act under a subparagraph of [Article 71](#) (only subparagraph 7 shall be applicable), [85](#) (only subparagraph 8 shall be applicable), [98](#) (2) (only subparagraph 10 shall be applicable), or [108](#) (only subparagraph 9 shall be applicable) in violation of the corresponding

- provision of the said Article;
30. A person who received sales commission or sales remuneration in violation of [Article 76](#) (4) through (6);
 31. A person who received remuneration contingent upon performance in violation of Article 86;
 32. A person who did not keep or maintain records in violation of [Article 87](#) (7) [including the cases as applicable *mutatis mutandis* in [Article 186](#) (2)];
 33. A person who did not make a public disclosure or made a false public disclosure in violation of [Article 87](#) (8) [including the cases as applicable *mutatis mutandis* in [Article 186](#) (2)] or [Article 112](#) (7);
 34. A person who did not submit a sales report or documents of settlement of accounts or prepared and submitted a false report or document in violation of [Article 90](#) (1) [including the cases as applicable *mutatis mutandis* in [Article 186](#) (2)] or [Article 90](#) (2) [including the cases as applicable *mutatis mutandis* in [Article 186](#) (2)];
 35. A person who violated [Article 114](#) (1) or [240](#) (1) in accounting;
 36. A person who did not take a measure in accordance with [Article 130](#);
 37. A person who did not forward a report or a copy of a report in violation of [Article 135](#), [136](#) (6), [139](#) (3), or [148](#);
 38. A person who forwarded a copy of a statement under [Article 135](#), [136](#) (6), or [139](#) (3) or a report under [Article 148](#) with any content different from the one in the original statement or report or with any content omitted;
 39. A person who made a short sale of listed securities or a person who entrusted, or with whom was entrusted, such a sale in violation of [Article 180](#);
 40. A person who did not make a revised registration in accordance with [Article 182](#) (8) [including the cases as applicable *mutatis mutandis* in [Article 279](#) (3)];
 41. A person who used a name in violation of [Article 183](#) (2);
 42. A person who did have a director or assigned a director a concurrent office in violation of [Article 250](#) (7), [251](#) (3), or [341](#) (2);
 43. A person who did not have a system for preventing conflicts of interests in violation of [Article 250](#) (7), [251](#) (3), or [341](#) (2);
 44. A person who used a name in violation of [Article 284](#), [295](#), [325](#), or [379](#);
 45. A person who did not refer a case to the board of directors for resolution in violation of [Article 343](#) (2);
 46. A person who did not file or make a public disclosure or filed a false report or a false public disclosure in violation of [Article 343](#) (3) or (4);
 47. A person who violated an order to submit materials in accordance with [Article 343](#) (8);
 48. A person who obtained authorization under [Article 370](#) (1) by falsity or in any other fraudulent way; or
 49. A person who treated an informant, etc. unfavorably in violation of [Article 435](#) (5).
- (2) A person who falls under any of the following subparagraphs shall be punished by a fine for negligence not exceeding ten million won: <Amended by Act No. 9407, Feb. 3, 2009>
1. A person who did not submit a report or submitted a false report in violation of [Article 23](#) (4);
 2. A person who did not make a public disclosure or made a false disclosure in violation of [Article 50](#) (2);
 3. A person who did not notify investors of the fact under any subparagraph of [Article 52](#) (3) in advance, post a sign, or present an identification, in violation of the said paragraph;
 4. A person who did not submit a report under the proviso in the part above subparagraphs of [Article 56](#) (1) or submitted a false report;
 5. A person who did not give a notice of details of trading or gave a false notice in violation of Article 73;
 6. A person who has engaged in a quasi-investment advisory business without reporting it in accordance with [Article 101](#) (1);
 7. A person who did not submit a report or prepared and submitted a false report in violation of [Article 128](#) or [143](#);
 8. A person who did not comply with an order to submit a report or materials or a demand a witness to appear, give testimony or state an opinion in accordance with [Article 131](#) (1), [146](#) (1), [151](#) (1), [158](#) (1), [164](#) (1), or [419](#) (5) [including the cases as applicable *mutatis mutandis* in the last sentence of [Article 43](#) (1), the last sentence of [Article 53](#) (1), [Article 252](#) (2), [256](#) (2), [261](#) (2), [266](#) (2), [281](#) (2), [292](#), [306](#), [334](#), [353](#), [358](#), [363](#), [368](#), or [371](#)];
 - 8-2. A person who failed to make a report under [Article 173-2](#) (1) or made a false report;
 9. A person who did not convene the postponed general meeting of beneficiaries, etc. in violation of the last sentence of [Article 190](#) (7) [including the cases as applicable *mutatis mutandis* in [Article 201](#) (3), [210](#) (3), [215](#) (4), [220](#) (4), or [226](#) (4)];
 10. A person who did not establish a working rules of conduct or submit a report, or submitted a false report, in violation of [Article 272](#) (7);

11. A person who did not make a deposit in violation of [Article 310](#) (2);
 12. A person who did not keep securities, etc. separately in violation of [Article 310](#) (3);
 13. A person who gave a notice or a public notice in violation of [Article 314](#) (4);
 14. A person who did not give a notice or a public notice in violation of any provision of [Article 315](#) (3) through (6) and [Article 319](#) (3) and (4);
 15. A person who did not prepare and keep the list of *de facto* shareholders or *de facto* beneficiaries, or prepared a false list, in violation of [Article 316](#) (1) or [319](#) (5);
 16. A person who did not give a notice, or gave a false report, in violation of [Article 323](#) (1) or (2);
 17. A person who did not submit a report, or submitted a false report, in violation of [Article 339](#) (2) [including the cases as applicable *mutatis mutandis* in [Article 357](#) (2) or 361], or a person who committed an act under subparagraph of the said paragraph without reporting it;
 18. A person who has worked for another profit-making corporation on a regular basis without approval under [Article 348](#) [including the cases as applicable *mutatis mutandis* in [Article 357](#) (2)];
 - 18-2. A person who violated an order to take measures under the proviso to [Article 416](#); or
 19. A person who did not submit a report, or submitted a false report, in violation of [Article 418](#) [including the cases as applicable *mutatis mutandis* in [Article 350](#)].
- (3) The fine for negligence under paragraphs (1) and (2) shall be imposed and collected by the Financial Services Commission in accordance with the manner and procedure prescribed by Presidential Decree. <Amended by Act No. 8863, Feb. 29, 2008>
- (4)through (4)through (6) Deleted. <by Act No. 9407, Feb. 3, 2009>

ADDENDA

Article 1 (Enforcement Date)

This Act shall enter into force six months after the date of its promulgation: *Provided*, That [Articles 3, 5, and 6](#) of Addenda shall enter into force one year after the date of its promulgation.

Article 2 (Repealed Acts)

The following Acts are hereby repealed:

1. The [Securities and Exchange Act](#);
2. The [Futures Trading Act](#);
3. The Indirect Investment Asset Management Business Act;
4. The [Trust Business Act](#);
5. The [Merchant Banks Act](#); and
6. The [Korea Securities and Futures Exchange Act](#).

Article 3 (Matters Concerning Establishment of Korea Financial Investment Association)

- (1) The Korea Financial Investment Association (hereinafter referred to as the "Association") shall be established by merging the Korea Securities Dealers Association established pursuant to Article 162 of the former [Securities and Exchange Act](#), the Futures Association established with the authorization under Article 75 of the former [Futures Trading Act](#), and the Asset Management Association established with the authorization under Article 160 (3) of the Indirect Investment Asset Management Business Act (hereinafter collectively referred to the "merged associations").
- (2) The Organizational Committee for Establishment of the Korea Financial Investment Association (hereinafter referred to as the "Organizational Committee") shall be established, which shall be responsible for carrying out the affairs related to the merger and establishment of the Association under paragraph (1).
- (3) Matters necessary for organization and operation of the Organizational Committee shall be prescribed by Presidential Decree.
- (4) The Organizational Committee may request the merged associations to provide it with support in human resources and materials as may be necessary for the establishment of the Association.
- (5) The merged associations shall prepare a merger agreement with the contents prescribed by Presidential Decree, and each merged association shall obtain approval of the general meeting of members therefor by the affirmative vote of the majority of total number of voting rights.
- (6) Each of the merged associations shall publicly notify its creditors, within one week after the general meeting of members adopts a resolution of approval under paragraph (5), that creditors shall, if they have any objection against the merger, file an objection within a period of time, which shall be at least two weeks, and shall also dispatch a preemptory notice to each credit known to the merged association.
- (7) Article 232 (2) and (3) of the [Commercial Act](#) shall apply *mutatis mutandis* to the public notice and preemptory notice under paragraph (6).
- (8) The Organizational Committee shall, upon completion of the process under paragraphs (6) and (7), call the inaugural general meeting of the Association without delay.
- (9) Articles 309, 311 (1), 312, and 316 of the [Commercial Act](#) shall apply *mutatis mutandis* to the inaugural general meeting under paragraph (8). In this case, the term "promoter" in Article 311 (1) of the said Act shall be construed as "Chairperson of the Organizational Committee."

- (10) The Organizational Committee shall prepare the application for approval for the merger and the articles of association for the Association, and shall obtain approval from the Financial Services Commission. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (11) The application for approval for the merger under paragraph (10) shall contain the following descriptions, and shall be accompanied by the merger agreement and regulations related to its business:
 1. Name of the Association;
 2. Addresses of the main association and branch associations;
 3. Names, national identification numbers, and addresses of executives; and
 4. Trade names or titles of members.
- (12) The Organizational Committee shall, upon obtaining the approval under paragraph (10), complete the registration of establishment of the Association without delay.
- (13) The merger shall become effective upon completion of the registration of establishment of the Association in accordance with paragraph (12). In this case, the merged associations shall disappear simultaneously upon the establishment of the Association without necessarily going through the proceedings of liquidation.
- (14) The Organizational Committee shall, upon completion of the registration of establishment under paragraph (12), transfer its business to the Chairperson of the Association.
- (15) The organizational members shall be deemed to be dismissed upon completion of transfer of the business in accordance with paragraph (14).
- (16) The Organizational Committee shall complete the process necessary for the establishment of the Association within six months after the lapse of one year from the promulgation date of this Act.
- (17) The expenses for establishment of the Association shall be borne by the Association.
- (18) The Association shall succeed to all rights and obligations of the merged association comprehensively, including employment of the employees of the merged association that will disappear simultaneously upon the establishment of the Association.
- (19) Other matters necessary for the merger of the merged associations and establishment of the Association shall be prescribed by Presidential Decree.

Article 4 (Applicability to Investment Recommendation, etc.)

The provisions of [Articles 46 through 48](#) shall apply to cases of investment recommendation made on or after the date this Act enters into force.

Article 5 (Special Exceptions for Authorization for and Registration of Financial Investment Business by Reporting)

- (1) A person who engages in a business under any subparagraph of [Article 6](#) (1) as of one year after the promulgation of this Act may file a report with the Financial Services Commission within two months after the lapse of one year from the promulgation date of this Act, if the person satisfies the requirements for maintaining authorization under [Article 15](#) or the requirements for maintaining registration under [Article 20](#) within the scope of the business that it engages in. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (2) The Financial Services Commission shall, upon receiving a report under paragraph (1), examine whether the person who files the report satisfies the requirements for maintaining authorization under [Article 15](#) or the requirements for maintaining registration under [Article 20](#), and shall notify the person of the results thereof no later than the day immediately before the enforcement date of this Act. In this case, the person who receives a notice confirming that it satisfies the requirements for maintaining authorization under [Article 15](#) or requirements for maintaining registration under [Article 20](#) shall be deemed to have obtained authorization for the financial investment business or completed the registration of the financial investment business as of the enforcement date of this Act. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (3) A person who filed a report under paragraph (1) may continue the business, in which it has engaged, until six months after the enforcement date of this Act, even in case where it is notified that it fails to satisfy the requirements for maintaining authorization under [Article 15](#) or the requirements for maintaining registration under [Article 20](#), notwithstanding [Articles 11](#) and [17](#).
- (4) A person who filed a report may, upon receiving a notice under paragraph (2) informing that he has failed to satisfy requirements for maintaining authorization under [Article 15](#) or requirements for maintaining registration under [Article 20](#), file another report with the Financial Services Commission within three months after the enforcement date of this Act, satisfying the requirements. *<Amended by Act No. 8863, Feb. 29, 2008>*
- (5) The Financial Services Commission shall, upon receiving a report under paragraph (4), examine whether the person who files the report satisfies requirements for maintaining authorization under [Article 15](#) or the requirements for maintaining registration under [Article 20](#), and shall notify the person of the results thereof within six months after the enforcement date of this Act. *<Amended by Act No. 8863, Feb. 29, 2008>*

Article 6 (Special Exceptions to Authorization for and Registration of Financial Investment Business Following Addition of Business Unit)

- (1) If a person who has previously engaged in a business under any subparagraph of [Article 6](#) (1) as of one year after the promulgation date of this Act wishes to add a business unit that requires authorization or registration, the person may file an application for authorization for or registration of the financial investment business for both the business in which it has engaged and the new business unit that it wishes to add, within two months after one year from the promulgation date of this Act comprehensively.
- (2) The Financial Services Commission shall, upon receiving an application for authorization or registration under paragraph (1), examine the contents thereof, and shall notify the applicant of the results thereof no later than the day immediately before the enforcement date of this Act. In this case, [Articles 12](#) and [13](#) shall apply *mutatis mutandis* to the requirements for authorization, the application therefor, the examination thereon, etc. while [Articles 18](#) and [19](#) shall apply *mutatis mutandis* to the requirements for the registration, the application therefor, the examination thereon, etc.: *Provided*, That requirements for maintaining authorization under [Article 15](#) or the requirements for maintaining registration under [Article 20](#) shall apply *mutatis mutandis* to the requirements for authorization for and registration of the business in which has been previously engaged. <Amended by Act No. 8863, Feb. 29, 2008>
- (3) A person who filed an application for authorization or registration under paragraph (1) may continue the business, in which it has previously engaged, until six months after the enforcement date of this Act, even in case where its application for authorization or registration is rejected pursuant to paragraph (2), notwithstanding [Articles 11](#) and [17](#). In this case, the person shall be deemed as a financial investment business entity under this Act within the extent that it engages in the business.
- (4) An applicant to whom it is notified pursuant to paragraph (1) that its application for authorization or registration is rejected may file another application for authorization or registration with the Financial Services Commission, satisfying the requirements under paragraph (2), within three months after the enforcement date of this Act. <Amended by Act No. 8863, Feb. 29, 2008>
- (5) The Financial Services Commission shall, upon receiving an application for authorization or registration under paragraph (4), examine or review whether the requirements for authorization or registration under paragraph (2) are satisfied, and shall notify the applicant of the results thereof within six months after the enforcement date of this Act. <Amended by Act No. 8863, Feb. 29, 2008>

Article 7 (General Transitional Measures)

- (1) Permission, authorization, approval, registrations, orders, dispositions, and other measures taken by the Financial Services Commission, the Securities and Futures Commission, or the Governor of the Financial Supervisory Service pursuant to the former [Securities and Exchange Act](#), the former [Futures Trading Act](#), the former Indirect Investment Asset Management Business Act, the former [Trust Business Act](#), the former [Merchant Banks Act](#), or the former [Korea Securities and Futures Exchange Act](#), enforceable at the time this Act enters into force, shall be deemed as the acts done by the Financial Services Commission, the Securities and Futures Commission, or the Governor of the Financial Supervisory Service pursuant to this Act. <Amended by Act No. 8863, Feb. 29, 2008>
- (2) The registration statements, applications, reports, and other acts filed with or done to the Financial Services Commission, the Securities and Futures Commission, or the Governor of the Financial Supervisory Service pursuant to the former [Securities and Exchange Act](#), the former [Futures Trading Act](#), the former Indirect Investment Asset Management Business Act, the former [Trust Business Act](#), the former [Merchant Banks Act](#), or the former [Korea Securities and Futures Exchange Act](#), enforceable at the time this Act enters into force, shall be deemed as the acts done to the Financial Services Commission, the Securities and Futures Commission, or the Governor of the Financial Supervisory Service pursuant to this Act. <Amended by Act No. 8863, Feb. 29, 2008>

Article 8 (Transitional Measures Concerning Qualification, etc. for Executives of Financial Investment Business Entity)

- (1) Notwithstanding [Articles 24](#) [including the cases as applicable *mutatis mutandis* in [Article 289](#), [301](#) (4), [327](#) (2), [382](#), or [402](#) (6)], the qualification for incumbent executives of a financial investment business entity as of the time when this Act enters into force shall be governed, until the expiration of their terms, by the former [Securities and Exchange Act](#), the former [Futures Trading Act](#), the former Indirect Investment Asset Management Business Act, the former [Trust Business Act](#), or the former [Korea Securities and Futures Exchange Act](#).
- (2) In applying the provisions of subparagraph 3 and 5 through 7 of [Article 24](#) [including the cases as applicable *mutatis mutandis* in [Article 289](#), [301](#) (4), [327](#) (2), [382](#), or [402](#) (6)], it shall be deemed that the term "this Act" includes the former [Securities and Exchange Act](#), the former [Futures Trading Act](#), the former Indirect Investment Asset Management Business Act, the former [Trust Business Act](#), the former [Korea Securities and Futures Exchange Act](#), and the former [Merchant Banks Act](#).
- (3) In cases of the incumbent executives of a financial investment business entity as of the time when this Act enters into force and who concurrently hold office in violation of [Article 45](#) (2) 2, [Article 45](#) (2) 2 shall not apply until the earlier date of the expiration of their term as an executive of the financial investment business entity and the expiration of their term as an executive of the other company. <Newly Inserted by Act No. 9407, Feb. 3, 2009>

Article 9 (Transitional Measures Concerning Appointment of Outside Directors of Financial Investment Business Entity and Composition of Board of Directors)

A person who falls under any of the following subparagraphs and who is obligated to appoint new outside directors in accordance with [Article 25](#) upon the enforcement of this Act shall appoint such outside directors in accordance with the said Article at the annual general meeting of shareholders convened first after the enforcement of this Act. In this case, that the outside directors appointed at the general meeting shall be deemed to have been recommended by the committee on the recommendation of candidates for outside directors in accordance with [Article 25](#) (2) and (4):

1. A futures business entity under the former [Futures Trading Act](#);
2. An investment advisory company under the former Indirect Investment Asset Management Business Act; or
3. A trust company under the former [Trust Business Act](#).

Article 10 (Transitional Measures Concerning Installation of Audit Committee of Financial Investment Business Entity)

A person who falls under any of the following subparagraphs and who is obligated to install a new audit committee in accordance with [Article 26](#) upon the enforcement of this Act shall install the audit committee in accordance with the said Article at the annual general meeting of shareholders convened first after the enforcement of this Act:

1. A futures business entity under the former [Futures Trading Act](#);
2. An investment advisory company under the former Indirect Investment Asset Management Business Act; or
3. A trust company under the former [Trust Business Act](#).

Article 11 (Transitional Measures Concerning Appointment of Standing Auditor of Financial Investment Business Entity)

A person who falls under any of the following subparagraphs and who is obligated to appoint a new standing auditor in accordance with [Article 27](#) upon the enforcement of this Act shall appoint the standing auditor in accordance with the said Article at the annual general meeting of shareholders convened first after the enforcement of this Act:

1. A securities company under the former [Securities and Exchange Act](#);
2. A futures business entity under the former [Futures Trading Act](#);
3. An asset management company or an investment advisory company under the former Indirect Investment Asset Management Business Act; or
4. A trust company under the former [Trust Business Act](#).

Article 12 (Transitional Measures Concerning Compliance Officer)

(1) A person who falls under any of the following subparagraphs and who is obligated to appoint a new compliance officer in accordance with [Article 28](#) upon the enforcement of this Act shall appoint the compliance officer in accordance with the said Article within one month after the enforcement of this Act:

1. A futures business entity under the former [Futures Trading Act](#);
2. An investment advisory company under the former Indirect Investment Asset Management Business Act; or
3. A trust company under the former [Trust Business Act](#).

(2) Notwithstanding [Article 28](#) (4), the requirements provided for in the former [Securities and Exchange Act](#) or the former Indirect Investment Asset Management Business Act shall be applicable to the compliance officers in service or in employment in accordance with the former [Securities and Exchange Act](#) or the former Indirect Investment Asset Management Business Act at the time when this Act enters into force, until the term of each compliance officer expires.

(3) In applying [Article 28](#) (4) 1 (d), it shall be deemed that each executive or employee's career in any of the merged associations is included in his/her career in the Association.

(4) In applying any provision of subparagraphs 3 and 5 through 7 of [Article 24](#) as provided for in [Article 28](#) (4) 2, it shall be deemed that the term "this Act" includes the former [Securities and Exchange Act](#), the former [Futures Trading Act](#), the former Indirect Investment Asset Management Business Act, the former [Trust Business Act](#), the former [Korea Securities and Futures Exchange Act](#), and the former [Merchant Banks Act](#).

(5) In applying [Article 28](#) (4) 3, it shall be deemed that the term "this Act" includes the former [Securities and Exchange Act](#), the former [Futures Trading Act](#), the former Indirect Investment Asset Management Business Act, the former [Trust Business Act](#), the former [Korea Securities and Futures Exchange Act](#), and the former [Merchant Banks Act](#).

Article 13 (Transitional Measure Concerning Maintenance of Financial Soundness)

In case where a securities company that falls under any subparagraph of Article 3 of Addenda of the Amendment (Act No. 6176) to the [Securities and Exchange Act](#) becomes an investment trader or an investment broker in accordance with [Article 5](#) or 6 of Addenda of this Act, [Article 30](#) (1) shall not be enforceable until the day set by Article 3 of Addenda of the Amendment (Act No. 6176) to the [Securities](#)

[and Exchange Act](#) as to the requirements for maintenance of the financial soundness.

Article 14 (Transitional Measure Concerning Reporting on Incidental Business of Financial Investment Business Entity)

A person who engages in both the business under subparagraph 2 or 5 of [Article 40](#) in accordance with the former [Securities and Exchange Act](#), the former [Futures Trading Act](#), the former Indirect Investment Asset Management Business Act, or the former [Trust Business Act](#), and the incidental business under [Article 41](#) (1) at the time when this Act enters into force may file a report thereon with the Financial Services Commission within one month after the enforcement date of this Act, notwithstanding the last sentence of [Article 40](#) and [Article 41](#) (1). <Amended by Act No. 8863, Feb. 29, 2008>

Article 15 (Transitional Measure Concerning Solicitor for Acquiring Indirect Investment Securities)

Notwithstanding [Articles 51](#) and [52](#), solicitation for acquiring collective investment securities may be entrusted, until one month after the enforcement date of this Act, to a person who meets the requirements for being entrusted with solicitation for acquiring indirect investment securities in accordance with the former statutes governing indirect investment asset management business, enforceable at the time when this Act enters into force. In this case, the person to whom solicitation for acquiring collective investment securities is entrusted may solicit investments, notwithstanding [Article 51](#) (2).

Article 16 (Transitional Measure Concerning Quasi-Investment Advisory Business Entity)

A person who has completed the report on a quasi-investment advisory business entity in accordance with Article 149 of the Indirect Investment Asset Management Business Act as of the time when this Act enters into force shall be deemed to have completed the report on the quasi-investment advisory business entity in accordance with [Article 101](#).

Article 17 (Transitional Measure Concerning Accounting Audit of Trust)

[Articles 114](#) and [115](#) shall not be applicable to the trusts created in accordance with a standardized contract form or a standard contract established or amended before the enforcement date of the Amendment (Act No. 6180) to the [Trust Business Act](#): *Provided*, That [Articles 114](#) and [115](#) shall apply to the trusts created in accordance with a standardized contract form or a standard contract established or amended before the enforcement date of the Amendment (Act No. 6180) to the [Trust Business Act](#) to the extent of the trust added up, if any, after the enforcement date of the Amendment (Act No. 6180) to the [Trust Business Act](#).

Article 18 (Transitional Measure Concerning Registration Statements)

The registration statements, universal shelf registration statements, corrective registration statements, business prospectuses (including preliminary business prospectuses and short-form business prospectuses), and report on issuance of securities filed with the Financial Services Commission in accordance with the former [Securities and Exchange Act](#) as of the time when this Act enters into force shall be governed by the former [Securities and Exchange Act](#), notwithstanding the provisions of [Articles 118 through 132](#). <Amended by Act No. 8863, Feb. 29, 2008>

Article 19 (Transitional Measure Concerning Report on One's Own Stocks, Merger, etc.)

In case where a person owes a duty to submit a report in accordance with Article 189-2 or 190-2 of the former [Securities and Exchange Act](#) as of the time when this Act enters into force, such a duty shall be governed by the former [Securities and Exchange Act](#), notwithstanding the provisions of [Articles 118 through 132](#) and [161 through 165](#).

Article 20 (Transitional Measure Concerning Tender Offer Statement, etc.)

The tender offer statements, corrective statements, tender offer prospectus, and revocation statements filed, and the public notices of tender offer and correction given in accordance with the former [Securities and Exchange Act](#) as of the time when this Act enters into force shall be governed by the former [Securities and Exchange Act](#), notwithstanding the provisions of [Articles 133 through 146](#).

Article 21 (Transitional Measure Concerning Reporting on Stocks, etc. Held in Bulk, etc.)

- (1) In case where a person who holds stocks, etc. in bulk in accordance with Article 200-2 (1) of the former [Securities and Exchange Act](#) and who is exempted from the duty to report in accordance with the same paragraph of the same Article is required to submit a report under [Article 147](#) (1) hereof as of the time when this Act enters into force, the time period for such reporting shall not exceed one month after the enforcement date of this Act, notwithstanding [Article 147](#) (1) hereof.
- (2) A person who submitted a report in accordance with Article 200-2 (1) of the former [Securities and Exchange Act](#) and who has a change in a material fact, as prescribed by Presidential Decree including the essential terms and conditions of the contract related to stocks, etc. held by him/her, shall submit the report under [Article 147](#) (4) within one month after the enforcement date of this Act.
- (3) [Article 148](#) shall not apply in case where the duty to report has arisen in accordance with Article 200-2 (1) or (4) of the [Securities and Exchange Act](#) as of the time when this Act enters into force.
- (4) If the duty to report has arisen in accordance with Article 200-2 (4) of the [Securities and Exchange Act](#) as of the time when this Act enters into force, the restriction, etc. on the exercise of voting right for stocks, etc. in violation shall be governed by [Article 200-3](#) (1) of the former [Securities and Exchange Act](#), notwithstanding [Article 150](#) (1) hereof.

- (5) [Article 150](#) (3) shall not apply in case where the duty to report has arisen in accordance with Article 200-2 (1), (3), or (4) of the [Securities and Exchange Act](#) as of the time when this Act enters into force, because the purpose of holding stocks, etc. was to give an influence on the issuer's business control.

Article 22 (Transitional Measure Concerning Solicitation for Exercising Voting Right by Proxy)

In case where a notice or public notice of calling the general meeting of shareholders has been given as of the time when this Act enters into force, the solicitation for exercising voting right by proxy in relation to the general meeting of shareholders shall be governed by the former [Securities and Exchange Act](#), notwithstanding the provisions of [Articles 152 through 158](#).

Article 23 (Transitional Measure Concerning Occasional Public Disclosure, Business Report, etc.)

In case where the duty to report has arisen in accordance with Article 186 of the former [Securities and Exchange Act](#) or the duty to submit has arisen in accordance with Article 186-2 or 186-3 of the former [Securities and Exchange Act](#), as of the time when this Act enters into force, the former [Securities and Exchange Act](#) shall apply, notwithstanding the provisions of [Articles 159 through 165](#).

Article 24 (Transitional Measure Concerning Limitations on Ownership of Stocks Issued by Public Purpose Corporation)

As to the ownership of stocks by a shareholder who falls under Article 200 (1) 1 of the former [Securities and Exchange Act](#) as of the time when this Act enters into force, the former [Securities and Exchange Act](#) shall apply, notwithstanding [Article 167](#) (1) 1 hereof.

Article 25 (Transitional Measure Concerning Auditor's Liability for Damages)

As to the liability for damages that an auditor who did accounting audit shall take in accordance with Article 194-3 of the former [Securities and Exchange Act](#), Article 197 of the former [Securities and Exchange Act](#), notwithstanding [Article 170](#) hereof.

Article 26 (Transitional Measure Concerning Return of Insider's Shortswing Profit)

In case where an executive, an employee, or a major shareholder of a stock-listed corporation or KOSDAQ-listed corporation under the former [Securities and Exchange Act](#) derives profit by purchasing or selling stocks, etc. before the enforcement of this Act and then selling or purchasing them within six months (applicable only where such stocks, etc. are sold or purchased after the enforcement of this Act), the procedure, etc. for claiming the return of such profit, calculating and return such profit shall be governed by the provisions of Article 188 (2) through (4) of the former [Securities and Exchange Act](#), notwithstanding the provisions of [Article 172](#) (1) through (3).

Article 27 (Transitional Measure Concerning Report on Status of Specific Securities, etc. Owned by Executives, Employees, etc.)

- (1) The time period during which an executive or a major shareholder of a stock-listed corporation or KOSDAQ-listed corporation under the former [Securities and Exchange Act](#), who owns specific securities, etc. as of the time when this Act enters into force, is required to submit a report on the status of the specific securities, etc. owned by him/her shall not exceed one month after the enforcement date of this Act, notwithstanding [Article 173](#) (1).
- (2) In case where an executive or a major shareholder of a stock-listed corporation or KOSDAQ-listed corporation under the former [Securities and Exchange Act](#), who holds only stocks as of the time when this Act enters into force, has any change in the number of stocks owned by him/her before the enforcement of this Act, the report thereon shall be governed by [Article 188](#) (6) of the former [Securities and Exchange Act](#).

Article 28 (Transitional Measures Concerning Indirect Investment Funds, etc.)

- (1) The investment trusts (excluding special accounts created by insurance companies) and investment companies created or established in accordance with the former Indirect Investment Asset Management Business Act as of the time when this Act enters into force shall be governed by the former Indirect Investment Asset Management Business Act.
- (2) The special accounts of insurance companies under [Article 135](#) (1) of the former Indirect Investment Asset Management Business Act as of the time when this Act enters into force shall be deemed as the special accounts of insurance companies under [Article 251](#) hereof. In this case, an insurance company that manages a special account shall, if the trust contract of the special account contravenes this Act, amend the trust contract of the special account in conformity with this Act within three months after the enforcement of this Act.
- (3) Private equity funds registered in accordance with the former Indirect Investment Asset Management Business Act as of the time when this Act enters into force shall be deemed as private equity funds registered in accordance with this Act.
- (4) Foreign indirect investment securities reported to the Financial Services Commission in accordance with the former Indirect Investment Asset Management Business Act as of the time when this Act enters into force shall be governed by the former Indirect Investment Asset Management Business Act. <Amended by Act No. 8863, Feb. 29, 2008>
- (5) The securities investment trusts and securities investment companies under the proviso to Article 2 (1) of Addenda of the Indirect Investment Asset Management Business Act (Act No. 6987) shall be

governed by the former [Securities Investment Trust Business Act](#) or the former [Securities Investment Company Act](#). <Amended by Act No. 8863, Feb. 29, 2008>

- (6) The money trust and special accounts under Article 14 (2) of Addenda of the Indirect Investment Asset Management Business Act (Act No. 6987) shall be governed by the provisions of trust business under this Act or the [Insurance Business Act](#).
- (7) This Act shall not apply to real estate investment companies (excluding self-administered and self-managed real estate companies), ship investment companies, companies specializing in cultural industry, corporate restructuring associations, new technology venture associations, the Korea Venture Fund, private investment associations, investment associations specializing in components and materials, and corporate restructuring investment companies created or established in accordance with a corresponding Act under any of the following subparagraphs as of the time when this Act enters into force: <Amended by Act No. 9407, Feb. 3, 2009>
 1. Deleted; <by Act No. 9407, Feb. 3, 2009>
 2. The [Real Estate Investment Company Act](#);
 3. The [Ship Investment Company Act](#);
 4. The [Framework Act on the Promotion of Cultural Industries](#);
 5. The [Industrial Development Act](#);
 6. The [Support for Small and Medium Enterprise Establishment Act](#);
 7. The [Specialized Credit Finance Business Act](#);
 8. The [Act on Special Measures for the Promotion of Venture Businesses](#);
 9. The [Act on Special Measures for the Promotion of Specialized Enterprises, etc. for Component and Material](#);
 10. Deleted; or <by Act No. 9407, Feb. 3, 2009>
 11. The former [Corporate Restructuring Investment Companies Act](#).

Article 29 (Transitional Measures Concerning Conversion of Indirect Investment Funds)

- (1) Notwithstanding Article 28 (1) of Addenda, a collective investment business entity that manages the property of an investment trust (excluding special accounts managed by insurance companies; the same shall apply hereinafter for the purposes of this Article) created in accordance with the former Indirect Investment Asset Management Business Act or an investment company may register the investment trust or the investment company as a collective investment scheme under this Act with the Financial Services Commission in accordance with [Article 182](#). In this case, it shall file a registration statement with the Financial Services Commission in accordance with [Article 119](#) (1) or (2). <Amended by Act No. 8863, Feb. 29, 2008>
- (2) Notwithstanding [Article 28](#) (4), a collective investment business entity of a foreign investment trust that issued foreign indirect investment securities reported to the Financial Services Commission in accordance with the former Indirect Investment Asset Management Business Act or a foreign investment company may register the foreign investment trust or the foreign investment company as a foreign collective investment scheme under this Act with the Financial Services Commission in accordance with [Article 279](#). In this case, it shall file a registration statement with the Financial Services Commission in accordance with [Article 119](#) (1) or (2). <Amended by Act No. 8863, Feb. 29, 2008>

Article 30 (Transitional Measures Concerning Sale, etc. of Indirect Investment Securities)

- (1) Dealers under the former Indirect Investment Asset Management Business Act shall not sell indirect investment securities under the former Indirect Investment Asset Management Business Act (including foreign indirect investment securities reported to the Financial Services Commission in accordance with the former Indirect Investment Asset Management Business Act) after the lapse of three months from the enforcement date of this Act: *Provided*, That the foregoing shall not apply to the case prescribed otherwise by Presidential Decree. <Amended by Act No. 8863, Feb. 29, 2008>
- (2) Dealers under the former Indirect Investment Asset Management Business Act shall not sell beneficiary certificates of any securities investment trust and stocks of any securities investment company under Article 11 of Addenda of the Indirect Investment Asset Management Business Act (Act No. 6987): *Provided*, That the foregoing shall not apply to the case prescribed by Presidential Decree.
- (3) A financial institution under the [Banking Act](#) or an insurance company under the [Insurance Business Act](#), both of which are deemed to have obtained authorization for an asset management business pursuant to Article 14 of Addenda of the Indirect Investment Asset Management Business Act (Act No. 6987), shall not add another monetary trust or special account to the monetary trusts or special accounts created before the enforcement of the Indirect Investment Asset Management Business Act (Act No. 6987): *Provided*, That the foregoing shall not apply to the case prescribed by Presidential Decree.

Article 31 (Transitional Measure Concerning Qualification for Promoters, etc. of Investment Companies)

In applying the provisions of subparagraphs 3 and 5 through 7 of [Article 24](#) as provided for in [Articles 194](#) (1) and [199](#) (4) 1, it shall be deemed that the term "this Act" includes the former [Securities and Exchange](#)

[Act](#), the former [Futures Trading Act](#), the former Indirect Investment Asset Management Business Act, the former [Trust Business Act](#), the former [Korea Securities and Futures Exchange Act](#), and the former [Merchant Banks Act](#).

Article 32 (Transitional Measures Concerning Companies of Collective Investment Scheme and Their Executives)

- (1) The general administration companies, fund assessment companies, and bond assessment companies registered with the Financial Services Commission in accordance with Articles 25, 154, and 155 of the former Indirect Investment Asset Management Business Act as of the time when this Act enters into force shall be deemed as general administration companies, fund assessment companies, and bond assessment companies registered in accordance with [Articles 254](#), [258](#), and [263](#) hereof respectively. In this case, each of them shall meet the requirements for maintaining registration under [Articles 254](#) (8), [258](#) (8), and [263](#) (8) respectively within three months after the enforcement date of this Act. <Amended by Act No. 8863, Feb. 29, 2008>
- (2) Notwithstanding [Articles 254](#) (2) 5, [258](#) (2) 6, and [263](#) (2) 6, the qualification for an incumbent executive of a general administration company, fund assessment company, or bond assessment company as of the time when this Act enters into force shall be governed by the former Indirect Investment Asset Management Business Act, until his/her term expires.
- (3) In applying the provisions of subparagraphs 3 and 5 through 7 as provided for in [Articles 254](#) (2) 5, [258](#) (2) 6, and [263](#) (2) 6, it shall be deemed that the term "this Act" includes the former [Securities and Exchange Act](#), the former [Futures Trading Act](#), the former Indirect Investment Asset Management Business Act, the former [Trust Business Act](#), the former [Korea Securities and Futures Exchange Act](#), and the former [Merchant Banks Act](#).

Article 33 (Transitional Measure Concerning Special Purpose Companies)

The special purpose companies under the former Indirect Investment Asset Management Business Act as of the time when this Act enters into force may revise any description in their registration after the enforcement of this Act pursuant to [Article 271](#) (5).

Article 34 (Transitional Measures Concerning Korea Depository)

- (1) The Korea Securities Depository established pursuant to Article 173 of the former [Securities and Exchange Act](#) shall be deemed as the Korea Depository under [Article 294](#) hereof.
- (2) Securities designated by the Korea Securities Depository as those that shall be deposited in accordance with Article 173-7 of the former [Securities and Exchange Act](#) shall be deemed to have been designated by the Korea Depository as securities, etc. that shall be deposited in accordance with [Article 308](#) hereof.
- (3) The account book of customers under Article 174-2 of the former [Securities and Exchange Act](#) shall be deemed as the account book of investors under [Article 310](#) hereof.
- (4) The approvals given by the Korea Securities Depository pursuant to Article 176-2 (4) of the former [Securities and Exchange Act](#) shall be deemed as have been given by the Korea Depository pursuant to [Article 322](#) (4) hereof.

Article 35 (Transitional Measures Concerning Securities Financial Companies)

- (1) The securities financial companies with authorization of the Financial Services Commission pursuant to Article 145 of the former [Securities and Exchange Act](#) shall be deemed as securities financial companies with authorization under [Article 324](#) (1) hereof. In this case, such companies shall satisfy requirements for maintaining authorization in accordance with [Article 324](#) (9) within three months after the enforcement date of this Act. <Amended by Act No. 8863, Feb. 29, 2008>
- (2) In applying the provisions of subparagraphs 3 and 5 through 7 of [Article 24](#) as provided for in [Articles 324](#) (2) 5, it shall be deemed that the term "this Act" includes the former [Securities and Exchange Act](#), the former [Futures Trading Act](#), the former Indirect Investment Asset Management Business Act, the former [Trust Business Act](#), the former [Korea Securities and Futures Exchange Act](#), and the former [Merchant Banks Act](#).

Article 36 (Transitional Measures Concerning Merchant Banks)

- (1) A merchant bank shall, if its investment in securities happens to exceed the limit set in [Article 344](#) (1) as a consequence of the enforcement of this Act, shall meet the limit under the same paragraph of the same Article within one year after the enforcement of this Act.
- (2) The qualification of an incumbent executive of a merchant bank as of the time when this Act enters into force shall be governed, until his/her term expires, by the former [Merchant Banks Act](#), notwithstanding [Article 24](#), which shall be applicable *mutatis mutandis* pursuant to Article 350.
- (3) In applying the provisions of subparagraphs 3 and 5 through 7 of [Article 24](#) as provided for in [Articles 350](#), it shall be deemed that the term "this Act" includes the former [Securities and Exchange Act](#), the former [Futures Trading Act](#), the former Indirect Investment Asset Management Business Act, the former [Trust Business Act](#), the former [Korea Securities and Futures Exchange Act](#), and the former [Merchant Banks Act](#).
- (4) Each merchant bank that is obligated to appoint outside directors in accordance with [Article 25](#) (1), which shall be applicable *mutatis mutandis* pursuant to [Article 350](#), shall appoint the outside directors

at the annual general meeting of shareholders convened first after the enforcement of this Act in accordance with the same paragraph of the same Article.

- (5) Each merchant bank that is obligated to install the audit committee in accordance with [Article 26](#) (2), which shall be applicable *mutatis mutandis* pursuant to [Article 350](#), shall install the audit committee at the annual general meeting of shareholders convened first after the enforcement of this Act in accordance with the same paragraph of the same Article.
- (6) As to a compliance officer of a merchant bank in service or in employment in accordance with the former [Merchant Banks Act](#) as of the time when this Act enters into force, the requirements provided for in the former [Merchant Banks Act](#) shall be applicable, until his/her term expires or until three years after the enforcement of this Act, if the compliance officer is an employee), notwithstanding [Article 28](#) (4), which shall be applicable *mutatis mutandis* pursuant to [Article 350](#).
- (7) In applying [Article 28](#) (4) 3, which shall be applicable *mutatis mutandis* pursuant to [Article 350](#), it shall be deemed that the term "this Act" includes the former [Securities and Exchange Act](#), the former [Futures Trading Act](#), the former Indirect Investment Asset Management Business Act, the former [Trust Business Act](#), the former [Korea Securities and Futures Exchange Act](#), and the former [Merchant Banks Act](#).

Article 37 (Transitional Measures Concerning Financial Brokerage Companies)

- (1) The financial brokerage companies established with approval of the Financial Services Commission pursuant to Article 9 (1) of the former [Merchant Banks Act](#) shall be deemed as financial brokerage company authorized pursuant to [Article 355](#) (1) hereof. In this case, such companies shall satisfy requirements for maintaining authorization in accordance with paragraph (9) of the said Article within three months after the enforcement date of this Act. <Amended by Act No. 8863, Feb. 29, 2008>
- (2) The qualification for an incumbent executive of a financial brokerage company as of the time when this Act enters into force shall be governed, until his/her term expires, by the former [Merchant Banks Act](#), notwithstanding [Article 355](#) (2) 5 hereof.
- (3) In applying the provisions of subparagraphs 3 and 5 through 7 of [Article 24](#) as provided for in [Articles 355](#) (2) 5, it shall be deemed that the term "this Act" includes the former [Securities and Exchange Act](#), the former [Futures Trading Act](#), the former Indirect Investment Asset Management Business Act, the former [Trust Business Act](#), the former [Korea Securities and Futures Exchange Act](#), and the former [Merchant Banks Act](#).

Article 38 (Transitional Measure Concerning Concurrent Operation of Short-term Financial Business by Financial Institutions)

A financial institutions with authorization of the Financial Services Commission pursuant to Article 3-2 (1) of the former [Merchant Banks Act](#) shall be deemed to have obtained authorization from the Financial Services Commission for the short-term financial business in accordance with [article 360](#) (1). In this case, it shall satisfy requirements for maintaining authorization in accordance with paragraph (9) of the said Article within three months after the enforcement date of this Act. <Amended by Act No. 8863, Feb. 29, 2008>

Article 39 (Transitional Measure Concerning Transfer Agency Companies)

A transfer agency company registered with the Financial Services Commission pursuant to Article 180 of the former [Securities and Exchange Act](#) as of the time when this Act enters into force shall be deemed as a transfer agency company registered in accordance with [Article 365](#) (1). In this case, it shall satisfy the requirements for maintaining registration in accordance with paragraph (8) of the said Article within three months after the enforcement date of this Act. <Amended by Act No. 8863, Feb. 29, 2008>

Article 40 (Transitional Measures Concerning Korea Exchange)

- (1) The Korea Securities and Futures Exchange under the former [Korea Securities and Futures Exchange Act](#) as of the time when this Act enters into force shall be deemed as the Korea Exchange under [Article 373](#) hereof.
- (2) The transactions of securities and futures, closed but unsettled finally at the securities exchange, the KOSDAQ market, and the futures market opened by the Korea Securities and Futures Exchange under the former [Korea Securities and Futures Exchange Act](#) as of the time when this Act enters into force, shall be deemed to have been closed on the same terms and conditions at the securities exchange, the KOSDAQ market, and the derivatives market opened by the Korea Exchange established pursuant to this Act.
- (3) The common fund reserved for damages caused by breach of contract in accordance with Article 95 (1) of the former [Securities and Exchange Act](#) or Article 27 (1) of the former [Futures Trading Act](#) shall be deemed as the common fund reserved for damages in accordance with [Article 394](#) hereof.
- (4) The committee for enhancement of market efficiency installed pursuant to Article 25 of the former [Korea Securities and Futures Exchange Act](#) as of the time when this Act enters into force shall be deemed as the committee for enhancement of market efficiency under [Article 414](#) hereof.

Article 41 (Transitional Measures Concerning Penal Provisions, etc.)

- (1) In applying penal provisions and provisions concerning the fine for negligence against a violation of the former [Securities and Exchange Act](#), the former [Futures Trading Act](#), the former Indirect

Investment Asset Management Business Act, the former [Trust Business Act](#), the former [Merchant Banks Act](#), or the former [Korea Securities and Futures Exchange Act](#), if committed before the enforcement of this Act, the former provisions shall apply.

- (2) In applying the disposition of imposition of the penalty surcharge or any other administrative disposition against a violation of the former [Securities and Exchange Act](#), the former [Futures Trading Act](#), the former Indirect Investment Asset Management Business Act, the former [Trust Business Act](#), the former [Merchant Banks Act](#), or the former [Korea Securities and Futures Exchange Act](#), if committed before the enforcement of this Act and completed before the enforcement of this Act or continued after the enforcement of this Act, the former provisions shall apply.

Article 42 Omitted.

Article 43 (Transitional Measures Following Amendment to Other Acts)

- (1) The companies specializing in investment and financing, established in accordance with the former [Act on Private Participation in Infrastructure](#) as of the time when this Act enters into force, shall be governed by the former provisions, notwithstanding the provisions of the [Act on Private Participation in Infrastructure](#) as amended pursuant to [Article 42](#) (57) of Addenda hereof.
- (2) In apply the provision of Article 7 (1) 3 of the [Real Estate Investment Company Act](#) as amended pursuant to Article 42 (58) of Addenda hereof, it shall be deemed that the term "Financial Investment Services and Capital Markets Act" includes the former [Trust Business Act](#), the former [Securities and Exchange Act](#), the former [Futures Trading Act](#), the former [Korea Securities and Futures Exchange Act](#), the former Indirect Investment Asset Management Business Act, and the former [Merchant Banks Act](#).
- (3) The business affairs related to investment and management of the assets entrusted to a real estate investment company established in accordance with the former [Real Estate Investment Company Act](#) or an asset management company as of the time when this Act enters into force shall be governed by the former provisions, notwithstanding the provisions of the [Real Estate Investment Company Act](#) amended pursuant to Article 42 (58) of Addenda hereof.
- (4) The business affairs, etc. entrusted to a ship investment company established in accordance with the former [Ship Investment Company Act](#) as of the time when this Act enters into force shall be governed by the former provisions, notwithstanding the provisions of the [Ship Investment Company Act](#) amended pursuant to Article 42 (59) of Addenda hereof.
- (5) The business affairs, etc. entrusted to a company specializing in cultural industry established in accordance with the former [Framework Act on the Promotion of Cultural Industries](#) or a business manager as of the time when this Act enters into force shall be governed by the former provisions, notwithstanding the provisions of the [Framework Act on the Promotion of Cultural Industries](#) amended pursuant to Article 42 (60) of Addenda hereof.
- (6) The business affairs, etc. of a corporate restructuring association registered in accordance with the former [Industrial Development Act](#) as of the time when this Act enters into force or a corporate restructuring association formed by a specialized corporate restructuring company before the enforcement of this Act shall be governed by the former provisions, notwithstanding the provisions of the [Industrial Development Act](#) amended pursuant to Article 42 (61) of Addenda hereof.
- (7) The business affairs, etc. of a starting-up business investment association registered in accordance with the former [Support for Small and Medium Enterprise Establishment Act](#) as of the time when this Act enters into force or a starting-up business investment association formed by a company specializing in investment in starting-up business before the enforcement of this Act shall be governed by the former provisions, notwithstanding the provisions of the [Support for Small and Medium Enterprise Establishment Act](#) amended pursuant to Article 42 (62) of Addenda hereof.
- (8) The business affairs, etc. of a new technology venture association formed in accordance with the former [Specialized Credit Financial Business Act](#) as of the time when this Act enters into force or a new technology venture association formed by a new technology venture company before the enforcement of this Act shall be governed by the former provisions, notwithstanding the provisions of the [Specialized Credit Financial Business Act](#) amended pursuant to Article 42 (63) of Addenda hereof.
- (9) The Korean Venture Fund or a private investment association registered in accordance with the former [Act on Special Measures for the Promotion of Venture Businesses](#) as of the time when this Act enters into force shall be governed by the former provisions, notwithstanding the provisions of the [Act on Special Measures for the Promotion of Venture Businesses](#) amended pursuant to Article 42 (64) of Addenda hereof.
- (10) An investment associations specializing in components and materials registered in accordance with the former [Act on Special Measures for the Promotion of Specialized Enterprises, etc. for Component and Material](#) as of the time when this Act enters into force shall be governed by the former provisions, notwithstanding the provisions of the [Act on Special Measures for the Promotion of Specialized Enterprises, etc. for Component and Material](#) amended pursuant to Article 42 (65) of Addenda hereof.
- (11) A specialized overseas resources development investment company, established in accordance with the former [Overseas Resources Development Business Act](#) as of the time when this Act enters into

force, shall be governed by the former provisions, notwithstanding the provisions of the [Overseas Resources Development Business Act](#) amended pursuant to Article 42 (66) of Addenda hereof.

Article 44 (Relations with Other Acts)

- (1) A citation of the former [Securities and Exchange Act](#), the former [Futures Trading Act](#), the former Indirect Investment Asset Management Business Act, the former [Trust Business Act](#), the former [Merchant Banks Act](#), or the former [Korea Securities and Futures Exchange Act](#), or any provision thereof by any other Act, if any, enforceable at the time when this Act enters into force shall be deemed to be a citation of this Act or a corresponding provision hereof in lieu of the former provision, if there is such a corresponding provision herein.
- (2) A citation of a securities company under the former [Securities and Exchange Act](#), a futures business entity under the former [Futures Trading Act](#), an asset management company under the former Indirect Investment Asset Management Business Act, or a trust company under the former [Trust Business Act](#) by any other Act, if any, enforceable at the time when this Act enters into force shall be deemed to be a citation of a financial investment business entity under this Act within the extent of such a citation.
- (3) A citation of a merchant bank, a financial brokerage company, or a person who engages in a short-term financial business under the former [Merchant Banks Act](#) by any other Act, if any, enforceable at the time when this Act enters into force shall be deemed to be a citation of a merchant bank, a financial brokerage company, or a short-term financial company under this Act.

ADDENDA <Act No. 8852, Feb. 29, 2008>

Article 1 (Enforcement Date)

This Act shall enter into force on the date of its promulgation: *Provided*, That ...<Omitted.>... amendments to any other Act which is amended under [Article 6](#) of these addenda and which is promulgated before the enforcement date of this Act but is not yet enforced, shall enter into force on the enforcement date of that other Act.

Articles 2 through 7 Omitted.

ADDENDA <Act No. 8863, Feb. 29, 2008>

Article 1 (Enforcement Date)

This Act shall enter into force on the date of its promulgation.

Articles 2 through 5 Omitted.

ADDENDA <Act No. 9407, Feb. 3, 2009>

Article 1 (Enforcement Date)

This Act shall enter into force on Feb. 4, 2009.

Article 2 (Applicability to Submission of Half-yearly and Quarterly Reports)

The amended provisions of [Article 160](#) shall apply starting with the half-yearly and quarterly reports submitted first after this Act enters into force.

Article 3 (Applicability to Privately Placed Fund Subject to Qualified Investors)

The amended provisions of [Article 249-2](#) shall apply starting with the privately placed fund for qualified investors created or established first after this Act enters into force.

Article 4 (Transitional Measures Concerning Acquisition or Disposal of One's Own Stocks)

- (1) A stock-listed corporation holding (including the conclusion of trust contracts) its own stocks as of the time when this Act enters into force after acquiring them pursuant to [Article 189-2 of the Securities and Exchange Act](#) shall be deemed to have acquired them in accordance with the amended provisions of [Article 165-2](#).
- (2) The amended provisions of [Article 165-2](#) (2) 3 shall apply to the trust contracts concluded pursuant to the former [Article 189-2 \(2\) of the Securities and Exchange Act](#) as of the time when this Act enters into force.

Article 5 (Transitional Measures Concerning Excessive Portion of Limit to Acquire One's Own Stocks)

A corporation which has issued stock certificates listed on the KOSDAQ market after acquiring its own stocks at the time when the amended provisions of the [Securities and Exchange Act](#) (Act No. 5736) entered into force, and which is holding them in excess of the acquisition limit stipulated in the latter part of Article 189-2 (1) of the same Act shall be in conformity of the amended provisions of [Article 165-2](#) (2) until the money trust contract, etc. under paragraph (2) of the same Article is terminated.

Article 6 (Transitional Measures Concerning Retirement of Stocks)

Where treasury stocks acquired and being held pursuant to the Article 189-2 of the former [Securities and Exchange Act](#) meet the requirements under each subparagraph of Article 16 of the Addenda to the

[Securities and Exchange Act](#) as amended by Act No. 6423 at the time when the amended provisions of the [Securities and Exchange Act](#) (Act No. 6423) entered into force, such stocks may be retired pursuant to the amended provisions of [Article 165-3](#) (1). In such cases, the amended provisions of [Articles 165-3](#) (4) and (5) shall apply.

Article 7 (Transitional Measures Concerning Appraisal Rights of Stockholders)

- (1) Where any resolution of the board of directors under Article 191 (1) of the former [Securities and Exchange Act](#) exists at the time when this Act enters into force, the former provisions shall apply, notwithstanding the amended provisions of [Article 165-5](#) (1).
- (2) Where any adjustment of purchase prices of stocks pursuant to Article 191 (3) of the former [Securities and Exchange Act](#) is filed at the time when this Act enters into force, the former provisions shall apply, notwithstanding the amended provisions of [Article 165-5](#) (3).

Article 8 (Transitional Measures Concerning New Types of Corporate Bonds)

New types of bonds issued pursuant to Article 191-4 of the former [Securities and exchange Act](#) (including the cases referred to in Article 21 of the Addenda to the [Securities and Exchange Act](#) as amended by Act No. 5254)) at the time this Act enters into force shall be deemed to have been issued in accordance with the amended provisions of [Article 165-11](#).

Article 9 (Transitional Measures concerning Non-voting Stocks)

Non-voting stocks issued pursuant to each subparagraph of Article 191-2 (1) of the former [Securities and Exchange Act](#) (including the cases referred to in Article 20 of the Addenda to the [Securities and Exchange Act](#) as amended by Act No. 5254)) at the time this Act enters into force shall be deemed to have been issued in accordance with the amended provisions of each subparagraph of [Article 165-15](#) (1).

Article 10 (Transitional Measures concerning Report on Exchange-traded Derivatives Held in Bulk)

Where any duty to make a report pursuant to Article 32 (2) of the former [Futures Trading Act](#) occurs at the time this Act enters into force, the former provisions shall apply, notwithstanding the amended provisions of [Article 173-2](#).

Article 11 (Transitional Measures concerning Korea Listed Companies Association)

The Korea Listed Companies Association established under the permission of the Financial Services Commission pursuant to Article 181 (1) of the former [Securities and Exchange Act](#) at the time this Act enters into force shall be deemed to have been established in accordance with the amended provisions of [Article 370](#) (1).

Article 12 Omitted.

ADDENDA <Act No. 9625, Apr. 22, 2009>

Article 1 (Enforcement Date)

This Act shall enter into force three months after the date of its promulgation.

Articles 2 through 9 Omitted.

ADDENDA <Act No. 9784, Jun. 9, 2009>

Article 1 (Enforcement Date)

This Act shall enter into force four months after the date of its promulgation.

Articles 2 through 4 Omitted.

ADDENDA <Act No. 10063, Mar. 12, 2010>

Article 1 (Enforcement Date)

This Act shall enter into force three months after the date of its promulgation: *Provided*, That the amended provisions of [Article 10](#) (3) shall enter into force on the date of its promulgation.

Article 2 (Term of Validity concerning Deliberation on Over-the-Counter Derivatives)

The amended provisions of [Articles 166-2](#), [286](#) and [288-2](#) concerning the deliberation of over-the-counter derivatives shall remain valid by December 31, 2011.

Article 3 (Term of Validity, etc. concerning Investment Companies for Corporate Financial Stability and Private Equity Funds for Corporate Financial Stability)

- (1) The amended provisions of [Articles 234-2](#) and [278-2](#) shall remain valid for three years from the date this Act enters into force.
- (2) Notwithstanding paragraph (1), this Act shall remain applicable to an investment company for corporate financial stability and a private equity fund for corporate financial stability registered with the Financial Services Commission and a special purpose company in which the private equity fund for corporate financial stability invests as a shareholder or a partner pursuant to [Article 278-2](#) (3) as at the time the amended provisions of [Articles 234-2](#) and [278-2](#) become invalid, until the existence term of the relevant company.
- (3) No investment company for corporate financial stability, private equity fund for corporate financial

stability and special purpose company subject to this Act pursuant to paragraph (2) may receive additional investment from the date the amended provisions of [Articles 234-2](#) and [278-2](#) become invalid.

Article 4 (Transitional Measures concerning Deliberation on Over-the-Counter Derivatives)

An over-the-counter derivative traded under the former provisions before this Act enters into force shall be deemed to have undergone deliberation under the amended provisions of [Article 166-2](#) (1) 6.

Article 5 (Applicability to Revised Authorization and Registration of Financial Investment Business Entities)

The requirements of authorization on changes and revised registration for the addition of affairs under the amended provisions of [Articles 16](#) and 21 shall apply beginning from the first violation after this Act enters into force.

Article 6 (Applicability to Qualifications of Executives)

The amended provisions of [Article 24](#) shall apply beginning from the executive first appointed (including a person under [Article 401-2 \(1\) 3 of the Commercial Act](#) who is prescribed by Presidential Decree) after this Act enters into force.

Article 7 (Applicability to Ceiling on Sales Commission and Sales Remuneration)

The amended provisions of [Article 76](#) (5) shall apply to a collective investment scheme created or established after this Act enters into force.

Article 8 (Applicability to Revised Registration of Private Equity Funds)

A private equity fund registered with the Financial Services Commission as at the time this Act enters into force may file a revised registration as a private equity fund for corporate financial stability under the amended provisions of [Article 278-2](#), as provided for in the articles of incorporation of the relevant private equity fund. In such cases, the fund shall be deemed the private equity fund for corporate financial stability from the date the revised registration is filed with the Financial Services Commission.

