



FUND LAUNCHED

**2005**

FUNDS UNDER  
MANAGEMENT

**£542.5**  
MILLION

NET ASSET VALUE  
PER SHARE

**381.6%**  
SINCE INCEPTION\*



# South Korea: Shifting Investor Landscape

April 2023

In January, South Korea's top financial regulator, the Financial Supervisory Commission ("FSC"), introduced a set of measures to reform the country's capital markets. The measures are aimed at improving foreign investors' access to the markets and reforming regulations to be more on a par with other advanced markets. The proposed changes are bold and could trigger a paradigm shift in Korean equities, which have long suffered a valuation discount relative to global peers, by making Korea more conducive to foreign investment.

## Overcoming language barriers

In 2022, companies listed on the Korea Composite Stock Price Index ("KOSPI") market, the main board of the Korea Exchange, released 2,483 disclosures in English<sup>(1)</sup>, equivalent to a mere 14% of the number of disclosures in Korean<sup>(2)</sup>. Moreover, English disclosures are made voluntarily and most rely on machine translation. Currently, there is no legal remedy for investors if any dispute arises in relation to English disclosures. DART, the online repository of Korea's corporate filings, displays a disclaimer stating "disclosures in English are made voluntarily with no legal effect and may not correspond to the original disclosures in Korean due to mistranslation". Therefore, until now, foreign investors who rely on English disclosures have been prone to misinterpretation and incomplete information.

In 2024, authorities will make English disclosures mandatory for companies in phases. Initially, KOSPI-listed firms with KRW 10 trillion (c.£6.4 billion) or more in assets and companies with foreign ownership of over 30% (in this case, KRW 2 trillion or more in assets) will be subject to the English disclosure requirement. From 2026, the requirement will be expanded to listed companies with KRW 2 trillion or more in assets<sup>(3)</sup>.

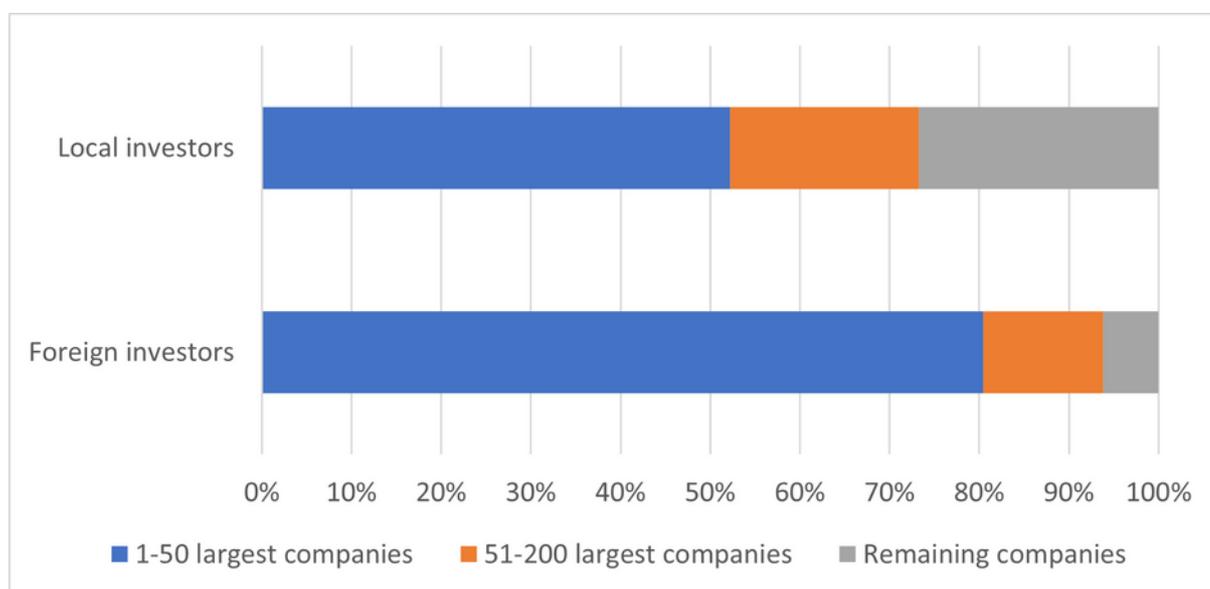
## Removing foreign investor restrictions

The FSC is showing its intent to break away from a familiar but outdated regulatory framework. It is scrapping the laborious registration requirements for foreign investors which were introduced in 1992<sup>(3)</sup>. Foreign investors will be able to open brokerage accounts immediately without a prior registration process that typically took a few weeks to complete. The FSC is also ditching the reporting requirements for trades by foreign investors made through an omnibus account, and expanding the asset classes that are available for over-the-counter transactions by foreign investors.

## Opportunities for Utilico Emerging Markets Trust

The FSC's actions to improve market accessibility have been prompted in part by a report by MSCI Inc. in June 2022<sup>(4)</sup>. South Korea is classified as an emerging market by MSCI, which has been reluctant to promote the country to developed market status due to insufficient market accessibility. However, this may soon change given South Korea's continuous efforts to address MSCI's concerns. Goldman Sachs analysts estimated in February 2022 that a reclassification of South Korea as a developed market could prompt over US\$44 billion of net inflows from foreign investors and the KOSPI could rise by 35%<sup>(5)</sup>. The proposed reforms are likely to have a more profound impact on South Korean companies where foreign investment is underrepresented. Currently, foreign investment is concentrated in the large caps, with around 80%<sup>(6)</sup> of all foreign investor money in the top 50 companies listed on the Korea Exchange. This compares to around 50%<sup>(6)</sup> for local investors.

## Local and Foreign Investments in Korean Stocks



Source: KRX, ICM, 2023: Local and foreign investments in South Korean stocks by market capitalisation ranking;

The capital market regulatory overhaul was long overdue in South Korea. While the proposed changes will be gradual, they are a step in the right direction. As the measures get implemented, the investible universe for foreign investors will expand and include companies that have been challenging to assess or invest in due to language barriers and restrictions. These companies are primed to benefit from the shifting investor landscape in South Korea.

## Jae Yoo

30 March, 2023

Source Data: ICM Limited.

[1] <https://englishdart.fss.or.kr/dsbb002/main.do>

[2] <https://dart.fss.or.kr>

[3] [www.fsc.go.kr/no010101/79326?srchCtgy=&curPage=5&srchKey=&srchText=&srchBeginDt=&srchEndDt=](http://www.fsc.go.kr/no010101/79326?srchCtgy=&curPage=5&srchKey=&srchText=&srchBeginDt=&srchEndDt=)

[4] <https://www.msci.com/documents/1296102/8ae816b1-fa03-bae3-0bb4-1a3b2bf387bf?t=1654804221837>

[5] <https://www.goldmansachs.com/insights/pages/gs-research/korea-what-if/report.pdf>

[6] <http://data.krx.co.kr/contents/MDC/MDI/mdlLoader/index.cmd?menuId=MDC0201020504>

\*Total return is calculated based on undiluted Net Asset Value, plus dividends reinvested and adjusted for the exercise of warrants and subscription shares

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