

Securities Deposit & Settlement

From Immobilization to Dematerialization

INDEX

KSD  한국예탁결제원

From Immobilization
to Dematerialization

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Paradigm Shift in the Capital Market

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① Overview, ② Legal Principles, ③ CA Mgmt., ④ Related Issues

03

Electronic Securities System (Dematerialization)
① Overview, ② Legal Principles, ③ CA Mgmt., ④ Related Issues

Capital Market Back-offices'

Paradigm Shift

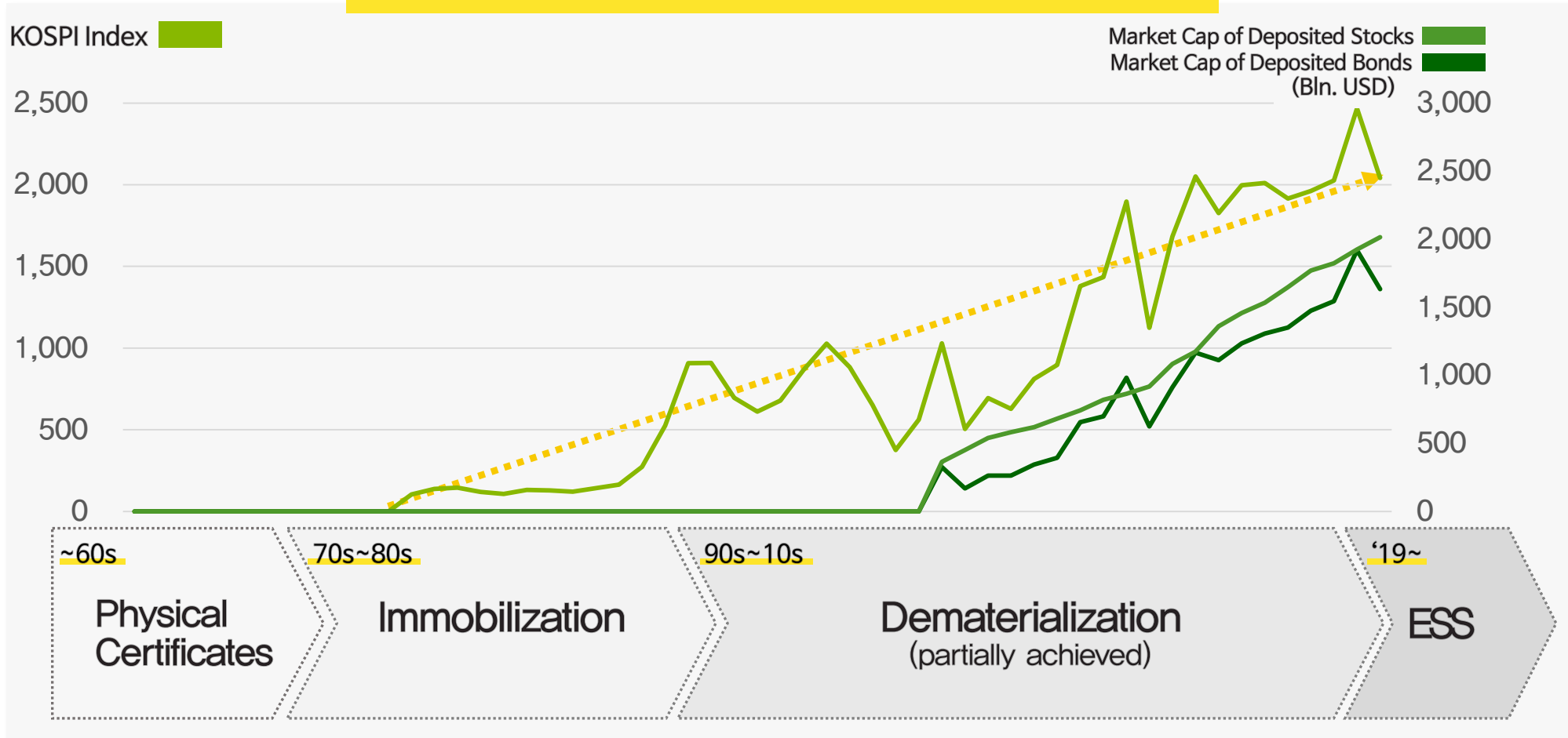
Paradigm Shift 00

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Capital Markets of Korea

Statistics of Korean Capital Mkt. (1964 ~ 2018)



➔ Paradigm Shift for the Korean Capital Market!

※ KOSIS Statistics

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Overview

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Electronic Securities System? 전자증권제도

- ✓ Dematerialization (No physical certificates issued or circulated)
- ✓ (Unlike existing system) Physical certificate ≠ Right (Registration)

Why is it better?

✓ Strengths of ESS

Investor protection, Transaction stability

Transparency

Reductions of Costs

KRW 87 billion (5yrs)
Uncertificated, Corporate action

Enhancing Efficiency of Issuers



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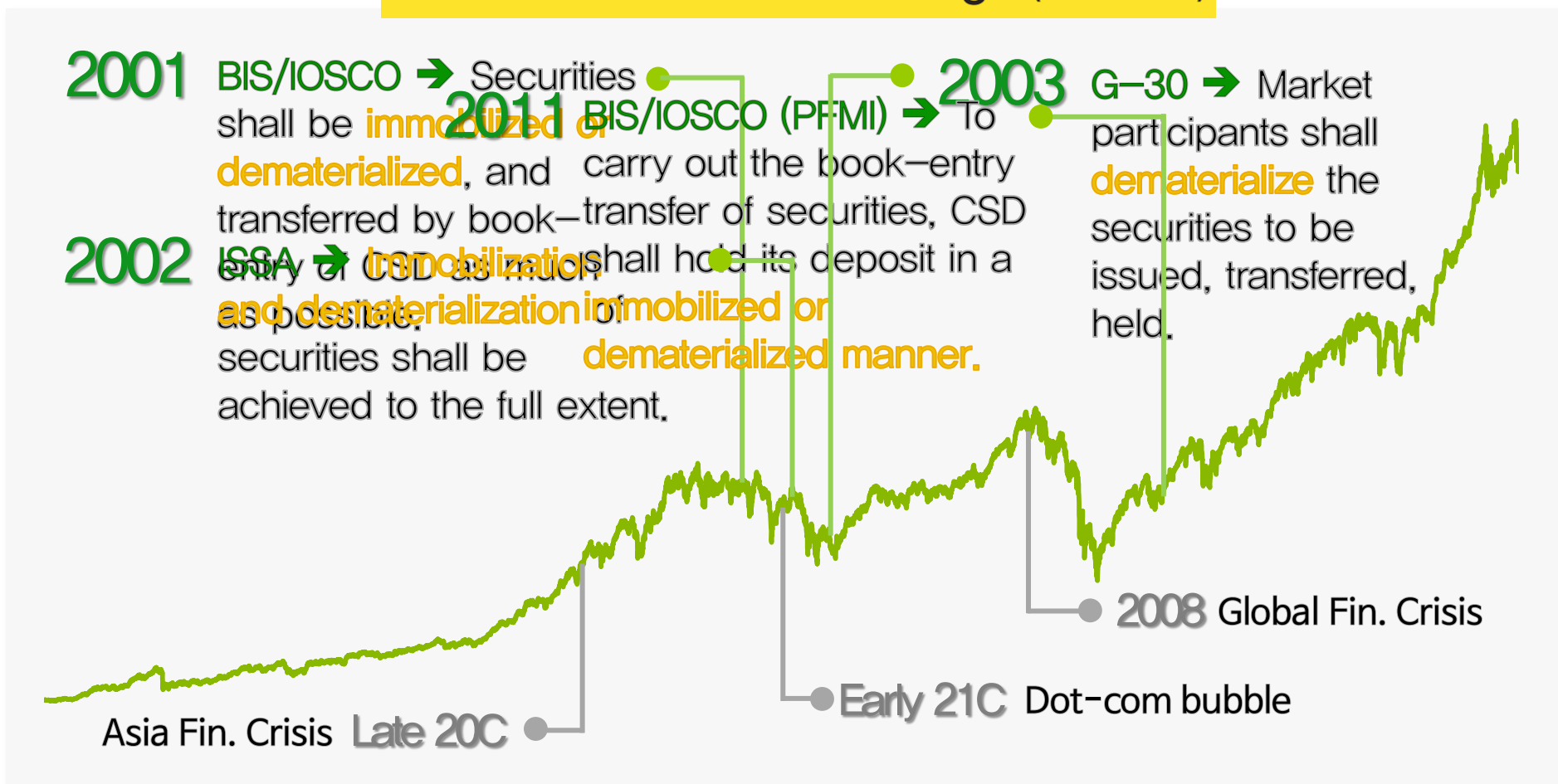
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Backgrounds 02

Global Standards

Dow Jones Industrial Average (1985~2018)

※ Yahoo Finance

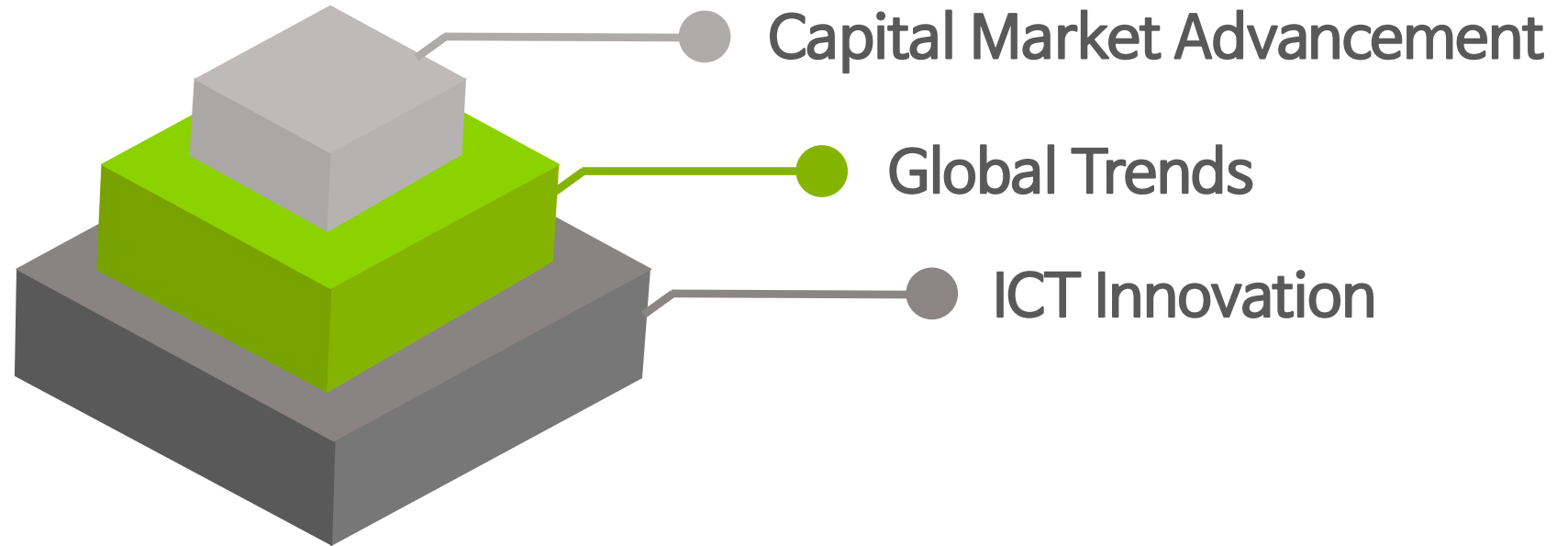


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Backgrounds 02

Backgrounds : To be Fundamental...



- ✓ Dematerialization started with the **fixed income** (relatively simple)
- ✓ Denmark (1983) → France (1988) → England (1989) → Sweden (1990) ...

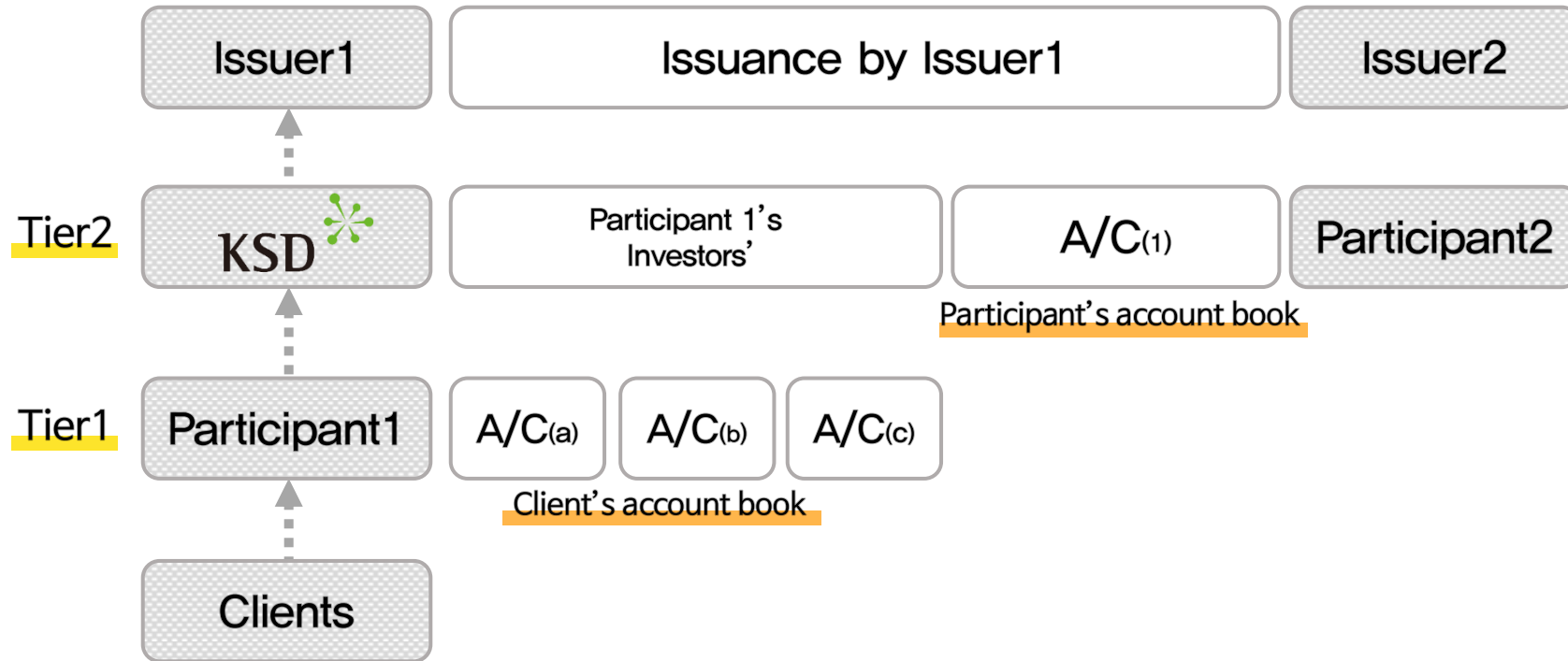
“ From **Immobilization** to **Dematerialization** ”



Immobilization

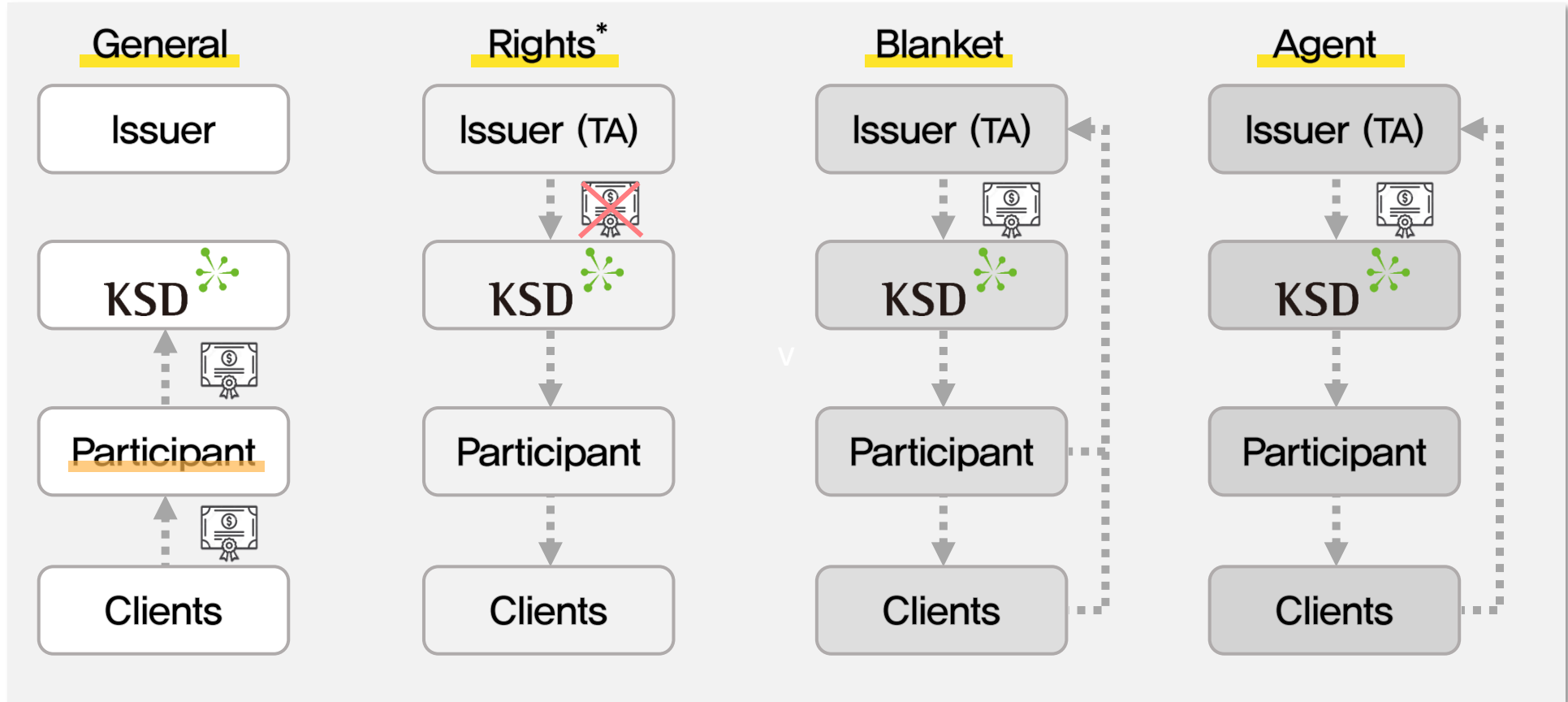
Securities Deposit

Operational Framework (Two-tiered A/C structure)



Q. Account and account book?

Securities Deposit Overview



※ Stocks, Bonds, Derivative linked securities, Beneficiary certificates, Depository receipt (DR), Certificate of deposit (CD), etc.

- Securities to be deposited : fungible, liquid, typical
- **Immobilization** (Safekeeping & Book-entry transfer) & **Dematerialization** (Partially achieved)

*Capital Market and Financial Investment Business Act
Commercial Act*

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Legal Principles 01

02

03

Legal Principles

Fungible Custody

Samsung in Custody



Joint Ownership

Samsung in Custody



Sole Ownership

Withdrawal



Book-entry Transfer

Client A

Client B

-1 share

+1 share



Actual Transfer

Client A

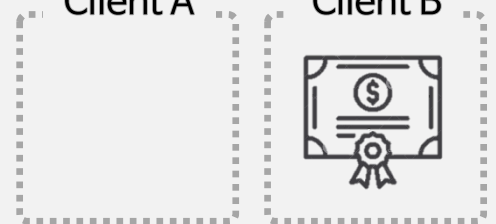
Client B



Good-faith Acquisition

Client A

Client B



Informal Pledge

Registered Pledge

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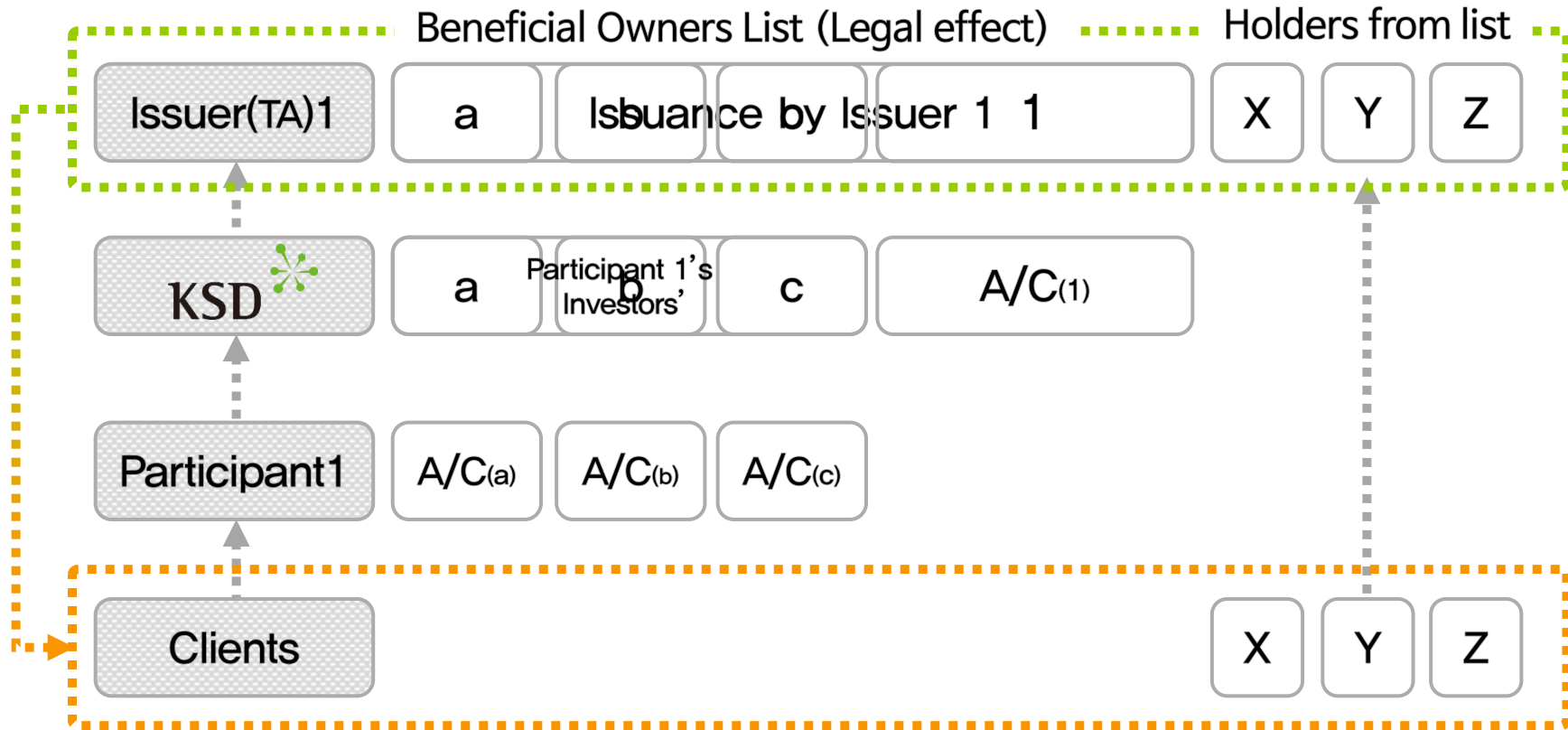
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CA Mgmt.

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Beneficial Owner



- ✓ Clients do not need to withdraw their stock certificates to exercise their rights.
- ✓ Though complicated, issuer and clients can strengthen their relationship (in terms of CA).

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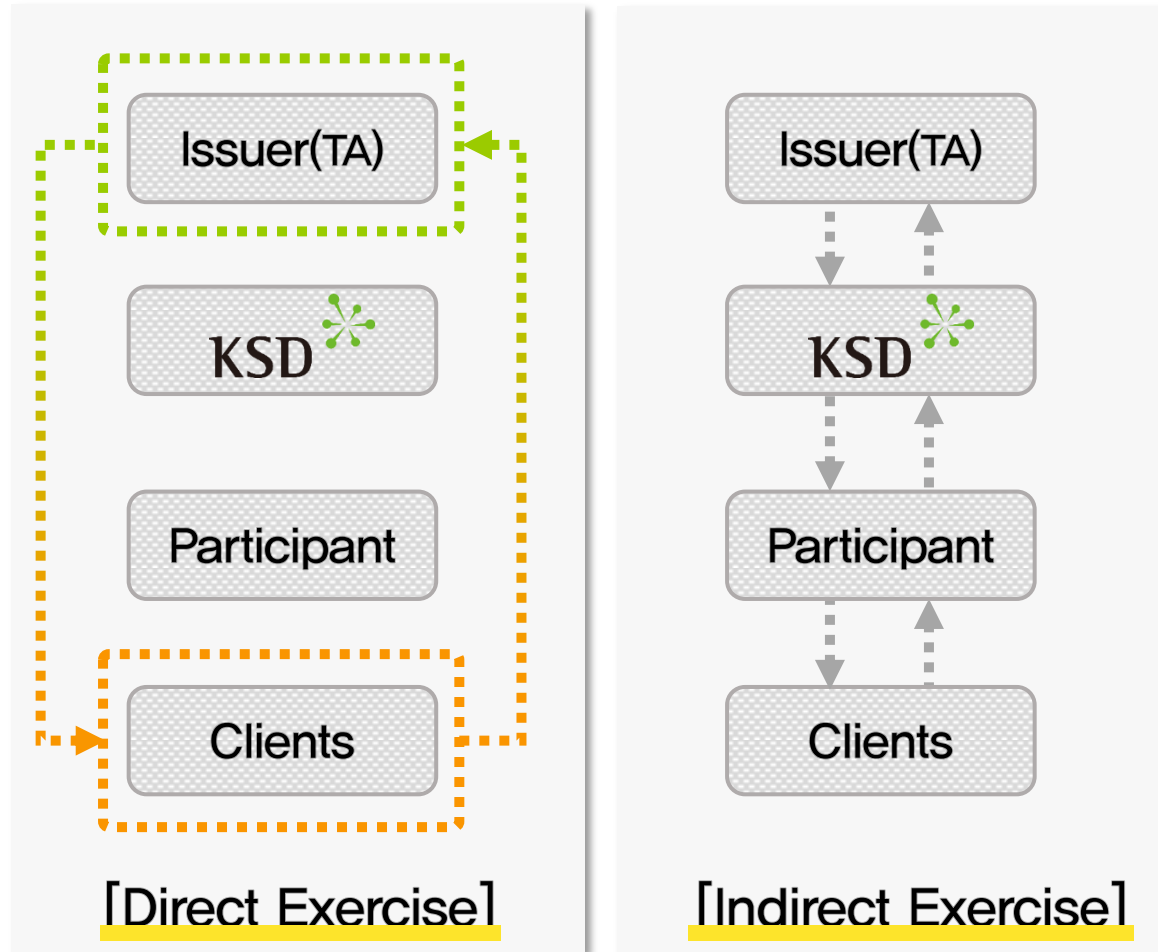
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CA Mgmt.

02

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Corporate Action Management for Stocks



✓ Voting rights, etc.



- ✓ Voting rights
Dividends distribution
- ✓ Paid-in capital increase
Bonus issues
Reduction of capital
- ✓ Appraisal rights

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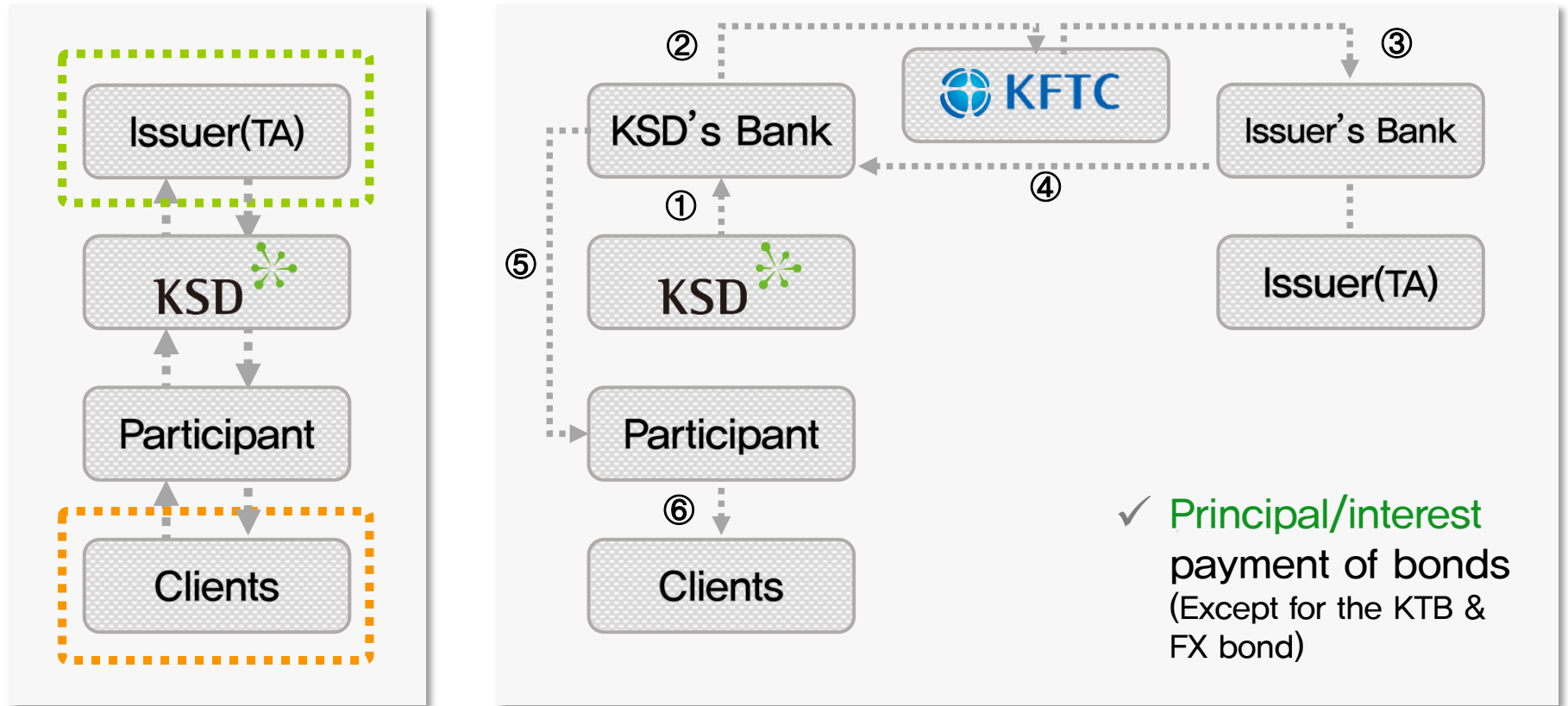
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CA Mgmt.

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Corporate Action Management for Bonds



✓ Conversion of **CB**

✓ Exercise of **BW***

✓ Exchange of **EB**

✓ Principal/interest payment of **govt. bond** (KTB, Bok-Wire+ instead of Issuer)

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Related Issues 03

Deposit and the Related Policies

Non-bearing of Share Certificates

Shareholder may declare to the company that **he will not bear share certificates** as to his registered shares.

Commercial Act

Short-term Electronic Bonds

The issuance, circulation and rights exercise of short-term bonds with maturities of one year or less are **processed electronically through an electronic registrar.**

Act on Issuance and Distribution of Short-term Electronic Bonds, etc.

Bond Registration

Bondholder's rights are secured by **entering their rights in a legal register** without physical certificates.

State Bond Act & Registration of Bonds and Debentures Act

Blanket Deposit

By the application of underwriters and subscribers, securities are issued **in the name of KSD and deposited in KSD right away.**

Capital Market and Financial Investment Business Act

Partial Dematerialization

Dematerialization

Electronic Securities Sys.

Securities to be Dematerialized

Act on Electronic Registration of Stocks, Bonds, etc.

● Rights to be Registered

- 1) Equity: **Stocks**, Preemptive rights, Warrants
- 2) Fixed Income: **Corporate bonds**, Treasury bond, Municipal bonds, etc.
- 3) Beneficiary Certificates: **Investment trusts' certificates**
- 4) Depositary Receipt: **KDR**
- 5) Derivative-linked Securities: **ELW**, etc.
- 6) Others: **ABS(MBS)**, CD, etc.

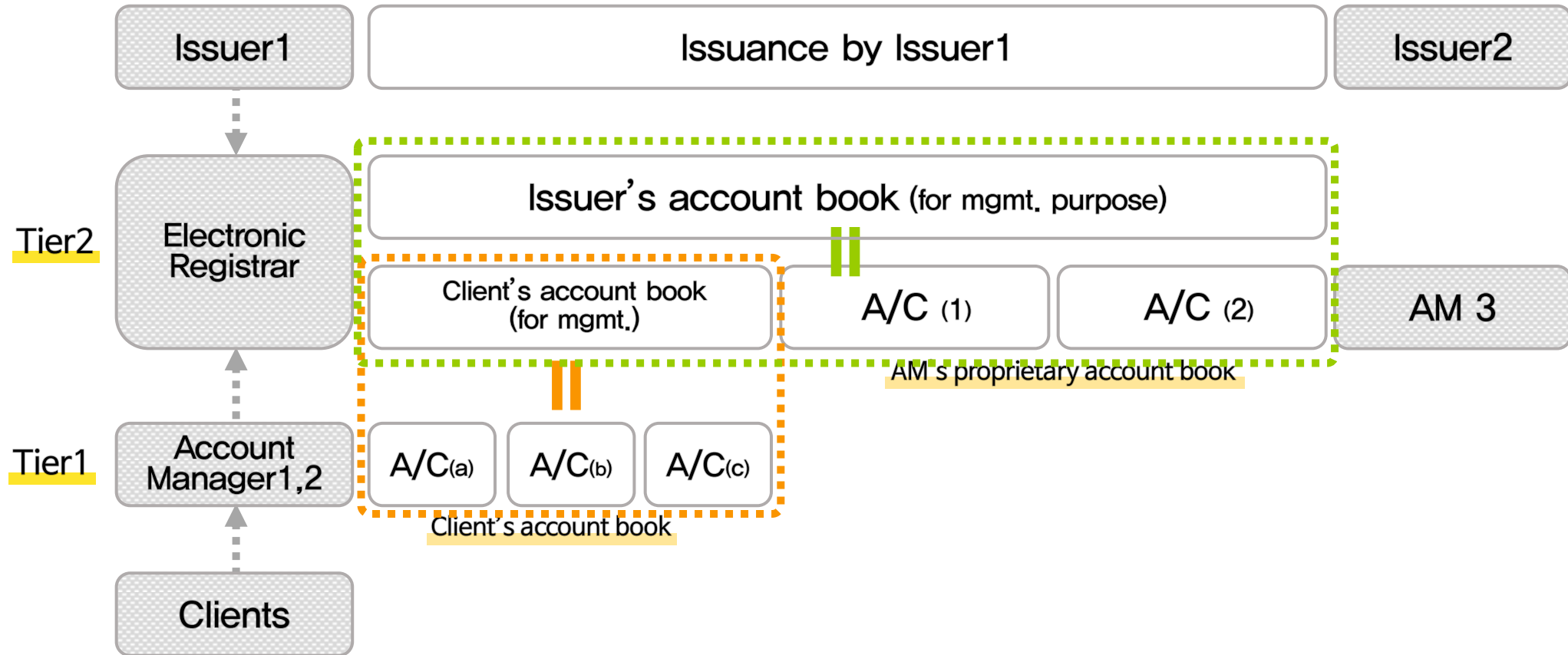
※ Commercial paper (CP), Gold ingot cannot be registered

※ Unlisted shares will be operated under the existing framework of securities deposit.

● Registration Types

- ① **New** registration, ② **Conversion** of issued sec. ③ **Book-entry transfer** of registered sec.
- ④ **Pledge right** & **trust property** indication, ⑤ Registration for the **erasure of rights**

Operational Framework under ESS Two-tiered A/C structure



Legal Entities of ESS

Act on Electronic Registration of Stocks, Bonds, etc.

[Electronic Registrar]

- ✓ License needed*
- ✓ Scope of Services
 - Primary
Registration, Account opening, Account book mgmt.
Owner list(Shareholder's book) preparation,
Corporate action (CA) management, etc.
 - Secondary
Collateral management, Asset management support
 - Value-added
Transfer agent(TA), SLB intermediary, etc.
- ✓ Add-on regulation
Minimum owner's equity requirement per business unit

[Account Manager]

- ✓ Services
Account mgmt.,
Registration service for
the client's securities
- ✓ Account Managers
Securities
brokers/dealers, TA,
Banks, Insurance co.,etc.

*Act on Electronic Registration of Stocks, Bonds, etc.
Capital Market and Financial Investment Business Act
Commercial Act*

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Legal Principles 01

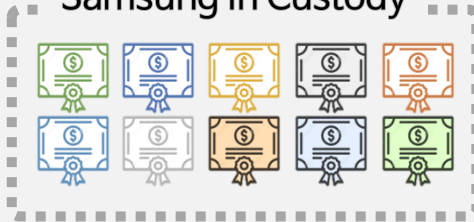
02

03

Legal Principles

Registration

Samsung in Custody



Sole Ownership

Client A



Register only



Book-entry Transfer

Client A

-1 share

Client B

+1 share



Actual Transfer

Client A



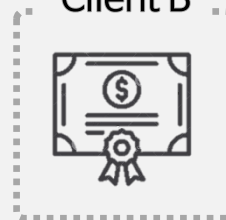
Client B

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Registered Pledge

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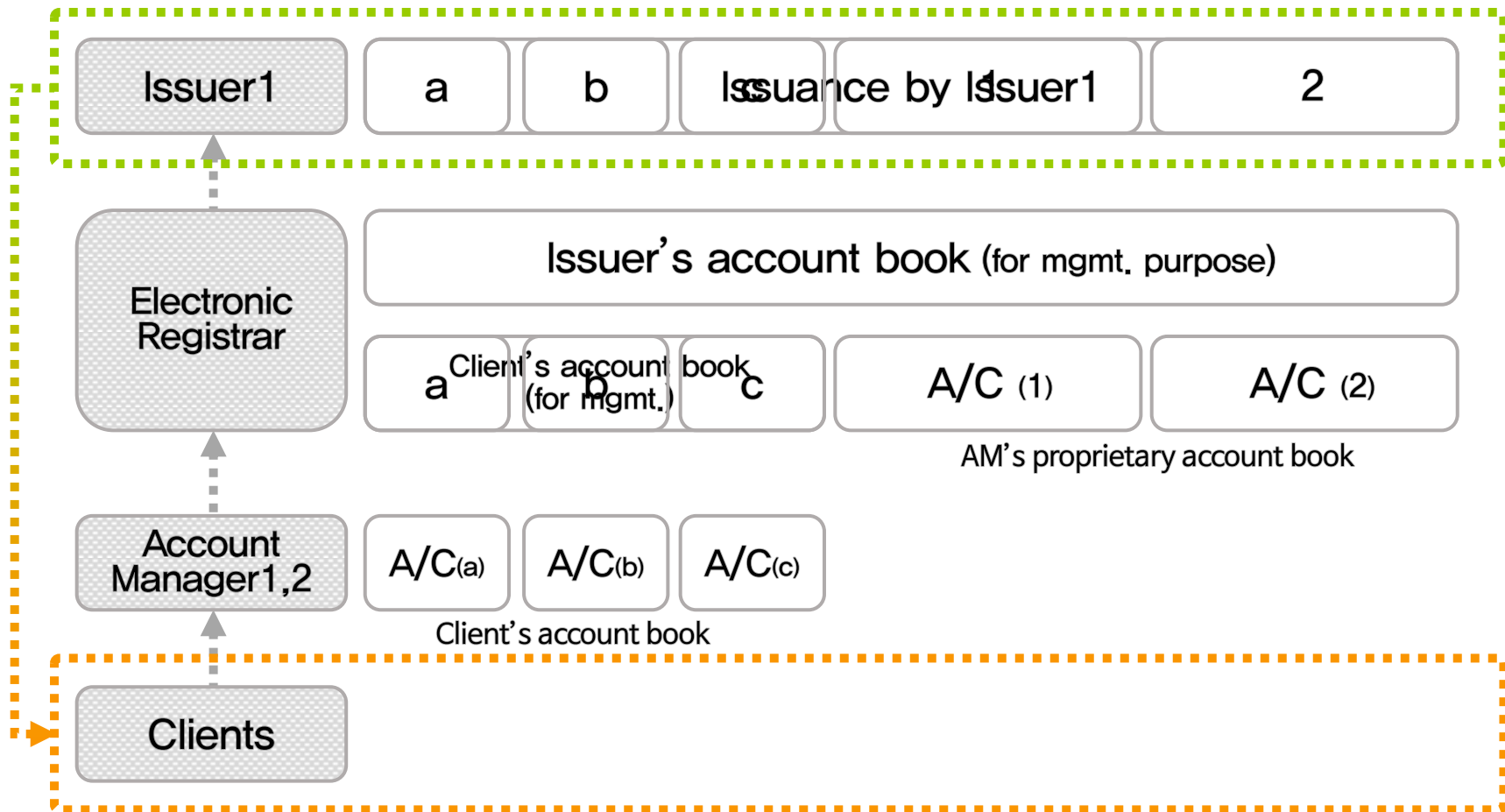
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CA Mgmt.

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Corporate Action Management (Owner's List)



※ Two more ways to let issuer know of the clients information for the CA purpose.

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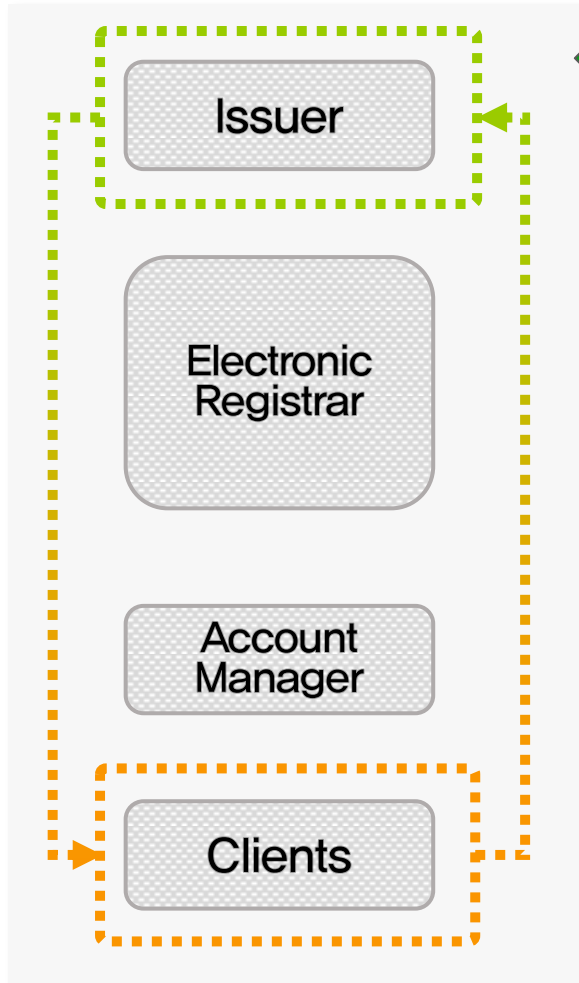
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CA Mgmt.

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Corporate Action Management

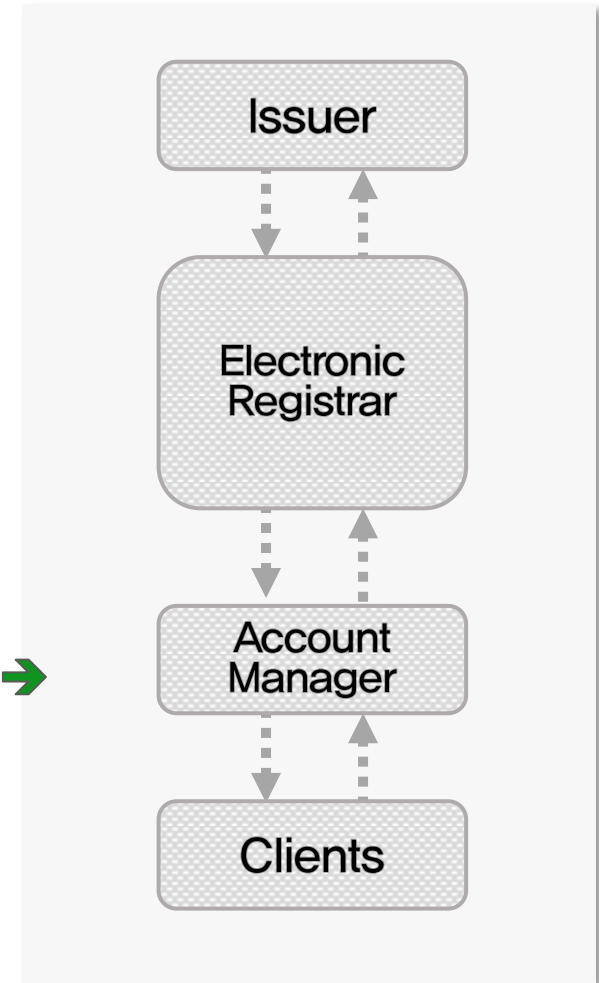


[Direct Exercise]

- ① Owner's List
- ② Owner's Certificates
- ③ Notification of Owner

[Indirect Exercise]

Exactly same with the existing CA mgmt. method of the securities deposit system



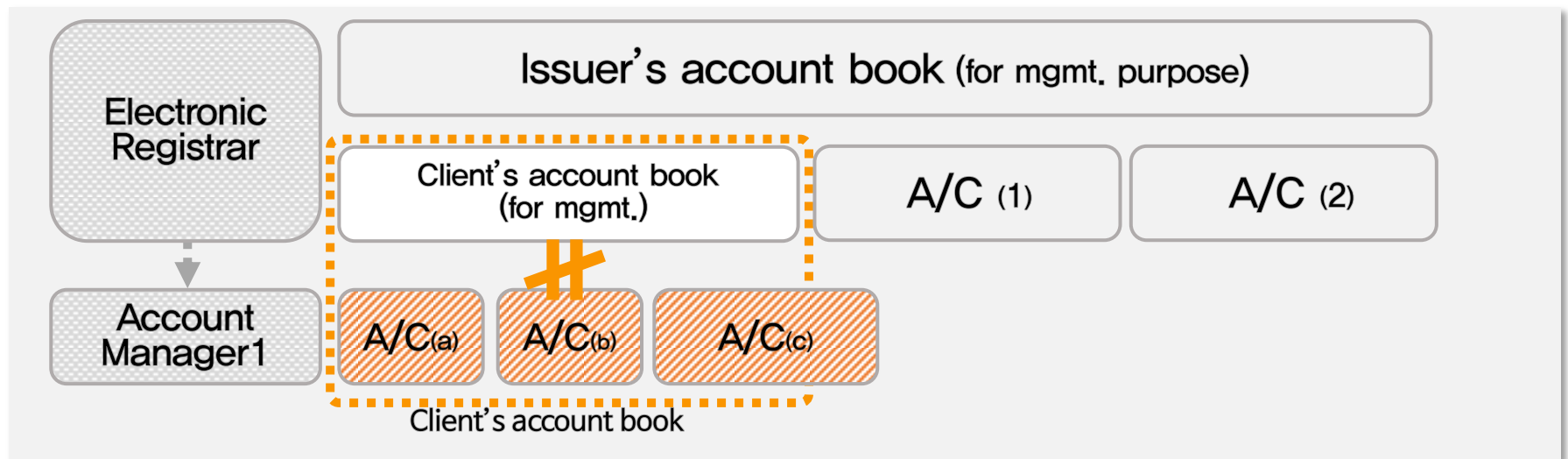
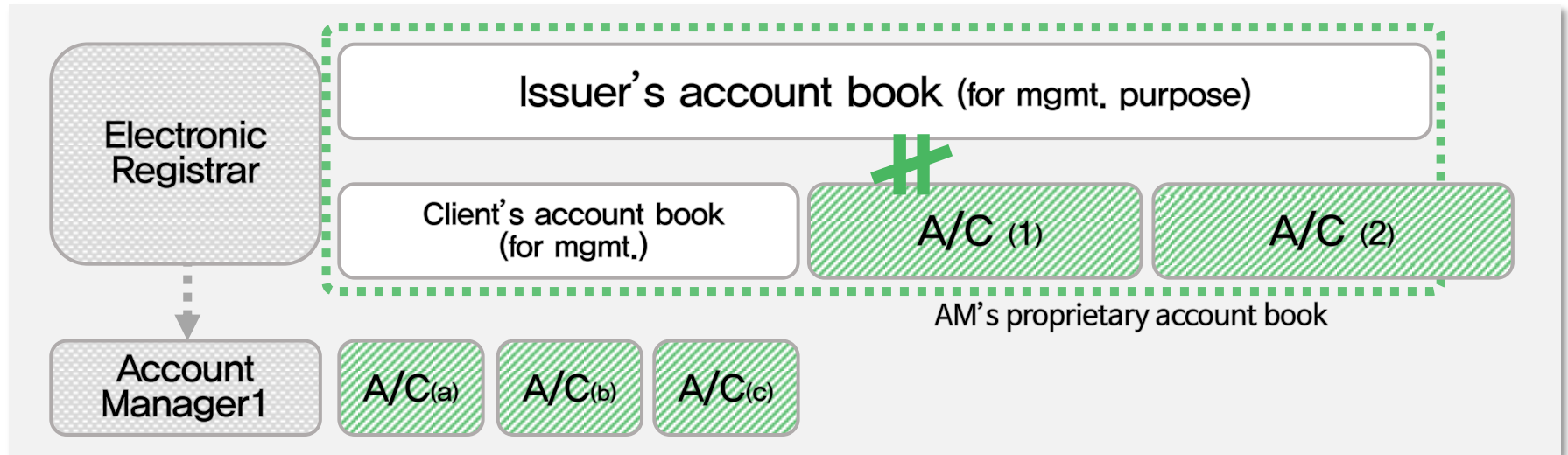
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Related Issues 03

For the Stability of ESS

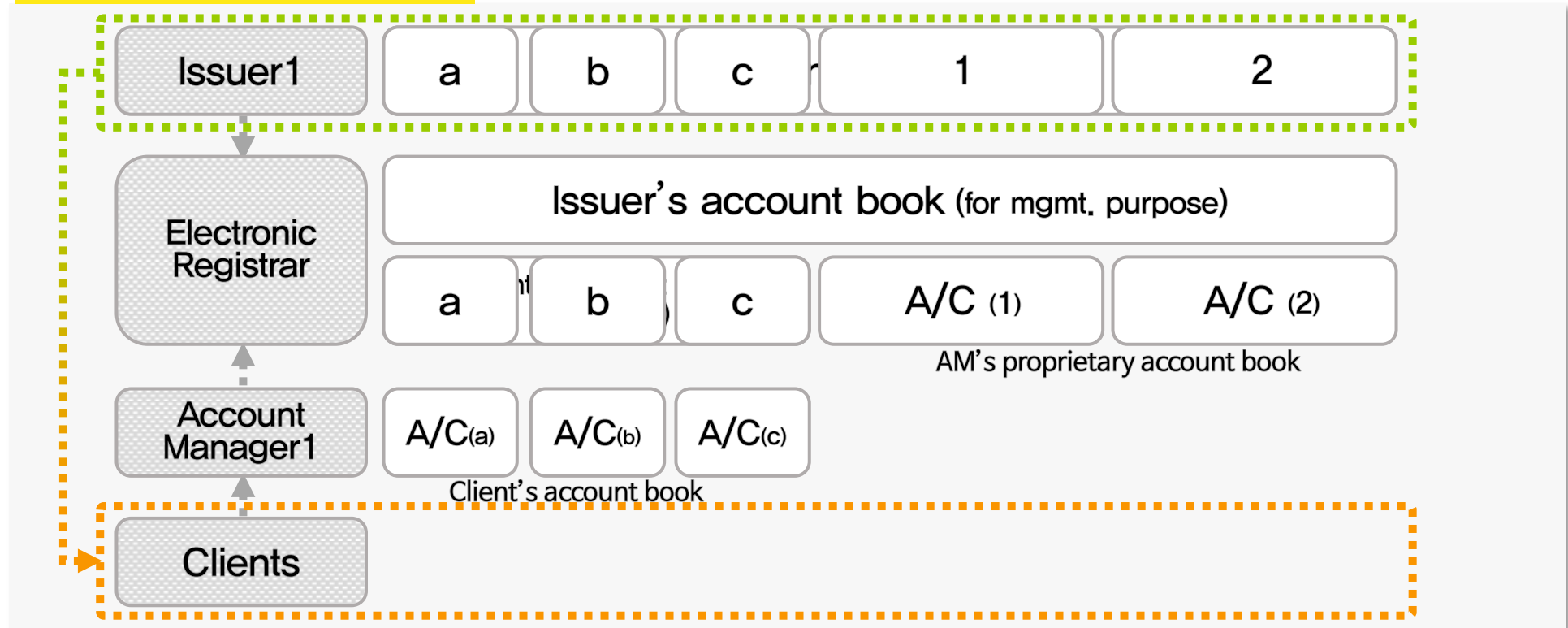


Conclusion

Summary




[Operational Framework]



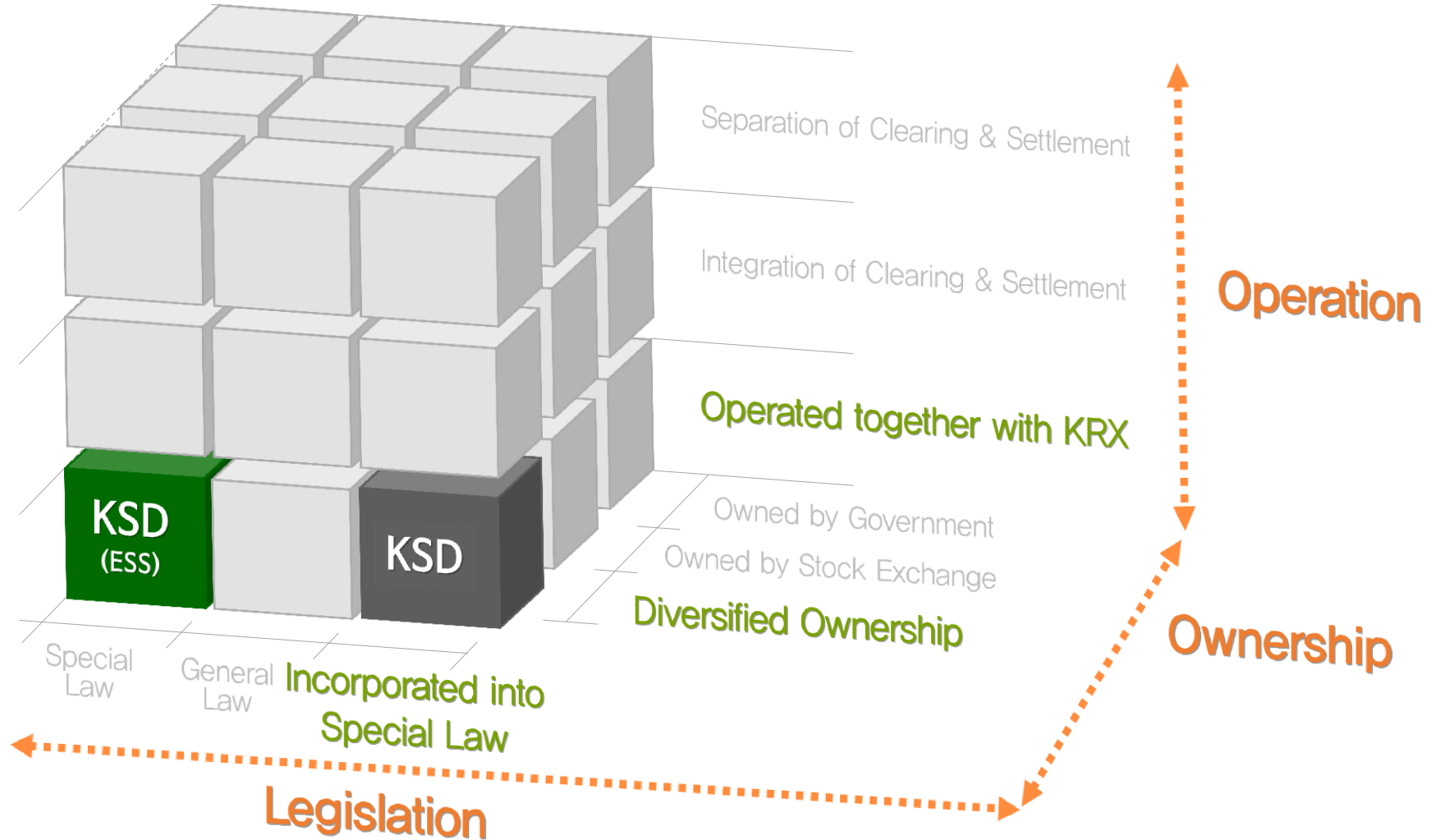
Another Paradigm Shift ?

- ATS with Several Electronic Registrar? ?



- Is it possible for KSD to handle clients' account also?
- What if we could not get the initiative in the Blockchain Era?
- Time to think of the next paradigm shift for KSD 

Another Paradigm Shift ?



Thank you Q&A

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