

KRX Strives to Be Global Financial Player : Consolidation aimed at making Busan a financial hub of Northeast Asia

The Korea Exchange (KRX), created through the consolidation of equities, futures and Kosdaq stock exchanges, strives to become a top financial market in Northeast Asia, KRX Chairman Lee Young-tak said.

"The merger of the three exchanges into KRX is significant because such a market consolidation has become a common trend among countries, and KRX is now poised to compete with other exchanges," KRX Chairman Lee said in an interview with NewsWorld.

There are 30 foreign companies listed on the Tokyo Exchange, 100 foreign concerns on the Singapore Exchange, and 200 on the Hong Kong Exchange, but not a single foreign company has been listed on any Korean exchange, Lee, former minister of the Office for Government Policy Coordination, said.

As part of its efforts to improve the situation within this year, Lee said, KRX has exerted itself to attract foreign companies to list them on the Korean market. In particular, KRX has conducted sessions promoting Chinese companies and made visits on individual companies to realize its target of luring Chinese concerns, the chairman said. It also plans to conduct promotion activities for listing targeting multinational companies doing business in Korea, he said.

"Listing of foreign companies is necessary to make KRX one with a competitive edge competing with rivals. KRX will seek to make its own assessment on our market by developing the Confidential Survey Index as part of its efforts to build up an infrastructure for listing foreign concerns," he said. Concerning the so-called Korea Discount, KRX Chairman Lee noted that the first task KRX must implement to correct undervaluation of the Korean market is to raise its trustworthiness.

KRX will put more energy into stabilizing management at an early date and creating synergetic effects stemming from the merger, and maximize its corporate value by creating a new corporate culture and ensuring transparency and advanced management centering about customers and shareholders. To this end, KRX will make its utmost to transform itself into a market-friendly organization pursuing customer-oriented quality management, gain trust from customers so that they turn to the exchange for their investments, and raise its international profile, Lee said. KRX make strenuous efforts for development of the Asian financial market through fair competition and collaboration with major Asian countries, including Singapore, Tokyo, Hong Kong and Shanghai, he said.

KRX will conduct institutional and policy research on its public disclosures, Lee said. As to institutional investors' roles, he said, the government is considering a plan to raise pensions and other funds' ratio into stock investments from current 5.6 percent to about 10 percent.

As to balanced development of the main stock and Kosdaq markets, he said KRX will employ a strategy of making the main bourse into a trading floor of mid- and large-sized blue-chip enterprises, differentiating Kosdaq market, a floor of SMEs and venture companies. The Kosdaq market will try to attract as many companies with good technology and ideas as possible and will create a system for filtering out marginalized companies to raise its soundness and reliability, he said.

Now that KRX has moved to Busan, the exchange will try to make KRX a world-class prominent corporation with a competitive edge, he said, adding that the exchange has arranged teleconferences as part of its efforts to eliminate any inconveniences stemming from time-consuming business trips between the headquarters in Busan and offices in Seoul.

KRX Chairman Lee said in his inaugural speech KRX will pursue changes and innovation through personnel changes based on performances and achievements while cultivating human resources. He also said he will soon present the details of action plans of a three-year new management strategy of realizing its vision of becoming a global KRX.

Korea ranked fourth among global exchanges in terms of futures trading contracts during the period in the first nine months of 2004. KOSPI 200 Index made 4,176 contracts during the period, placing fourth following E Mini S&O 500 of the United States, DJ Euro Stoxx 50 of Germany and E-Mini Nasdaq 100 of the United States. Korea needs to have institutional tools for securing a competitive edge as the top three indices are showing signs of rising in terms of trading volumes.

As to the appreciation of the Korean currency, Lee said, Korea is required to have a balanced perspective about the foreign currency exchange rate by capitalizing on Korea's foreign currency reserves, now standing at \$200 billion, rather than being excessively sensitive about the value of won. He said there is a need for creating a government-invested corporation making the use of its massive foreign currency holdings, citing the case of Government of Singapore Investment Corporation, which has made a strong showing in Korea with its investments into the Korean real estate market. The following are the experts of KRX Chairman Lee's interview.

Question : What's the significance of the launch of the Korea Exchange and the current status of KRX?

Answer : Despite a quantitative growth of equity and future markets, separation of markets and support functions brought about much inefficiency in terms of transaction fees and users' convenience. Exchanges were separated from each other with their own separate functions such as clearance, settlement and computing. They suffered such woes as a failure to realize the economy of scale, redundancy and excessive investments and a dearth of user-friendly services, including difficulty in developing a mix of equities and futures. There was an urgent need for reducing transaction costs and building up a user-oriented system.

The newly merged KRX has laid a foundation for advancing Korea to an advanced financial market, forming a system for competing with major global exchanges and collaborating with them, and developing Busan into a stock exchange hub.

KRX, with a paid-in capital of 100 billion won and 20 million outstanding shares, has 46 corporate shareholders, including securities companies, securities-related organizations and futures trading firms. The exchange has five divisions - Administrative Service Division in charge of supporting stock, Kosdaq and futures markets; Stock Market Division, discharged with stock transactions and listing at the formerly Korea Stock Exchange in Seoul; Kosdaq Market Division in charge of Kosdaq trading and listing in Seoul; Futures Market Division discharged with futures products trading, and Market

Surveillance Division responsible for oversight of all trading activities on all the trading floors.

Q : Would you elaborate on KRX's major business plans for 2005?

A : KRX will do its utmost to establish a new management system aimed at creating synergetic effects stemming from the merger by drawing up its mid- and long-term management plans, overhauling organizational and personnel systems, and creating a corporate culture for ensuring harmony among merged organizations and their staffs. Following the consolidation, the exchange will minimize transaction fees, now being charged with market participants (members) for 0.65-10,000th of trading money, and readjusting them, depending on characteristics of each trading floor as part of its efforts to improve services to customers. KRX is seeking to calculate and manage integrated indices of stock and Kosdaq markets.

In an effort to transform transaction systems into user-friendly ones, KRX plans to introduce a Liquidity Provider system, designed to invigorate transactions of shares with lower rates of changing hands, and streamline the procedures for stock entry and exit in a bid to beef up a competitive edge of the stock market.

KRX will establish a voluntary regulation system aimed at preventing unfair practices and strengthening surveillance.

The exchange will try to develop and introduce new products corresponding to investors' needs, while endeavoring to list prominent Korean and foreign companies, and lure foreign investors.

Q : WhatOs KRX's management vision and your management philosophy?

A : KRX has a vision of becoming a financial hub of Northeast Asia with a competitive edge. It strives to evolve into a world-class stock exchange in terms of the ratio of the aggregate value of listed stock to gross domestic product, its participation in the international financial market, the quality and scope of products and services, and transaction costs.

Management credo as top manager is to maximize the corporate value. To this end, I understand that top managers are required to have a balanced perspective of grasping a changing business environment precisely, employ diverse strategies designed to work out corporate targets and achieve them, and create an organizational culture in which staff members themselves make their own decisions and put them into practice. It is more essential for KRX members to establish their own desirable identity so as to build up a new corporate culture at an early date.

Q : Would you give the details of KRX's mid- and long-term development strategies?

A : KRX plans to draft a three-year new management plan aimed at realizing its goal of becoming a financial market leader in Northeast Asia.

The exchange will attach priority into stabilizing management at an early date and creating synergetic effects stemming from the merger, and maximize its corporate value by creating a new corporate culture and ensuring transparency and advanced management centering about customers and shareholders. To this end, KRX will make efforts to transform itself into a market-friendly organization pursuing customer-oriented quality management, gain trust from customers so that they turn to the exchange for their investments, and raise its international profile.

KRX strives for development of the Asian financial market through fair competition and collaboration with major Asian countries, including Singapore, Tokyo, Hong Kong and Shanghai.

Q : What steps are you planning to take to cope with the so-called Korea Discount?

A : Korean stocks listed on the Korean stock market are undervalued compared to major counterparts in the United States, United Kingdom and Japan.

In a bid to eliminate Korea Discount, KRX will take the following multi-prolonged steps.

- Continuously correct opaque factors concerning accounting practices and governance.
- Expand stock demand base through cultivation of such long-term blue-chip capital portfolios as pensions and funds and private equity funds.
- Develop a "Confidential Survey Index," Promote investor relations of listed companies in Korea and abroad, and Work toward market trust-building.
- Encourage investors to maintain a rational investment attitude through education programs.

KRX will redouble efforts to strengthen its constitution by encouraging listing of up-and-running concerns, overhauling market entry and exit procedures and preempting unfair practices.

Q : Will you explain our readers about your company's strategies to list foreign companies?

A : Foreign companies are now listed in our potential rivals, including exchanges in Tokyo, Singapore and Hong Kong, but not a single concern has been put on our market. Listing of foreign companies is necessary to make KRX one with a competitive edge competing with rivals. KRX will seek to make its own assessment on our market by developing the Confidential Survey Index as part of its efforts to build up an infrastructure for listing foreign concerns.

Korea has conducted sessions on listing of Chinese companies and made visits on individual companies to materialize its target of luring Chinese companies. KRX plans to expand the scope of candidate companies for listing in other countries on top of China. I understand that two or three companies have showed a keen interest in listing their shares on the Korean market. It also plans to conduct promotion activities for listing targeting multinational companies doing business in Korea.

Q : When can KRX be listed?

A : KRX will seek to make its initial public offering (IPO) and listing in a bid to strengthen competitiveness by streamlining an ownership structure, now being dominated by securities companies and modernizing transaction systems. A task force will be formed to examine IPO and listing conditions. KRX plans to push for listing itself at the possible earliest date with a national consensus and without hindrance to market management. It will closely consult with the government IPO procedures and methods.