

inside Busan Finance

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inside **BIFC**

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Park Heong-joon

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Analysis and Implications of
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Vol. 26

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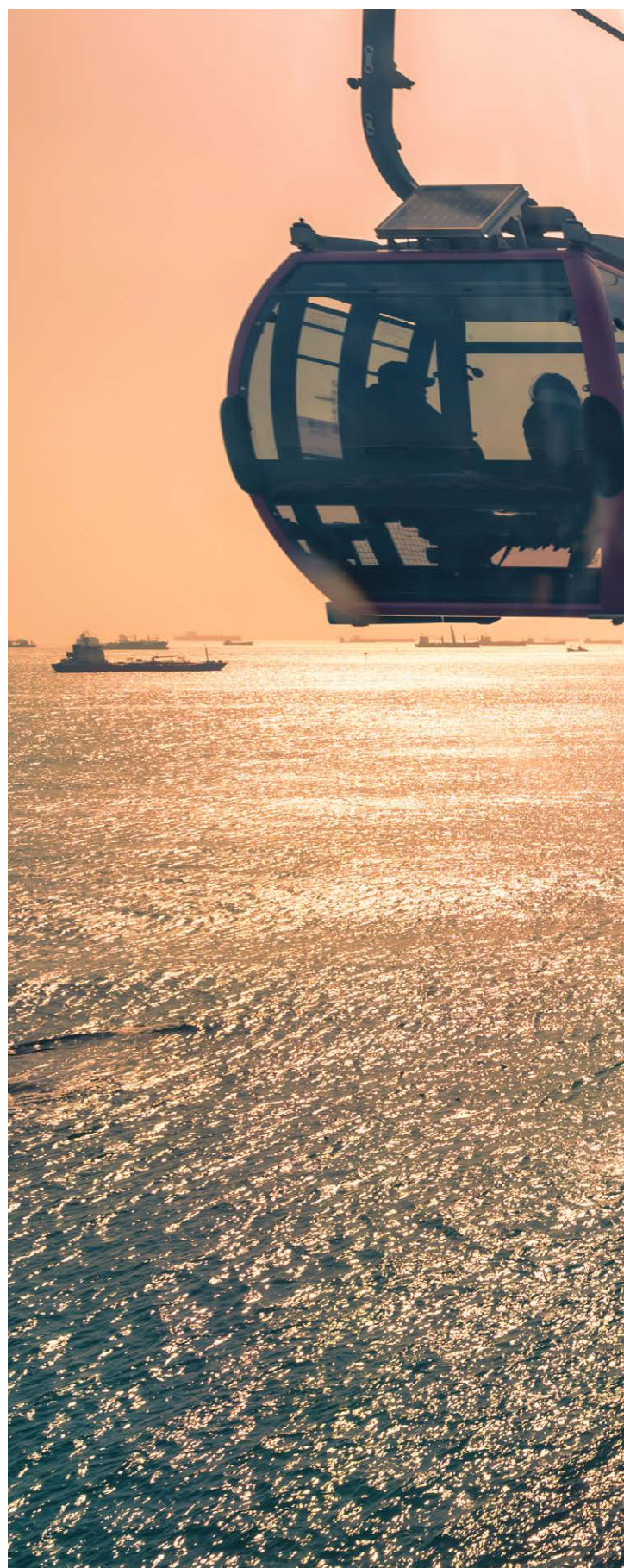
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Issued date June 2021

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Designed & Produced by Design Geulggol / 051-636-1215 / www.ggad.co.kr





Songdo Cloud Trails & Busan Air Cruise

Paradigm Shift in the Finance Industry and Busan's Choice for the Future



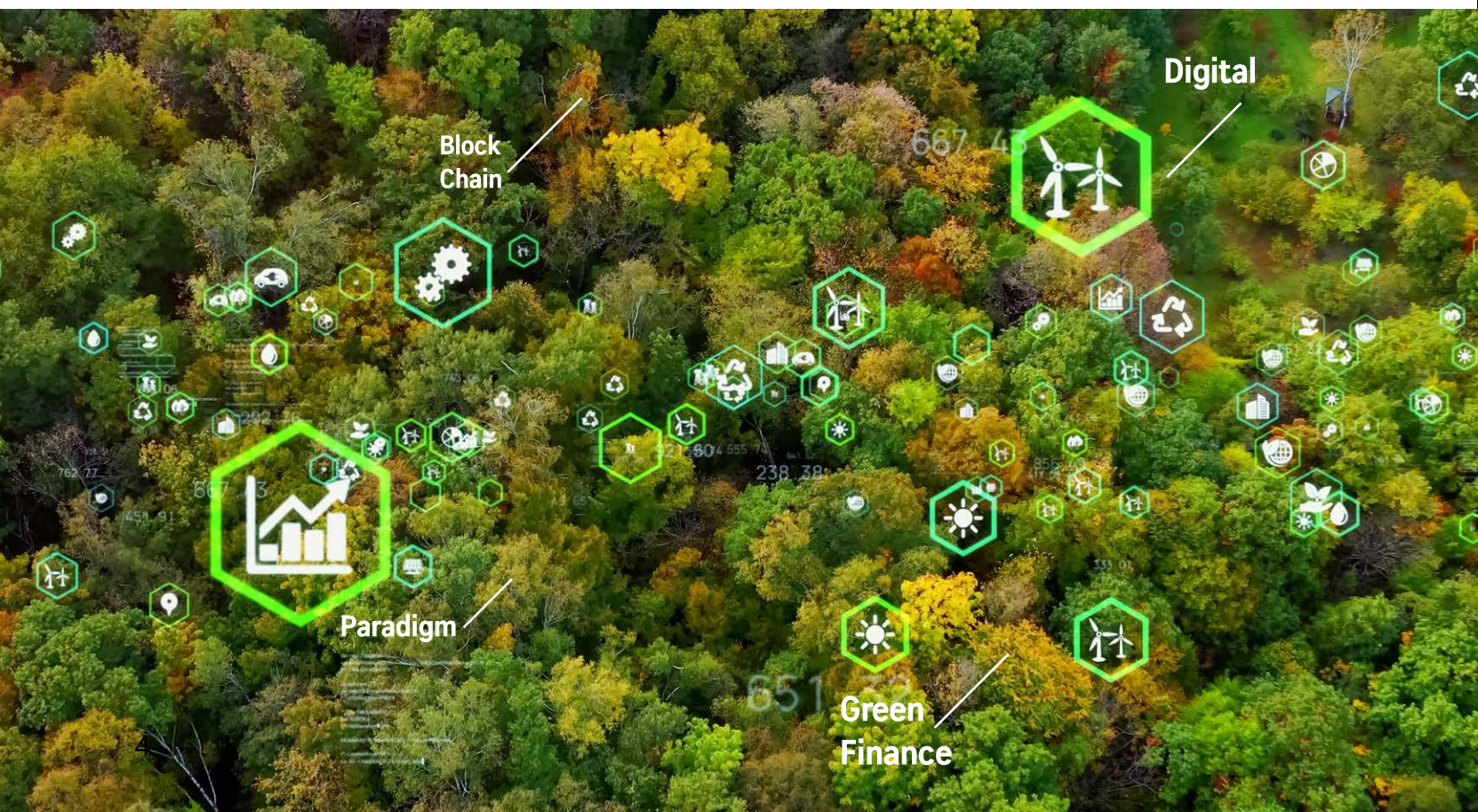
Mayor of Busan Metropolitan City

Park Heong-joon

It comes as a great honor for me to meet the needs of the times and historical missions bestowed by the citizens of Busan to bring new changes. Even before my mayoral candidate year, “happiness for citizens” and the “future of Busan” were the two topics I constantly contemplated upon.

For starters, the focus of “happiness for citizens” is quality of life. A “city advanced in quality of life” is where job, housing, leisure, education, culture, welfare are well balanced. In particular, a city where quality of life is high is destined to ultimately meet the universal and historical requirements; climate change. To fulfill this mission, a city advanced in quality of life shall instill the values of carbon neutrality and green ecology. Here, the value of ecology shall be directed towards a “green smart city” which actively leverages scientific and technological achievements rather than excluding them.

Then where should we head towards the future of Busan?



After days of contemplating what decides the future of a city, I have come to a rather cliché but ultimate conclusion which transcends time; an “economically advanced city.” Based on this contemplation, the following policies shall be implemented resting on the pillars of “a city advanced in quality of life” and “economically advanced city.”


A city advanced in quality of life is a city where the young stay for good with a decent job, return for a better opportunity, and enjoy a prosperous life. To this end, Busan plans to create a city where business and academia actively pursue cooperation, young citizens can easily find their nests and raise children, and young culture flourishes. Combined with the existing multi-layered mass transportation system, the urban loop will enable Busan citizens to reach anywhere within 15 minutes. This eco-friendly high-tech transportation technology will namely become a core means to realize green smart city in line with carbon neutrality.

Furthermore, more needs to be done to build an “economically advanced city” where vibrant economy and latest future technologies are at the core of the economy. Above all, economic development will only slow down unless the economy is backed by sound financial support. Designated as a financial hub in 2009 by the central government, Busan has been laying the foundations despite unfavorable conditions.

Now is the time for Busan to fully prepare and innovate on the path towards global financial hub. To this end, Busan has to adapt to paradigm shifts in global financial industry: “digital innovative finance” and “green finance.” In particular, green finance parallels with “green smart city” as Busan’s vision.

At the current time, the financial sector is undergoing drastic transformation; untact finance including FinTech and online banking are surpassing traditional counterparts, and virtual assets are rapidly on the rise powered by blockchain, big data, AI and others. Since the designation as blockchain regulation-free zone in 2019, Busan continues to make technological advances and is fulfilling roles as the test bed. When policies on financial hub and merits of blockchain regulation-free zone create synergy effect, Busan will be able to take financial industry to the next level.

In line with the 2050 Carbon Neutral Strategy by the central government in December 2020, Financial Services Commission and Financial Supervisory Service applied to join Network for Greening the Finance System (NGFS)¹⁾ in May 2021 to implement green finance. However, Busan completed joining Financial Centres for Sustainability (FC4S)²⁾ led by Busan Finance Center in advance to cooperate in the area of sustainable finance by responding to climate change and green finance with international financial cities. These efforts positioned Busan for the first time at the 31st place on Global Green Finance Index (GGFI) released in April by the global consulting agency Z/Yen. Furthermore, Busan’s international awareness as a finance city is on the rise, as shown in the recent jump from 51st in March 2020 to 36th place on the Global Finance Centre Index (GFCI) released in March 2021.

The dream of realizing Busan as the financial hub in North East Asia will soon be realized once Busan financial hub raises its international status, and continues to innovate by actively responding to changes in the global paradigm of finance: “innovations in digital finance” and “green finance.” 

1) A global consortium consisted of central banks and financial supervisory boards across 90 organizations in 70 nations with 14 international bodies to accelerate the scaling up of green finance (HQ: Paris)

2) An international financial network for sustainability co-launched between UN Environment Programme (UNEP) and financial hub cities in 2018 (HQ: Geneva) and joined by 34 international financial cities including New York, Paris, London



Gadeokdo New Airport: The Wing of Busan Financial Hub

The competitiveness of a financial hub and the importance of business infrastructure

The top four criteria among 14 major evaluation factors that determine the competitiveness of a financial hub are as follows (Yeandle M., Mainelli M., Berendt A., The Competitive Position of London as a Global Financial Centre, 2005, Z/Yen Limited, Corporation of London)

1. Availability of Skilled Personnel
2. Regulatory Environment
3. Access to International Financial Market
4. Availability of Business Infrastructure

The fourth most important evaluation factor — business infrastructure — includes transport links, and telecommunications and IT infrastructure. In order for Busan to develop into an international financial city, a competitive business infrastructure must be established, and the 24-hour international airport will be a key part. In this sense, we will outline the construction plan and potential effects of Gadeokdo New Airport, which will allow transportation network of Busan Financial Hub to truly spread its wings.

• Project Timeline •

April 15, 2002: A Chinese civil aircraft crashes into Mt. Dotdae in Gimhae, killing 129 people and injuring 37 people.

December 2006: President Roh Moo-hyun orders an official review of the new airport in the Southern region.

May 2017: President Moon Jae-in's presidential campaign promises to promote the construction of a gateway airport in the Southeastern region.

* Construction of a "Gateway Airport to the Southeastern region" and an airport complex city: It is necessary to build a gateway airport in the Southeastern region, not just to meet the recent surge in aviation demand, but to have an alternative airport in case of a disaster at Incheon International Airport.

June 20, 2019: The heads of three local governments (Busan, Ulsan, and Gyeongnam) and Minister of Land, Infrastructure and Transport reach an agreement to transfer the Gimhae New Airport issue to the Prime Minister's Office.

December 2019: The Gimhae New Airport Verification Committee of the Prime Minister's Office is launched and starts its verification process.

* A total of 21 members (1 chairperson, 20 members) > five members from the following sectors: safety, environment, noise, and facility operation demand

November 20 & 26, 2020: The ruling and opposition parties propose the Special Act for the Construction of Gadeokdo New Airport.

February 26, 2021: The National Assembly's plenary session passes the Special Act for Construction of Gadeokdo New Airport.

March 16, 2021: The government officially announces the Special Act for Construction of Gadeokdo New Airport. [Enforced on September 17, 2021]

01. Need for a 24-hour International Airport

Establishment of a core infrastructure necessary for an international financial hub

- To resolve problems concerning the polarization of Seoul metropolitan area and supplement Incheon International Airport in case of an emergency;
- To successfully host the 2030 Busan World Expo and contribute to the vitalization of local economy as an international tourism city;
- To rise as a logistics center in Northeast Asia by completing Tri-Port (connecting airport, sea port, and railway);
- To establish mega-city in the southeastern area as one of the two pillars of balanced national development together with Seoul metropolitan area;
- To improve access to the financial hub by expanding direct flights to major global financial cities.



02. Construction Direction

Construction of a 24-hour eco-friendly international airport

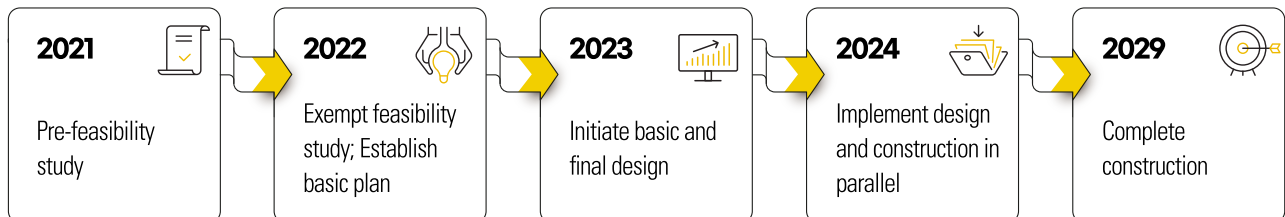
- An airport operating 24 hours a day without noise pollution
- A safe and unobstructed airport with no restrictions on mid- to long-haul flights
- An airport that minimizes environmental damage
- An airport with high accessibility and scalability for future demand

Scale: One runway (3.5km), passenger and cargo terminals, apron, etc. (Construction cost: KRW 7.54 trillion)

Capacity: 35 million passengers and 990,000 tons of cargo annually

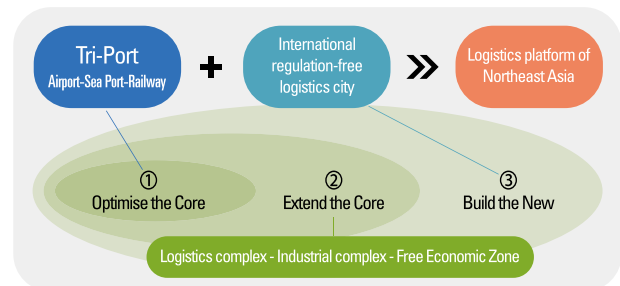
03. Future Plan

Fast-track construction > Targeted to open the port in December 2019



04. Expected Outcomes

- Completion of infrastructure for Busan as a global logistics hub and international financial city
- Provision of global business support services by linking the Tri-port with logistics, industrial complexes, and international financial center in the vicinity of the Busan New Port.



Completion of infrastructure for Busan as a global logistics hub and international financial city via 24-hour international airport





Transition to ESG in the Financial Industry is Here to Stay

As climate change response increasingly becomes a global issue, ESG*, which focuses on the environment, social responsibility, and ethical and transparent management, has become an important criterion for corporate evaluation.

* ESG stands for Environment, Social, and Governance.



Head of BNK Economic
Research Institute

Jeong Young Doo

Q Please introduce the recent changes in roles and major research areas of the BNK Economic Research Institute.

Until now, our research institute has been conducting research and studies to derive management strategies and development plans for BNK Financial Group, as well as contributing to sustainable economic growth in the Southeastern region. We are making efforts to diagnose major industries and the overall economy and society in the Southeastern region, and find new growth engines for the future of this region.

The biggest change this year is leading the ESG task. We plan to do our best to not only promote ESG in BNK Financial Group, but to also help companies in the Southeastern region comply with ESG.

Q As mentioned earlier, companies seem to be responding quicker and quicker to ESG, not only in the financial industry but throughout the entire industry. Could you briefly explain what ESG is and why it is receiving so much attention?

In fact, corporate social responsibility has been emphasized for a long time. However, as the issue of responding to climate change has become more common and vocal since the COVID-19 outbreak, ESG, which emphasizes the environment, social responsibility, and ethical and transparent management, has become a global topic and is becoming a major criterion for corporate evaluation. ESG is an acronym for Environment, Social, and Governance. These are the three key non-financial indicators that measure the sustainability of a company. The letter E is for “Environment,” and means removing negative environmental factors from corporate management for the sustainability of global ecosystem. S stands for social contribution and social responsibility to various stakeholders such as customers and suppliers. G is for

“governance,” meaning independence and transparency of the governance structure.

Q Among ESG, the environmental sector seems to be the issue grabbing most attention. Countries around the world are known to be aware of the seriousness of climate change and are strengthening their environmental regulation policies. Could you explain what those policies are specifically?

Looking at the pandemic diseases such as climate disasters and COVID-19 that we are experiencing these days, the seriousness of global warming cannot be emphasized enough.

Following the Paris Agreement, which took effect in 2016 and the General Assembly of Intergovernmental Panel on Climate Change (IPCC) held in Korea in 2018, major countries around the world are determined to keep the global average temperature increase less than 2°C or even 1.5°C above pre-industrial levels. They have also declared carbon neutrality, which equalizes carbon emissions and absorption. Many geopolitical entities, including US, EU, and Korea, have plans to achieve carbon neutrality by 2050, and China has plans to do so by 2060. However, since it is not easy to implement each country's reduction targets and respond to climate change, there are many voices calling for stronger regulations. In 2016, Korea was designated as a “climate villain” by the Climate Action Tracker, an international environmental organization. This year, the UN also included Korea among 75 countries that “have taken virtually no action.”

According to the “Korean Climate Change Assessment Report 2020” published by the Korean government, average global temperature rose by 0.85°C from 1880 to 2012, but temperature rose by about 1.8°C from 1912 to 2017 in Korea. It means that Korea has more than doubled in a shorter period of time than the global average. As a result, environmental regulations around



the world are being strengthened even more. At the P4G Summit held in Seoul last month, the Korean government promised to present a higher carbon emission reduction target by November this year. It aims to reduce carbon emissions by 24.4% compared to 2017 by 2030.

In particular, recent trends show that global environmental regulations are reinforced by imposing economic penalties. Starting this year, the EU introduced the plastic tax that imposes 0.8 euros (about KRW 1,080) per kg of plastic waste that cannot be recycled. In 2020, Korea's plastic exports to the EU reached \$2.02 billion. The EU and the US are also pushing for a carbon border tax. When importing products from countries with loose greenhouse gas regulations, tariffs will be imposed to compensate for the price gap in proportion to their regulatory gap.

On the other hand, if the “supply chain due diligence system” is introduced to inspect the environment and human rights of raw material and parts supplying companies, the scope of ESG regulation will be expanded to subcontractors, including manufacturing materials, parts, or equipment manufacturers and small to medium enterprises. Carbon tax act has also been proposed by the Korean National Assembly. If implemented as proposed, a carbon tax of KRW 199 will be levied every time 1 kg of anthracite coal is used from 2022.

Q The issue of environmental regulation is expected to pose a significant challenge to the growth of the financial industry. In the end, I think it will be the key to determining the sustainable growth of a company. What is your opinion?

Climate change is not just an issue for environmental ecosystem. The economic ecosystem and the survival of companies are at stake, and this is expected to have a significant impact on the financial industry as well. The Financial Supervisory Service has warned that, without special efforts to overcome environmental problems, the common equity capital ratio (Tier 1 capital ratio) of domestic banks could drop from 12.4% in 2019 to 4.7% in 2029, meaning that climate risk could increase the insolvency of companies which have borrowed money from banks. Although there are many demands for improvement in the manufacturing industry that creates a “carbon footprint” in the production process, there is also strong pressure from investment institutions toward financial institutions that are the bloodline to the economy to stop investing in companies that emit large amounts of greenhouse gases.

The trend of detouring regulations through finance is also getting stronger. A growing number of global asset managers and pension funds are intervening in corporate

ESG issues by exercising their rights as shareholders. According to a survey by the Federation of Korean Industries, the number of shareholder rights exercised by BlackRock, the world's No. 1 asset management company, is increasing significantly. The National Pension Service also announced that it will increase its ESG investment ratio to 50% of its total assets and will not invest in construction projects for power plants that run on coal. Also, interest in stakeholder capitalism, which emphasizes ESG and sustainability, is growing. The World Economic Forum (WEF) and the Business Roundtable (BRT), a gathering of CEOs of major US companies, emphasized the transition from "shareholder capitalism" to "stakeholder capitalism." Here, stakeholder capitalism is about paying attention to the interests of not only shareholders, but also all stakeholders, including customers, employees, outsourcing companies, and local communities.

Q: The industrial structure of the Southeastern region, including Busan, is mostly centered on heavy emitting traditional manufacturing. Therefore, this region is expected to be under significant negative impact. I would like to ask for your advice on how the Southeastern region should respond.



ESG

As a mecca for heavy industry, the Southeastern region has served as a pillar of the Korean economy. The major industries of the Southeastern region, such as shipbuilding, automobiles, petrochemicals, steel, machinery, and metals cannot easily respond to greenhouse gas reductions in nature.

The lesson learned from COVID-19 is that no man is an island. Being well on your own is not enough. When your neighbor is sick, you will get sick as well. The wave of environmental regulations and transition to ESG must be addressed and taken on through mutual cooperation. Transition to ESG is an inevitable part of our future. It should be used as an opportunity for structural change and innovation in the economy of the Southeastern region, including Busan. We need to make efforts to develop new eco-friendly technologies, modernize manufacturing, and create businesses which can innovate the society.

Both the central and local governments should strengthen their support for the industries' ability to respond to climate change, particularly in carbon-neutral vulnerable areas such as the Southeastern region. As financial support and investment are essential for each company's transition to ESG, it is also necessary to explore ways to develop in connection with Busan Financial Hub. Local companies should also take active steps to improve their fundamentals. However, special attention and support are required for heavy industry and SMEs slow in responding to the transition to ESG. BNK Financial Group is accelerating its transition to ESG by building an ESG governance system, joining global initiatives, and issuing ESG bonds. We plan to further strengthen our efforts to partner with companies seeking to leverage this transition as an opportunity for innovation and new business creation. Together with the local community and businesses, we will create sustainable finance. ⚡

1

Busan rose four places to 36th in the Global Financial Centres Index (GFCI) as of March 2021

Global Financial Centres Index (GFCI)

Sponsored by City of London, the financial center of London, this index is evaluated and announced in March and September every year by the global consulting firm Z/Yen.

Summary: Busan Metropolitan City's GFCI ranking rose from 40th in September 2020 to 36th in March 2021

Analysis: Major drivers for the rise in ranking include 1) attraction of foreign financial institutions including Citi Bank to Busan International Finance Center (BIFC, 63rd floor), Busan's landmark for financial hub in December last year, 2) BIFC's Phase 3 development plan, 3) development of FinTech industry by leveraging blockchain regulation-free zone, and 4) active marketing overseas through Busan Finance Center (BFC).

Changes in Busan City's ranking:

51st (Mar. 2020) → 40th (Sep. 2020) → 36th (Mar. 2021)

36th

2

Busan Finance Center joins as 34th official member of the International Network of Financial Centres for Sustainability (FC4S) on May 14, 2021.



FC4S (Financial Centres for Sustainability)

FC4S is an organization under the United Nations Environment Programme (UNEP), where about 30 international financial centers around the world participate to achieve the goals set forth in the

2030 Agenda for Sustainable Development in response to climate change and the Paris Agreement. FC4S is currently making efforts to share experiences of international financial centers of each member country to respond to sustainable finance in the financial sector and establish and implement plans to achieve its mid- to long-term goals.



Member Cities: This eco-friendly financial network is joined by major global financial cities including New York, London, and Toronto, and also represented in Asia (Seoul, Shanghai, Hong Kong, Tokyo, etc.), Europe (Paris, Lisbon, Luxembourg, Madrid, Milan, etc.), South America (Mexico City, Rio de Janeiro), and Africa (Lagos, Nairobi).

3

Busan ranked 31st in the Global Green Finance Index (GGFI) as of April 2021

Global Green Finance Index (GGFI)

With the recent increase in international financial cities around the world pursuing green finance for sustainable development in response to climate change, Z/Yen, a consulting firm, has announced the Global Green Finance Index twice a year since March 2018. In the 7th evaluation announced on April 29, 2021, Busan entered the rankings for the first time at the 31st place.

Summary: Among the top ten cities competitive in green finance, 8 are Western European cities, with Amsterdam taking the top spot. Los Angeles entered the top 10 for the first time, while Seoul ranked 22nd, and Busan entered the rankings for the first time, taking the 31st place.

Analysis: The following efforts for sustainable development by major regional institutions in Busan were the main factors that drew positive feedbacks from those in the international financial sector: commencement of Eco Delta City construction, an eco-friendly waterfront city in Busan; enactment of an ordinance to support remodeling of Haeundae Green City based on IoT; increase in listing of socially responsible investment bonds through Korea Exchange; issuance of social bonds by Korea Housing Finance Corporation; issuance of sustainability bonds by BNK Busan Bank; and the promotion of the Green Guarantee Project of Korea Technology Finance Corporation.

4

Singapore Ambassador to Korea Eric Teo visits Busan Finance Center

Date/Place

May 13, 2021 (Thursday)/Conference Room of the Busan Finance Center (BIFC)

Summary: Discussed ways to strengthen regional exchanges between financial hubs and promote substantive cooperation, including sustainable finance.



5

Seminar to Commemorate Launch of Korea Exchange's Clearing Division

Date/Venue: May 25, 2021 (Tuesday)/Busan Headquarters of Korea Exchange (BIFC)

Hosted and organized by: Korea Exchange

Summary: Among the topics discussed were trends in domestic and overseas Central Counterparties (CCP) and their future tasks, mid-to long-term development direction of the KRX Clearing Division, and plan for joint development between Clearing Division and Busan Financial Hub. At the seminar, President of Busan Finance Center Kim Jong-hwa emphasized the need for cooperation with local institutions, schools, and local government for the KRX Clearing Division to contribute to the development of Busan Financial Hub.



Korea Exchange-Trade Repository (TR)

The new Trade Repository (TR) system is expected to improve transparency and stability in the OTC derivatives market in line with the agreement made at the 2009 G20 Summit



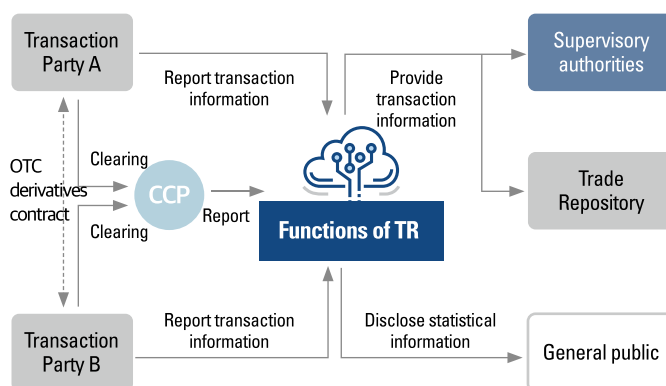
01 What is a Trade Repository (TR)?

It is a common perception that the 2008 global financial crisis occurred as the systemic risk of the entire financial market increased due to the explosive growth of the Over-The-Counter (OTC) derivatives market. The vast trading volume of OTC derivatives market increased the possibility of losses for financial institutions and transferability of those losses, but the size of the market could not be properly determined, resulting in amplification of market anxiety at that time.

In response, leaders of each country agreed to reform regulatory framework for the OTC derivatives market at the 2009 G20 Summit (Pittsburgh, September 24-25, USA). One of the regulatory reform measures is to make it mandatory to report detailed information on all OTC derivatives transactions to the Trade Repository (TR).

TR is a new Financial Market Infrastructure (FMI) that centralizes, collects, stores, and manages detailed information on OTC derivatives transactions. TR collects and manages transaction information from reporting agencies, and

Functions of TR



aggregates and processes it to provide information necessary for supervisory authorities to implement policies and disclose statistical information to the general public.

FMI refers to Central Securities Depository (CSD), Securities Settlement System (SSS), Central Counterparty Clearing House (CCP), and Trade Repository (TR) that play key roles in the financial market. International organizations (CPSS-IOSCO) are striving for proper risk management and supervision of the financial market infrastructures by establishing the Principles of Financial Market Infrastructure (PFMI). Therefore, it can be said that introducing TR while complying with PFMI is essential to secure both internal and external credibility.

2009 G20 Agreement on OTC Derivatives Regulations

All standardized OTC derivatives:

- ① shall be traded through an exchange or electronic trading platform, where appropriate; and
- ② shall be settled through a clearing house (CCP).

All non-centrally cleared contracts of OTC derivatives:

- ③ shall be reported to Trade Repository (TR); and

Non-centrally cleared contracts

- ④ shall be transacted under a higher capital requirement.

02 TR Adoption Progress and Main Reporting Systems

Since selected as a domestic TR operator through the Financial Services Commission's "TR Selection Committee" in August 2015, Korea Exchange has been working to establish TR-related regulations, frameworks, and systems. As a result

of these efforts, TR mandatory reporting and TR service were launched on April 1, 2021.

The Korea Exchange's Trade Repository (hereinafter referred to as KRX-TR) established a reporting system that complies with international standards to enhance international conformity, and actively communicated and cooperated with reporting agencies to establish a reasonable reporting system. In particular, KRX-TR was created to minimize confusion caused by the introduction of new regulations by preparing various institutional mechanisms to lessen the reporting burden.

A brief introduction to the main reporting system of KRX-TR is as below: The designated domestic reporting agencies are financial investment entities (including concurrently-run financial investment entities) and financial investment instrument transaction clearing companies. Each designated reporting agency is required to report transaction information of OTC derivatives entered in its name to TR by 24:00 of the business day that follows the "T-Day" (day when transaction is made). OTC derivative transaction information includes basic information, target products and underlying assets included in a contract, valuation necessary for profit and loss analysis, and collateral between trading parties.

This system lessens the burden of reporting tasks in two ways. Firstly, it allows outsourcing of reporting tasks to a third party. Accordingly, small- and medium-sized companies which have difficulty reporting directly can fulfill their reporting obligations by entrusting to companies specialized in reporting.


Secondly, for transactions cleared through the CPP (qualified KRW interest rate swaps), there is a system in which the TR considers it as reported when clearing registration is completed with the domestic OTC CCP. In both these ways, it is expected to significantly reduce the burden of TR reporting on the designated reporting agency for transactions subject to CPP clearing.

Meanwhile, KRX-TR is preparing a two-step data quality management plan to manage high-quality data. The data validation process checks formal accuracy and suitability of individual transaction records. The reporting obligation is considered fulfilled only when data validation process has successfully passed. The pairing and reconciliation process consists of 1) consolidation process that confirms whether the transaction records reported by both parties are reports of the same transaction, and 2) reconciliation process that determines whether the report contents are consistent by comparing important report items. KRX-TR aims to provide more accurate data to financial authorities by managing high-quality data through this data quality management.

03 Expected Outcomes of TR Introduction

The introduction of TR is expected to enhance the soundness and transparency of domestic OTC derivatives market. Financial authorities can use TR information to analyze risk exposure and risk concentration of individual financial institutions, and more systematically manage structural risk of the entire market. Such risk management capabilities will enable preemptive or timely responses to emergencies, contributing to the stabilization of the financial market. By identifying the details of the transactions, supervision of unfair trade practices can certainly be strengthened as well.

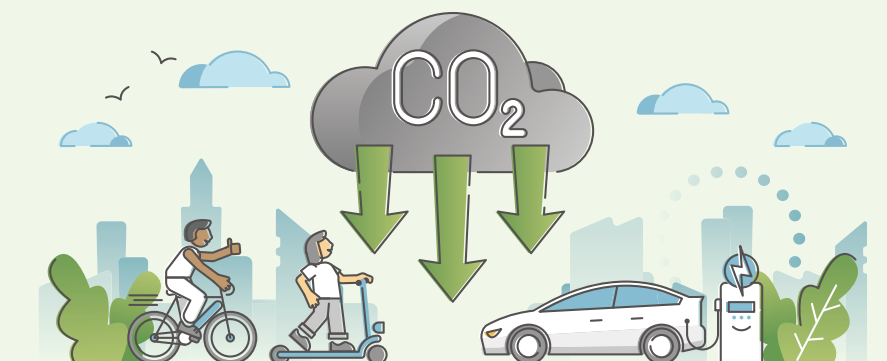
In addition, TR is expected to promote the standardization of OTC derivatives-related data in the long term by reporting OTC derivatives transaction information managed differently by institution and system in a standardized form. As such, TR will play an important role as an infrastructure that reduces market risk and improves market transparency and stability.

Information related to TR can be checked on KRX-TR website (<http://tr.krx.co.kr>), and various materials are also provided to support reporting tasks for reporting agency. As market statistics related to OTC derivatives will be disclosed in the future, the general public can also check statistics of domestic OTC derivatives market on the KRX-TR website. 

Timeline of introduction of TR in major overseas countries

US	EU	Japan	Singapore	Hong Kong	Australia
Dec. 2012	Feb. 2014	Apr. 2013	Apr. 2014	Jul. 2015	Oct. 2013

Green Finance Promotion Plan to Support Carbon Neutrality by 2050

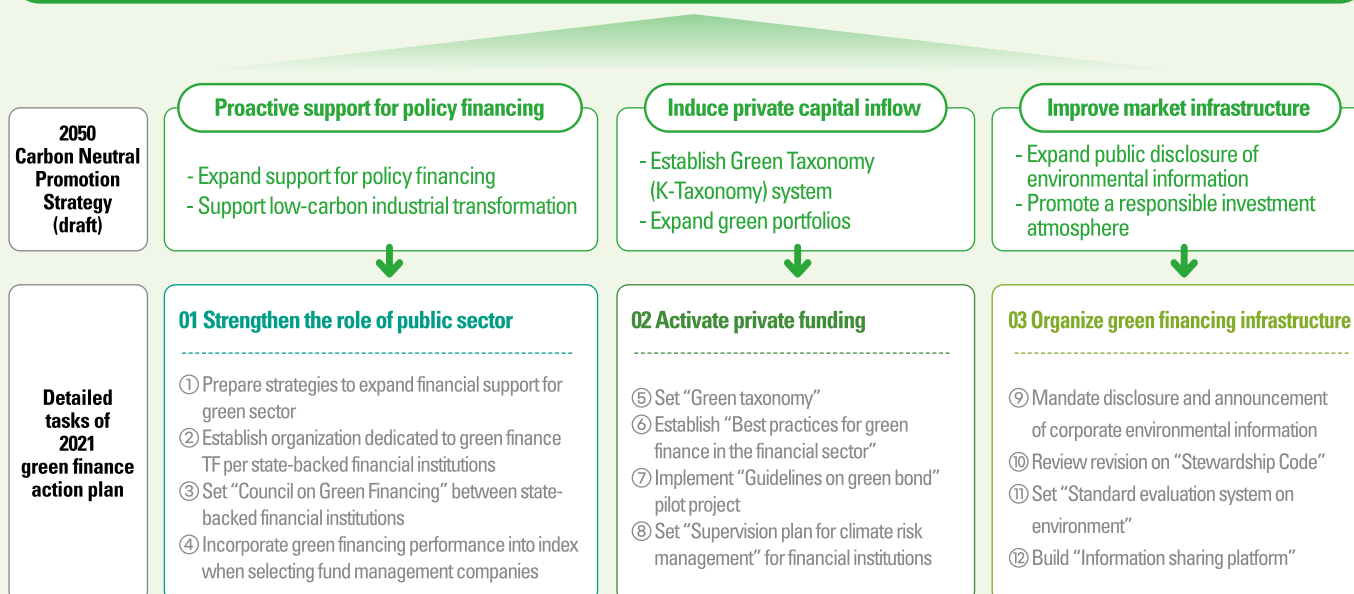


As the importance of sustainable finance has been highlighted in the wake of COVID-19, more and more discussions are held on the role of the financial sector in green finance which began in 2020. With the Green New Deal making up an important part of the Korean New Deal (K-New Deal), the need for active financial support for green industries, companies, and businesses is re-emerging. In accordance with the 2050 Carbon Neutrality Declaration by the government (Dec. 2020), there are increasingly higher expectations for the role of the financial sector to support low-carbonation of

industrial structure and foster new industries. Accordingly, the government launched “Public-Private Joint Taskforce on Green Finance Promotion*” in August 2020, based on the recognition that the financial industry can no longer delay discussions on the green sector.

* This taskforce forms and operates detailed working groups for each of the following major policy tasks: ① climate risk assessment and management; ② activation of green investment; and ③ improvement of corporate disclosure, under the joint taskforce of the Financial Services Commission (FSC) and the Ministry of Environment.

Strategy for Green Finance Activation to Support Carbon Neutrality by 2050



These are the main contents of the draft for the Green Finance Promotion Plan for 2021, which includes the implementation plans for 12 detailed tasks announced by the Financial Services Commission at the beginning of this year to promote discussions since 2020 to revitalize green finance.

01 Strengthen the role of public sector

① Prepare strategies to expand financial support for green sector

- The Commission will prepare investment strategies for each institution to increase the proportion of state-backed financial institutions that support the green sector from the current (Jul. 2021) 6.5% to about 13% by 2030
- When Green Taxonomy (K-Taxonomy) is prepared, the Commission will use it as the basis for reviewing the establishment of green-specialized loan/guarantee programs

* e.g.) ❶ Special green loans (Korea Development Bank, Industrial Bank of Korea, and Export-Import Bank of Korea: preferential interest rate up to 1%); ❷ Preferential guarantee for green companies (up to 0.4% of preferential guarantee rate); ❸ Special on-lending (0.1% lower than general on-lending), etc.

② Establish organization dedicated to green finance per state-backed financial institutions

- Korea Development Bank, Export-Import Bank of Korea, and Industrial Bank of Korea have already established an organization dedicated to green finance (Jan. 2021), and Korea Credit Guarantee Fund is also planning to establish its own dedicated organization
- It aims to achieve concrete results by improving business consistency related to green finance and the K-New Deal through the establishment of a dedicated organization, and promoting the collaboration of related departments.

③ Set “Green Finance Council” between state-backed financial institutions

- In order to maximize the synergy from policy financial support, a consultative body between state-backed financial institutions will be formed and operated at the first half of this year to establish a joint green support strategy and promote information sharing
- Financial Services Commission will provide support for institutional improvement by periodically reviewing state-backed financial institutions’ green finance implementation status and issues
- Through the Green Finance Council, the Commission plans to play various roles, such as strengthening its network with international communities and preparing for the P4G* Summit

* Partnering for Green Growth and the Global Goals 2030

④ Incorporate green finance performance into index when selecting fund management companies

- Revise “Drainage System Fund Management Guidelines,” taking into account green and environmental indicators when selecting a fund management company for the drainage system under the jurisdiction of the Ministry of Environment (2H21).

* Green financial indicators will be considered in the selection of banks for organizations affiliated with the Ministry of Environment such as K-Water and Korea Environment Corporation.

<Summary of selection of drainage system fund management companies>

- ▶ (Volume) Total amount of drainage system fund*: Around KRW 280 Bil. accumulated as of 2020

* Geumgang River (KRW 31.1 Bil.), Nakdonggang River (KRW 17.7 Bil.), Youngsangang River & Seomjingang River (KRW 33.2 Bil.), Hangang River (KRW 197.2 Bil.)

- ▶ (Method) Revise asset management policy -> Add “eco-friendly investment performance” in selection criteria for fund management company
- ▶ Verify use of (Index) Financial support system for eco-friendly management company (enVinance), joining of Green Finance Initiative and others

02

Activate private financing

⑤ Set green taxonomy (K-Taxonomy)

- Establish Green Taxonomy that separates green and non-green activities based on a wide range of expert opinions* (1H21)

< Main content of Green Taxonomy (K-Taxonomy) system (draft) >

- (Main targets) 10 sectors* targeted for Green Taxonomy; 81 economic activities derived (Nov. 2020)
 - * Selected eco-friendly manufacturing, power generation, construction, transportation, etc., by referring to classification systems of EU, ISO, China, and others
- (Technical threshold) Step-by-step preparation of technical thresholds for whether economic activity is green
- (Environmental laws and regulations) Specify environmental laws and regulations to be observed in each economic activity sector to prevent greenwashing
 - * EU:DNSH (Do No Significant Harm) principle

⑥ Establish “Best practices for green finance in the financial sector”

- Prepare “Best practice guidelines on green finance” commonly used in the financial sector to foster a self-sustaining green ecosystem for the financial industry (1Q21)

< Main content of best practice guidelines on green finance (draft) >

- (Taxonomy criteria) Prepare taxonomy criteria for the financial sector* by integrating “green” and “non-green” classification systems currently used by individual financial companies
 - * Systematic statistical system expected to be built by reorganizing current unstandardized green financial statistics
- (Investment strategy) Declare basic principles related to support for green finance and present financial transaction methods for green finance
- (Risk management/disclosure) Regulate climate change-related risk inspection methods that financial companies should manage, as well as basic direction for the expansion of disclosure
- (Implementation system) Present best-practice guidelines to establish a green finance promotion organization and decision-making process within financial companies
- (Indemnification) Provide indemnification provisions to induce active green finance business implementation

⑦ Implement “Guidelines on Green Bond” pilot project

- Implement pilot project for issuance of green bonds through business agreements with both financial and non-financial companies based on the Green Bond Guidelines (published in Dec. 2020)

* Analyze and announce whether green bonds issued by companies or other entities meet the guidelines

< Main content of “Guidelines on Green Bond” >

- (Core elements) The four core elements of green bonds (specified in accordance with domestic circumstances) are: ① where funds will be used; ② project evaluation and selection procedures; ③ fund management; and ④ follow-up reporting
- (Target project) Present detailed pilot projects that are the target of green bonds
- (External review) In order to link with the Socially Responsible Investment (SRI) bond segment of Korea Exchange (opened in Jun. 2020), external review is mandatory before issuance, and external review is recommended when reporting after issuance

⑧ Set “Supervision plan for climate risk management” for financial institutions

- Establish management and supervision plan for economic and financial sectors concerning the risks they face due to climate change and the transition to a low-carbon society (Mar. 2021)
- Launch research project to prepare measures that incorporate climate risk into the mid- to long-term financial sector prudential regulations and supervision/evaluation systems (2021)

03

Organize green financing infrastructure

⑨ Mandate step-by-step disclosure and announcement of corporate environmental information

- Develop step-by-step reinforcement plan of the Korean Exchange's disclosure obligations to expand disclosure of environmental information such as environmental risks, management systems, and response plans (2021).

< Plan for step-by-step reinforcement of climate risk disclosure obligations >

- ▶ [Phase 1 (up to 2025)] Promote self-disclosure of a "Sustainability Report" by presenting "Guidance on ESG Information Disclosure (Korea Exchange, Nov. 2021)" (targeted to increase by 20% per year)
- ▶ [Phase 2 (2025 to 2030)] Mandatory disclosure for KOSPI-listed companies with a certain size (e.g., Assets of KRW 2 trillion or more) (Around 211 companies mandated for voluntary disclosure)
- ▶ [Phase 3 (from 2030 onwards)] Mandatory disclosure for all KOSPI-listed companies

< Main content of "ESG Information Disclosure Guidance" >

- ▶ General principles of disclosure of ESG information, including accuracy, clarity, comparability and timeliness
- ▶ Proposing best practices considering the characteristics of individual industry for standardization of disclosure
- ▶ Introducing best practices for materiality assessment procedures, stakeholder communication channels, etc.
- ▶ International standards for disclosure indicators (GRI, WFE, etc.), guidance for disclosure procedures and methods, etc.

⑩ Review revision on Stewardship Code

- Review the direction of Stewardship Code* to include environmental and other ESG factors in the scope of trustee responsibilities of institutional investors (4Q21)

* Principles that institutional investors must follow to fulfill their responsibilities as trustees who manage other people's assets. Currently, 139 domestic investment institutions have adopted and implemented these principles as of January 2021

⑪ Set standard environment evaluation system on environment

- Design evaluation model system through industry-specific impact analysis to evaluate environmental performance of domestic companies (1H21)

* Currently conducting research on the development of environmental aspects among ESG standard evaluation system and guidelines (Ministry of Environment)

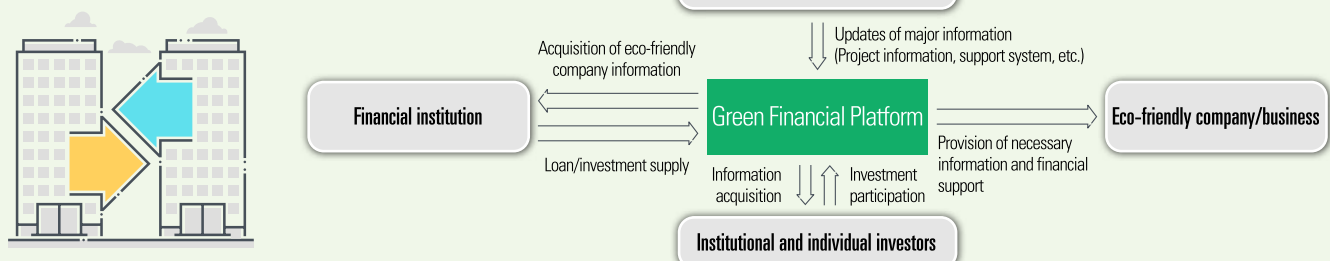
< Main content of the standard environment evaluation system (draft) >

- ▶ (Evaluation Indicators) Set indicators in consideration of domestic and overseas ESG evaluation models and environmental information disclosure status
- ▶ (Formula) Differential evaluation formula considering the characteristics of each industry
- ▶ (Usage) Use the formula for environmental evaluation in the public sector (financial support system for green management companies, etc.) and provide as a reference model for private financial institutions

⑫ Build information sharing platform

- Review establishment of the "Green Finance Platform (tentative name)" to facilitate information sharing and fund intermediation among green companies and business participants (1H21)
- Create a smooth green investment environment by providing necessary information related to green companies and businesses to financial institutions and investors

< Establishment of "Green Finance Platform" (draft) >



[Source] Financial Services Commission, "3rd Green Finance Promotion TF Plenary Meeting held to prepare 2021 Green Finance Promotion Plan (Draft) to actively support 2050 Carbon Neutrality," Press Release, January 25, 2021.

Analysis and Implications of Domestic Derivatives Market in 2021

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Lee Min-gyu

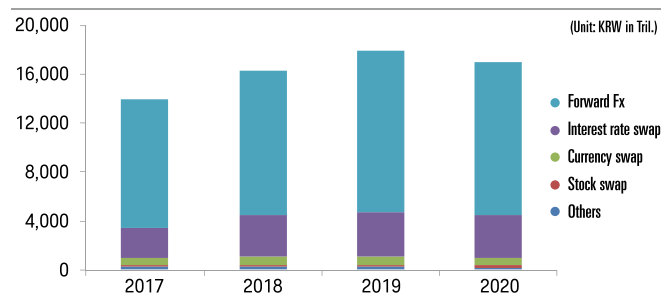


01 Over-the-counter (OTC) Derivatives Market

In the wake of global financial crisis of 2007-2008, financial authorities of each country carried out introducing a system to mitigate systemic risks and increase transparency in the OTC derivatives market as one of the measures to prevent reoccurrence of a similar crisis. At the 2009 G20 Summit, governments of each country agreed to require all standardized OTC derivatives to be settled through the Central Counterparty (CCP), and their transaction information to be reported to the Trade Repository (TR) to reduce counterparty risk in the OTC derivatives transactions. In Korea, CCP, which was created according to the agreement of each government, was included in the Derivatives Market Division of the Korea Exchange. Then, on April 19, its Clearing Division was established at the Busan headquarters of Korea Exchange to perform CCP functions. In the future, CCP functions are expected to be further strengthened centering on the newly independent Clearing Division. In addition, on April 1 this year, the Trade Repository (TR) which centralizes, stores and manages detailed information on OTC derivatives transactions was launched in earnest at the Busan headquarters of Korea Exchange. The stability of the OTC derivatives market is expected to improve through such

derivatives financial infrastructure.

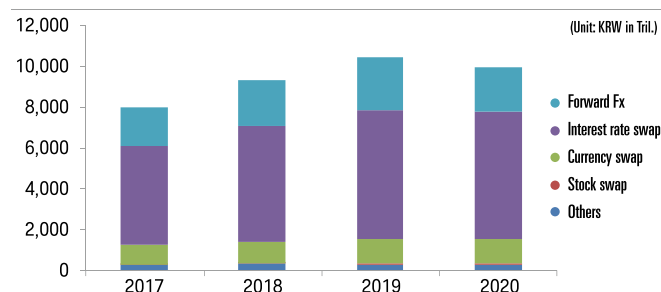
Transaction value of domestic OTC derivatives



* Prepared by processing statistics published by the Financial Supervisory Service

Although domestic OTC derivatives transaction value had been increasing every year in recent years, transaction value in 2020 was KRW 17,019 trillion, a decrease of KRW 926 trillion (5.2%) compared to the previous year (KRW 17,945 trillion). The main reason for such decline is the decrease in transaction value of currency forward and interest rate swaps. In 2020, global economy slowed down, and global trade decreased due to the spread of COVID-19 around the world. In response, central banks of each country lowered their base rates. Due to the decrease in global trade, demands for foreign currency-related hedging fell, resulting in a KRW 657 trillion drop in currency forward transactions compared to the previous year. In addition, after the Bank of Korea's two rounds of base rate cuts in 2020 (Mar.: 1.25% to 0.75%; May: 0.75% to 0.5%), interest rate volatility was maintained at a low level, thereby pushing down demands for interest rate-related hedging and resulting in a KRW 155 trillion decrease in transaction value of interest rate swaps compared to the previous year.

Outstanding transaction values of domestic OTC derivatives



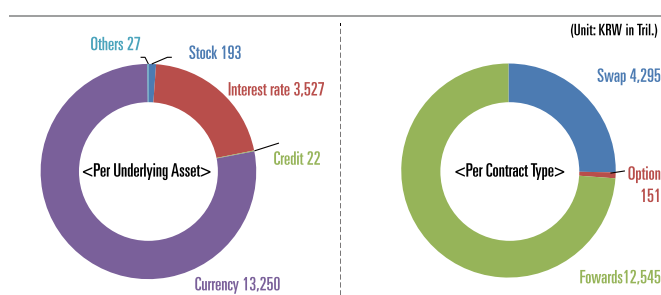
* Prepared by processing statistics published by the Financial Supervisory Service

The outstanding transaction value of domestic OTC derivatives, which represents the amount of open positions at a specific point in time, has increased recently. However, the value in 2020 was KRW 9,935 trillion, down by KRW 500 trillion (4.8%) from the end of the previous year (KRW 10,435 trillion). The main reason for such drop is the decrease in the outstanding transaction value of currency forward and interest rate swaps, similar to that of the reduction of trading volume of OTC derivatives. The outstanding transaction value of currency forward and interest rate swaps fell by KRW 433 trillion and KRW 38 trillion respectively compared to the previous year.

Looking at the size of OTC derivatives transactions by underlying asset, the transaction value of OTC derivatives related to currency and interest rates was KRW 13,250 trillion (77.9%) and KRW 3,527 trillion (20.7%) respectively, making up the majority (98.6%) of total transaction value. The total proportion of OTC derivatives related to stocks, credits and precious metals was 1.43%, which is insignificant compared to the total transaction value. That of equity-related OTC derivatives was KRW 193 trillion, a decrease of KRW 14 trillion (6.7%) from the previous year (KRW 207 trillion).

One of the reasons for the recent decline is the booming stock market in 2020. In the first half of 2020, stock markets in each country plummeted due to the spread of COVID-19. However, since then, they have recovered rapidly with a bullish trend. As this boom continued, the incentives to invest in Equity-Linked Securities (ELS) weakened, the volume of ELS issuances fell significantly, and stock swap transactions for ELS hedging dropped accordingly.

Transaction value of OTC derivatives by underlying asset and contract type

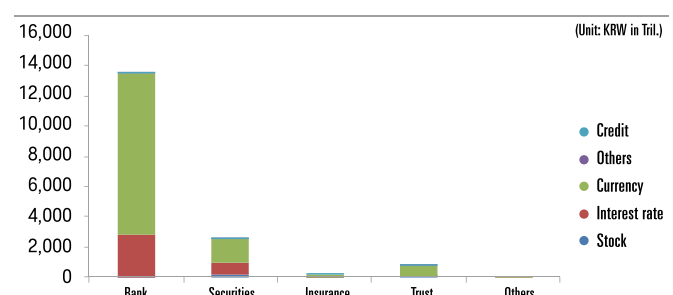


* Prepared by processing statistics published by the Financial Supervisory Service

Looking at the transaction value of OTC derivatives by contract type, transaction value of forward contracts and swaps were KRW 12,545 trillion (73.8%) and KRW 4,295 trillion (25.3%) respectively. These two accounted for the majority (99.1%) of the total transaction value. Options accounted for only KRW 151 trillion (0.9%). The high proportion of forward contracts and swaps was due to regular management methods of financial institutions and companies which tend to manage their respective risks through forward contracts for exchange rate risk and swaps for interest rate risk.

When looking at the size of OTC derivatives trading by financial sector, banks accounted for the largest portion of the total trading value. Banks traded a total of KRW 13,535 trillion, including KRW 10,745 trillion of currency-related OTC derivatives and KRW 2,778 trillion of interest rate-related OTC derivatives, accounting for 79.5% of the total transaction value. Securities companies accounted for the second largest share of total transaction value. Securities companies traded a total of KRW 2,560 trillion, including KRW 1,610 trillion in currency-related OTC derivatives and KRW 739 trillion in interest rate-related OTC derivatives, accounting for 15.0% of the total transaction value. Statistics on the size of OTC derivatives market in 2021 have not yet been released. At the time of writing, there are many trading days remaining until the end of 2021, making it likely that the current forecast and the actual result in 2021 might be different. However, based on the information at this point, the size of domestic OTC derivatives market in 2021 will increase compared to 2020, thanks to the rapid worldwide rollout of COVID-19 vaccine in 2021, along with global trade in recovery. In this situation, some of the factors that reduce the transaction volume in OTC derivatives market in 2020 will be resolved.

Transaction value of OTC derivatives by financial sector



* Prepared by processing statistics published by the Financial Supervisory Service

02 Exchange-traded Derivatives Market

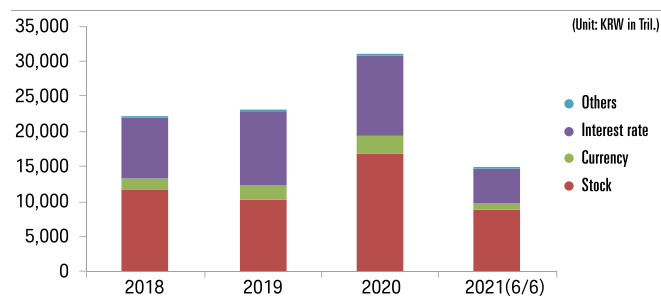
The domestic exchange-traded derivatives market opened in 1996 and was ranked first in the world in terms of trading volume in 2010. However, trading value of exchange-traded derivatives market decreased significantly due to stricter regulatory measures enforced in 2011 to improve the soundness of derivatives market. The average daily trading value in 2011 was KRW 66.3 trillion, but decreased continuously since then, reaching KRW 37.2 trillion in 2014. Since 2014, the decreased trading value has been showing some signs of recovery. Looking at the changes in the derivatives market environment after measures to regulate the domestic derivatives market, trading proportion of individual investors has decreased significantly.

Furthermore, while the proportion of institutional transactions decreased, the proportion of foreign transactions increased. It is understood that individual investors who left the domestic derivatives market moved to overseas derivatives markets due to the strengthening of regulations through measures to improve the soundness of domestic derivatives market. Factors which consistently raised limitations of the domestic exchange-traded derivatives market include excessively high proportion of KOSPI200 Index-related derivatives trading and relatively small number of listed products compared to advanced overseas exchanges. Thus, policy authorities announced measures to improve market environments and continuously raised derivatives market limitations after the aforementioned measures to improve the soundness of derivatives market.

In 2019, policy authorities announced plans to develop the domestic derivatives market to support innovative growth and the overall economy. Several tasks are being reviewed or implemented in practice. Among these, measures to expand the supply and demand base of exchange-traded derivatives market include rationalization of entry regulations for individual investors, activation of institutional investor participation, enhancement of convenience for foreign investors, strengthening of market-making functions, and development of various types of derivatives.

Looking at the size of exchange-traded derivatives market, it slightly increased to KRW 21,961 trillion in February 2018 and KRW 22,888 trillion in February 2019, but increased significantly to KRW 30,709 trillion in 2020. In the first half of 2020, stock market fell sharply due to the spread of COVID-19, but then recovered rapidly. During this process, the stock market experienced great volatility.

Transaction value of domestic exchange-traded derivatives market



* Prepared by processing statistics published by the Korea Exchange

Furthermore, many individual investors who saw sharp decline in the market as an opportunity continued to enter the stock market, causing trading volume of the stock market to increase significantly. As a result, demand for equity-related derivatives also increased. It seems that trading value of the exchange-traded derivatives market increased significantly (34.2%) in 2020 compared to the previous year.

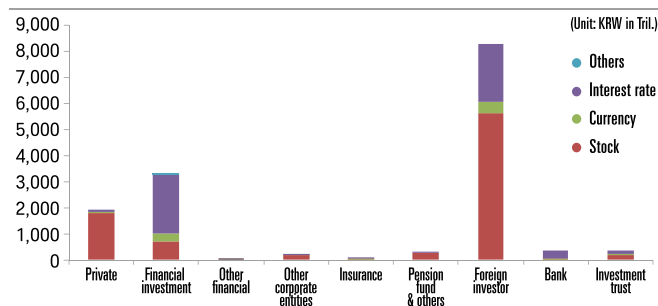
As of this writing, the 2021 trading value of the exchange-traded derivatives market is KRW 14,813 trillion. It is expected to increase significantly (about 15%) compared to 2020 if the current trend is maintained until December. Since there are still many trading days remaining in 2021, it is likely that current forecasts and the actual 2021 results might be different, but if we make a prediction based on the current information, where the stock market boom that started in 2020 has been maintained until June 6, the outlook for the exchange-traded derivatives market in 2021 is also considered bright for the same reasons as the large-scale growth in the previous year.

Looking at the trading size by underlying asset in exchange-traded derivatives market, the proportion of equity-related

derivatives increased in 2020 compared to the previous year, while the proportion of both currency-related and interest rate-related derivatives decreased. The proportion of equity-related derivatives rose from 45.2% (2019) to 54.6% (2020), and the proportion of currency-related derivatives declined from 8.9% (2019) to 8.2% (2020) and that of interest rate-related derivatives from 46.0% (2019) to 37.1% (2020). The main reasons for these results are as follows:

In 2020, the stock market experienced great volatility due to COVID-19, resulting in its trading volume to increase significantly as individual investors continuously entered the stock market. As a result, demand for equity-related derivatives also increased, which is believed to have increased the proportion of equity-related derivatives as well.

Trading value by investor in domestic exchange-traded derivatives market in 2021 (as of Jun. 6)




* Prepared by processing statistics published by the Korea Exchange

As of this writing (Jun. 6), the 2021 trading value by investor in the exchange-traded derivatives market shows foreign investors account for the largest share of trading value in equity- and currency-related derivatives, excluding interest rates. Looking at equity-related derivatives, foreign investors account for 64.2% of the transaction value; for currency-related derivatives, they account for 43.6%. Financial investment institutions account for the largest share (45.0%) of interest rate-related derivatives trading value, followed by foreign investors (43.6%). Foreign and individual investors, pension funds, investment trusts, and other corporations have a relatively high proportion of equity-related derivatives, while banks, financial investment institutions, insurance companies and other financial institutions have a relatively high proportion of transaction value of interest-related derivatives.

03 Implications

The trading volume of exchange-traded derivatives market in 2021 is expected to increase significantly over the last year, where statistics can be confirmed. This is because the stock market boom, which started in 2020, continues to this day, and demand for derivatives is growing. The transaction volume of OTC derivatives market in 2021 is also expected to increase compared to that in 2020. As of 2021, factors that reduce the transaction volume in the OTC derivatives market in 2020 are expected to be partially resolved, thanks to the rapidly distributed COVID-19 vaccine worldwide including Korea, and fast recovery of the global trade. In OTC derivatives market, measures to reduce transaction risk and enhance transparency have been continuously implemented since the global financial crisis of 2007-2008.

In April, the Clearing Division that performs CCP functions was established at Busan headquarters of the Korea Exchange, and the Trade Repository (TR) that stores and manages OTC derivatives transaction information was launched in earnest at Busan headquarters as well. For overseas markets, financial infrastructure such as CCP is located in global financial hubs such as New York and London. Busan is expected to strengthen its status as a financial hub with the establishment of KRX's Clearing Division and the launch of KRX-TR. I hope to see Busan play a major role in the development of derivatives market by further expanding a variety of financial infrastructures, including derivative finance functions in Busan as the financial hub.

The positive function of derivatives market that supports the overall economy will be more active when it can alleviate the concentration of liquidity in some products or some types of traders. The concentration of liquidity on stock index products in exchange-traded derivatives market is still present. It seems that the increase in demand for derivatives due to the stock market boom that started last year has partly affected such concentration. In the long term, such measures shall be required to activate trading of derivatives with low trading volume such as gold or volatility index. Also, in the future, measures to expand the supply and demand base of derivatives market should be implemented to alleviate the high proportion of foreign traders in derivatives market. One would like to expect that derivatives market in 2021 will develop further along with the booming stock market. 

APPENDIX

INFO

- General Status of Busan
- General Status of Financial Institutions Located in Busan



General Status of Busan

	Standard	Unit	Figure	Proportion to whole country(%)
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GRDP size

Busan	2019	Billion won	92,445	4.8
Busan-Ulsan-Gyeongnam	Gross Regional Domestic Product	Billion won	280,223	14.6
National total	(at Market prices)	Billion won	1,923,977	100.0

GRDP by industry in Busan

Agriculture, forestry and fishery		%	0.4	1.1
Manufacturing		%	17.6	3.1
Construction	2019	%	6.8	5.4
Services(Finance and insurance)	Gross Regional Domestic Product	%	73.8(7.0)	5.7(5.7)
Mining, electricity-gas-steam-water	(at Market prices)	%	1.4	4.6
Industry total		%	100.0	4.9

GRDP by industry in Busan-Ulsan-Gyeongnam

Agriculture, forestry and fishery		%	1.7	13.8
Manufacturing		%	37.2	19.2
Construction	2019	%	5.8	13.7
Services(Finance and insurance)	Gross Regional Domestic Product	%	53.3(4.7)	12.1(11.1)
Mining, electricity-gas-steam-water	(at Market prices)	%	2.0	18.5
Industry total		%	100.0	14.3

Container throughput

Busan	Period of 2020	1000 TEU	21,824	75.5
National total			28,916	100.0

Living environment(Busan)

Area	End of 2020	km ²	770	0.8
Population	End of 2020	Number of people	3,391,946	6.5
Temperature	Average of 2020	°C	15.2	
Rainfall	Period of 2020	mm	2,281.6	

Foreigner related(Busan)

Foreign residents	End of 2019	Number of people	45,999	
International schools	End of 2020	Number of unit	5	
Foreign tourists	End of 2020	1,000 people	359	

Sources: Korean Statistical Information Service(KOSIS), Busan Metropolitan City website, Ministry of Oceans and Fisheries

General Status of Financial Institutions Located in Busan¹⁾

(Unit: Number)

Institution Name	As of the End of 2019	As of the End of 2020	Increase
TOTAL	2,216	2,091	-125
Depository Bank	567	528	-39
Commercial Bank	448	408	-40
Nationwide Commercial Bank	219	195	-24
Woori Bank	50	45	-5
Standard Chartered Bank	14	12	-2
KB Kookmin Bank	72	60	-12
Citibank Korea	2	2	0
Shinhan Bank	38	37	-1
KEB Hana Bank	43	39	-4
Local Bank	226	210	-16
DGB Daegu Bank	5	5	0
BNK Busan Bank	209	193	-16
Jeju Bank	1	1	0
BNK Kyongnam Bank	11	11	0
Branch of Foreign Banks	3	3	0
Yamaguchi Bank	1	1	0
Industrial & Commercial Bank of China	1	1	0
Metro bank	1	1	0
Specialized Bank	119	120	1
Industrial Bank of Korea	41	42	1
Korea Development Bank	61	61	0
National Agricultural Cooperative Federation	13	13	0
National Federation Fisheries Cooperatives	4	4	0
Non-bank Financial Institution	1,649	1,563	-86
Korea Exim Bank	1	1	0
Trust Company ²⁾	636	593	-43
Asset Management Company ³⁾	654	614	-40
Mutual Savings Banks	28	28	0
Credit Union ⁴⁾	48	48	0
Mutual Savings and Finance Union ⁴⁾	22	22	0
Community Credit Cooperative ⁴⁾	140	140	0
Korea Post Office ⁵⁾	120	117	-3

Notes

- 1) Based on number of institutions
- 2) Refers to trust accounts of banks, securities companies, and insurance companies
- 3) Fund retail centers of asset management companies
- 4) Based on the number of cooperatives (regional headquarters) or unions
- 5) Excluding postal service offices and local agencies that do not handle post office deposits

Source : The Bank of Korea Busan Branch

BIFC

INFO

General Status of Busan Financial Hub



■ The designation proceeding of Busan Financial Hub

- December 2007 : Establishment of the law and its implementing ordinances about the construction and development of financial hubs
- April 2008 : Composition of the Financial Hubs Establishment Committee
- November 2008 : Application for designation as a financial hub (Seoul, Busan, Incheon, Jeju and Gyeonggi)
- January 2009 : Designation of 'Busan' for maritime and derivatives specialized financial center and 'Seoul' for comprehensive financial center

■ Busan International Finance Center (BIFC)

- Location : 40 Munhyeongeumyung-ro, Namgu, Busan, Korea
- Land Space : 102,352m²
- Complex development

	Phase 1	Phase 2	Phase 3
Land size	24,856m ²	12,276m ²	10,293m ²
Usage	Business facility, Commercial facility	Offices, studio apartments, hotels, concert hall, and commercial facility	Business facility, Commercial facility
Construction size	197,169m ² , 63 stories above ground and 4 below	183,132m ² , 49 stories · 36 stories above ground and 7 below (2 buildings shaped of letter U)	147,000m ² 45F
Business period	April 2008~June 2014	August 2015~October 2018	2020~2025 (Expected)
Development status	Completion of moving-in in December 2014	November 2018, Completion	-

- Individual premises development

	Korea Technology Finance Corporation	Bank of Korea Busan Branch	BNK Busan Bank
Size	15 stories above ground and 2 below	4 stories above ground and 1 below	23 stories above ground and 3 below
Groundbreaking / Completion	February 2009/ May 2011	January 2011/ June 2013	December 2011/ July 2014

■ Fostering and supporting map for Busan financial center

The Financial Hub Promotion Committee

(Chair: Chairman of the Financial Services Commission)

Establishes major policies related to financial centers, reviews policy progress status, and deliberates on matters requiring coordination of opinions among related agencies (or organizations)

Busan Metropolitan City

(Service & Finance Division)

Establishes and implements plans to develop the financial industry for the creation and development of Busan as a global financial city

Financial Hub Korea

(The Financial Supervisory Service)

Assists attracting overseas financial companies to Korea, creating financial hubs center, and supporting the advancement of domestic financial companies into overseas markets

Busan Finance Center (BFC)

Establishes and implements strategies for Busan to become a global financial city, and contributes to developing Busan financial hub and vitalizing the financial industry through mid- and long-term financial-related research and study.

Records of fostering Busan Financial Hub

• Establishment of basis for Busan Financial Hub

- July 2009, Outsourced master plan for fostering Busan Financial Hub
- August 2010, Established basic plan for fostering Busan Financial Hub in to a finance center specialized in maritime and derivatives
- June 2014, Completed Phase 1 of integrated development project (63 story) for Busan International Finance Center ※ Completion ceremony: 22 August, 2014
- End of 2014, public financial institutions and regional financial institutions moved in
※ Transferred public institutions (5), regional institutions (3), maritime finance institutions(4), individual institutions (3)
- April 2015, Conducted 12 projects in 4* sectors until 2020
(*Establishment of financial hub specialized in maritime-derivatives, establishment of world-class infrastructure for finance, vitalization of regional finance industry, establishment of basic environment for financial hub)
- August 2015, Began construction of 2nd phase of Busan International Finance Center
- November 2018, Completed BIFC Phase 2 construction
- July 2020, Launched Busan Finance Center

• Result of fostering policy for financial hub specialized in maritime finance and derivatives

< Maritime finance sector >

- Opened the BIFC branch of Korea Marine Finance Cooperation (October 2014)
- Opened the BIFC HQ of KSF Shipping Finance (November 2014)
- Opened Marine Finance Center (November 2014)
- Korea Maritime Guarantee Insurance Inc. is authorized as insurance business (June 2015)
- KAMCO Ship Investment Management moved to Busan (June 2015)
- Established Korea Ocean Business Corporation (July 2018)

< Derivatives sector >

- Established Derivatives R&D Center in Korea Exchange (February 2012)
- Initiated interest rate swap settling (CCP) (March 2014)
- Opened gold exchange (March 2014)
- Opened Carbon Emission Exchange (January 2015)
- Launched Korea Exchange's Clearing Division (May 2021)

• Securing regional manpower specialized in finance

- Established Busan International Finance Institute (September 2014)

• Expansion of educational and research functions related to international finance

- Opened Financial Action Task Force Training and Research Institute (September 2016)

• Promotion of Busan Financial Hub and international and domestic reputation

- Held overseas IR more than twice every year in Europe, North America and Asia
- Hosted international conference including Korea Ship Finance Forum and Busan International Finance Conference since 2011
 - ▷ General meeting of IOMA (International Option Market Association): 5 May ~ 7 May, 2013, Paradise Hotel
 - ▷ Conference of FIA (International Futures Industry Association): 12 Jun. ~ 13 Jun., 2013, Paradise Hotel
 - ▷ General meeting of ACSIC (Asian Credit Appendixation Institution Confederation): 12 Nov. ~ 14 Nov, 2013, Chosun Hotel
 - ▷ General meeting of IDB (Inter-American Development Bank): 26 Mar. ~ 29 Mar., 2015, Bexco
 - ▷ FATF/APG(International conference of money laundering): 18 Jun. ~ 24 Jun., 2016, Paradise Hotel
 - ▷ General meeting of AfDB(African Development Bank): 21 May ~ 25 May, 2018, Bexco

• Establishment of institutional basis for establishing and developing financial hub

- Extended the period of taxation support for the domestic* and foreign financial institutions opening business in the financial center Amendment of laws and ordinances for vitalizing shipping finance**

* Corporate or individual income tax: extended from December 31, 2018 to December 31, 2021(pursuant to sub-paragraph 1 and 2 of Article 121-21 of the Restriction of Special Taxation Act), Acquisition tax: extended from December 31, 2020 to December 31, 2023 (pursuant to sub-paragraph 1 of Article 14 of the Ordinance on Tax Reduction and Exemption of Busan Metropolitan City)

** Reduction of and exemption from registration and license tax for ship investment companies (pursuant to Article 3 of the Ordinance on Tax Reduction and Exemption of Nam-gu, Busan Metropolitan City)

Institutions Residing in BIFC

• 63 Story Complex Building

50F~62F	KOREA EXCHANGE	353
55F	IBK Changgong	12
53F	FATF TREIN	4
	KAMCO Ship Investment Management	14
52F	Busan Finance Center	12
	Shinhan Bank	5
	Busan International Finance Institute	2
	Busan office of Korea Financial Investment Association	7
	Busan center of Koscom	3
	Korean Commercial Arbitration Board, Asia-Pacific Maritime Arbitration Center	3
40F~47F, 3F	Korea Asset Management Corporation	610
36F~39F, 5F	Korea Securities Depository	345
30F~35F, 4F	Korea Southern Power	462
23F~27F, 12F~13F, 2F, 7F	Korea Housing Finance Corporation	305
22F	KSF Shipping Finance	3
	Korea Marine Finance Corporation	2
20F~22F	Marine Finance Center	76
15F~19F, 10F~11F, 6F	Korea Housing & Urban Guarantee Corporation	559
14F	Korea Credit Guarantee Fund	49
9F	BNK Busan Bank	7
	Korea Securities Finance Corp.	6
	International Plant-quarantine Accreditation Board	20
8F	NH Life Insurance	139
2F	NongHyup Bank	11
	Woori Bank	10
1F	KB Kookmin Bank(BIFC mall)	7

• IFC BUSAN

11F	Global FinTech Industry Promotion Center	3
7F~10F	Korea Asset Management Corporation	84

• Independent Premises

Korea Technology Finance Corporation	
15F, 2 basements	328
Bank of Korea Busan Branch	
4F, 1 basements	69
BNK Busan Bank	
23F, 3 basements	904

BIFC Incentive System

Foreign Financial Organizations

Types	Targets	Establishment of HQ Regional HQ	Establishment of Branch	Relocation of HQ Regional HQ within Korea	Relocation of Branch within Korea
		(Overseas ▶ Busan)		(Other Regions in Korea ▶ Busan)	
Corporate Tax ¹⁾ Income Tax ¹⁾	Financial institution with an investment of over 2 billion KRW and more than 10 regular workers	100% tax exemption for 3 years from the first tax year when the first income is made, 50% for the next 2 years		Not applicable	
Property Tax ^{1) 2)}		100% tax exemption for 3 years from the first date when tax liability is formed		Not applicable	
Acquisition Tax ³⁾		Acquisition tax will be exempted for the assets acquired by startup (or establishment) until 31 Dec. 2023		Not applicable	
Entrance Subsidy ⁴⁾	Financial institution which establishes Regional Headquarters managing more than 3 countries, or Headquarters	Up to 50% of the expenses to purchase land or buildings or rent (Up to 5 billion Won per institution)	Not applicable	Up to 50% of the expenses to purchase land or buildings or rent (Up to 5 billion Won per institution)	Not applicable
Employment Subsidy ⁴⁾	Financial institution with more than 10 regular workers for the last 3 months	Up to 600,000 Won per new employee after movement to BIFC (for up to 6 months, up to 200 million Won per institution)			
Education/ Training Subsidy ⁴⁾	Financial institution with training for more than 1 month to recruit more than 10 Korean employees	Up to 600,000 Won for education/training per new employee after movement to BIFC (for up to 6 months, up to 200 million Won per institution)			
Business Facility Installation Subsidy ⁴⁾	Financial institution with more than 10 regular Korean employees	Up to 10% of the expenses required for installation of business facilities (up to 1 billion Won per institution)			

Domestic Financial Institutions

Types	Targets	Establishment of the HQ	Establishment of Local HQ or Branch	Relocation of HQ	Relocation of Local HQ or Branch
				(Other Regions in Korea ► Busan)	
Corporate Tax ¹⁾ Income Tax ¹⁾	Financial institution with an investment of over 2 billion KRW and more than 10 regular workers	100% tax exemption for 3 years from the first tax year when the first income is made, 50% for the next 2 years		Not applicable	
Property Tax ^{1) 2)}		100% tax exemption for 3 years from the first date when tax liability is formed		Not applicable	
Acquisition Tax ³⁾		Acquisition tax will be exempted for the assets acquired by startup (or establishment) until 31 Dec. 2023		Not applicable	
Entrance Subsidy ⁴⁾	Head quaters that have more than 10 regular workers	Up to 50% of the expenses to purchase land or buildings or rent(Up to 5 billion Won per institution)	Not applicable	Up to 50% of the expenses to purchase land or buildings or rent(Up to 5 billion Won per institution)	Not applicable
Employment Subsidy ⁴⁾	Financial institution with more than 10 regular workers for the last 3 months	Up to 600,000 Won per new employee after movement to BIFC (for up to 6 months, up to 200 million Won per institution)			
Education/ Training Subsidy ⁴⁾	Financial institution with training for more than 1 month to recruit more than 10 Korean employees	Up to 600,000 Won for education/training per new employee after movement to BIFC (for up to 6 months, up to 200 million Won per institution)			
Business Facility Installation Subsidy ⁴⁾	Financial institution with more than 10 regular Korean employees	Up to 10% of the expenses required for installation of business facilities (up to 1 billion Won per institution)			

※ Applicable Act

1) 21 of Article 121 of the Restriction of Special Taxation Act and 26 of Article 116 of the enforcement ordinance

2) 1 of Article 7 of Busan Metropolitan City Nam-gu Tax Exemption Ordinance (according to clause 3, 21 of article 121 of the Restriction of Special Taxation Act)

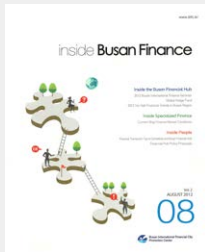
3) 1 of Article 14 of Busan Metropolitan City Tax Exemption Ordinance

4) Ordinance of the Busan Metropolitan City Financial Industry Cultivation (Article 5, 6, 7, 8, 12)

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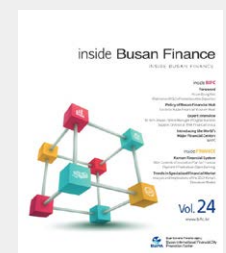
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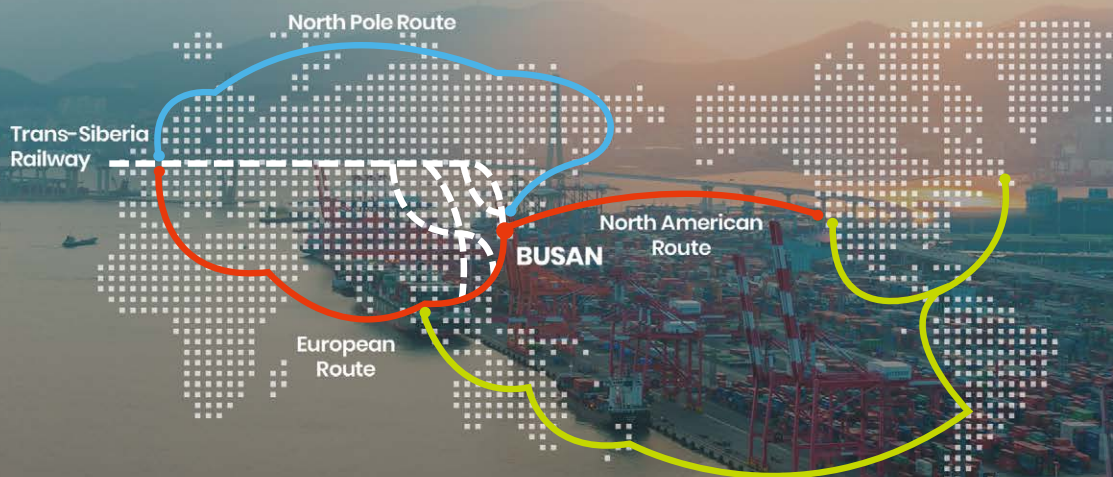


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ALL ROADS LEAD TO BUSAN

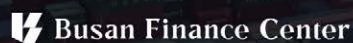


INVITATION TO A GATEWAY OF THE WORLD

Busan is a starting point of North Pole Route and the final destination of the Trans-Eurasian railway with a competent triple logistics system involving the railway, port and airport.

Also the city has world's 6th largest port in terms of container cargo volume. With its strategic location, Busan takes the great leap to the maritime finance hub of Asia.

With the attractive incentives and strong support of the government, Busan is ready to support your business.



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