



# inside Busan Finance

INSIDE BUSAN FINANCE

inside **BIFC**

## Foreword

Chairman and CEO, Korea Securities Depository, Lee Soonho

## Policy of Busan Financial Hub

The 6<sup>th</sup> Financial Hub Policy (2023-2025)

## Expert Interview

CEO, Fintech Startup "GeegooIn", Cho Keum Taek

## Busan Finance Center NEWS

### Introduction to Businesses of Financial Institutions

Introducing the Korea Securities Depository

inside **FINANCE**

## Korean Financial System

Government Launches Youth Leap Bank Accounts

## Trends in Specialized Financial Market

Outlook for Derivatives Market in 2023



# Vol. 30

www.kbfc.or.kr

 Busan Finance Center

# inside Busan Finance

INSIDE BUSAN FINANCE

## CONTENTS

### inside BIFC

#### 04 Foreword

A New Leap for Korea Securities Depository  
- Chairman and CEO, Korea Securities Depository, Lee Soonho

#### 07 Policy of Busan Financial Hub

The 6<sup>th</sup> Financial Hub Policy (2023-2025)

#### 12 Expert Interview

Voluntary Carbon Market Platform  
A Man Who Saves the Earth: Geegooin  
- CEO, Fintech Startup "Geegooin", Cho Keum Taek

#### 16 Busan Finance Center NEWS

#### 18 Introduction to Businesses of Financial Institutions

Introducing the Korea Securities Depository

### inside FINANCE

#### 20 Korean Financial System

Government Launches Youth Leap Bank Accounts

#### 24 Trends in Specialized Financial Market

Outlook for Derivatives Market in 2023  
- Director, Samsung Securities Research Center, Jun Gyun

### inside APPENDIX

#### 28 General Status of Busan

#### 29 General Status of Financial Institutions Located in Busan

#### 30 General Status of Busan Financial Hub

Issued date June 2023

Issued by Busan Finance Center,  
52F, Busan International Finance Center (BIFC)  
40 Munhyeongeumyung-ro, Namgu, Busan, 48400 Republic of Korea  
TEL. +82-51-647-9052 FAX. +82-51-633-0398 www.kbfc.or.kr

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



Busan Finance Center will reduce the printed magazine for the environment. Please notify us whether you wish to receive the magazine via post or email to [sjchoi@kbfc.or.kr](mailto:sjchoi@kbfc.or.kr). For e-vision, visit our website(<https://kbfc.or.kr/eng/>)





Bamboo Road in Beomeosa Temple in Summer

# A New Leap for Korea Securities Depository



Chairman and CEO, Korea Securities Depository

**Lee Soonho**

We are already halfway through 2023, the Year of the Rabbit. For nearly 50 years, Korea Securities Depository (KSD) has contributed to the development of Korea's capital market by providing a financial infrastructure that facilitates the safe custody and efficient settlement of securities. KSD is seeking a way to take a new leap forward in order to once again take our mission to heart and to actively support the changing needs of finance and integrate the 4<sup>th</sup> Industrial Revolution, which is surging like a great tidal force, into the Korean financial market.

On February 6, 2023, the Korean government announced plans to digitize securities under the Financial Investment Services and Capital Markets Act using distributed ledger technology. The plans presented measures to overhaul the regulatory system for the security tokens which are issued, transferred and stored on a distributed ledger. The measures include accepting security tokens as a form of securities issuance under the Act on Electronic Registration of Stocks, Bonds, etc., allowing entities that meet certain requirements to directly issue security tokens, and creating an over-the-

counter brokerage for the multilateral trading of investment contract certificates and beneficiary certificates.

With this in mind, we will seek to ensure that security tokens are smoothly introduced and circulated in Korea by determining the transferability of security tokens to be issued and by performing total volume management through reconciliation of the total number of tokens allocated to investors with the volume issued and resolving any discrepancies or excessive volumes in accordance with the procedures set out in the Act on Electronic Registration of Stocks, Bonds, etc.

In September 2019, we introduced the electronic securities system that electronically registers and distributes securities without issuing physical securities. The system was advanced and innovative at the time as it allowed investors to fundamentally eliminate concerns about theft and/or loss associated with the issuance of physical securities. Now, carrying on that innovative spirit, we will utilize the recently developed distributed ledger technology to manage

securities, which are the assets of the investing public, with more stability and efficiency.

Meanwhile, major developed countries including the United States, Japan, and Singapore are already issuing government bonds – that is, savings bonds – specifically for individual investors. This is to ensure that the government provides its people with excellent investment opportunities without the risk of default, thereby contributing to an increase in their wealth, while the state secures a stable source of financing to meet its fiscal needs. The Korean government is currently planning to introduce such bonds under the name of “Government Bonds for Individual Investors”.

The amendment to the National Bonds Act related to their introduction passed the plenary session of the National Assembly on March 30, 2023. This is planned to take effect after the amendments to the Enforcement Decree and Enforcement Rules of the National Bonds Act are prepared. Only individuals are eligible to purchase Government Bonds for Individual Investors, with each individual having an annual purchase limit. If held until maturity, interest income generated from a portion of the holdings will be taxed separately rather than added to individual comprehensive income. In other words, Government Bonds for Individual Investors are savings products in which the principal and interest are collectively received at maturity and are guaranteed by the government.

In order to support the smooth operation of the “Government Bonds for Individual Investors”, KSD will not spare its accumulated capabilities in the registration of securities and management of rights. Specifically, we will notify the public about the bond issuance conditions after receiving them from the Ministry of Economy and Finance, and issue and manage the bonds as electronic securities according to the details of individual investors’ subscriptions through the sales agencies. Upon maturity or redemption, we will receive the principal and interest from the Bank of Korea and pay them out to the sales agencies.

KSD's efforts to facilitate the smooth distribution of government bonds will not stop here. One thing that became apparent during the global financial crisis and Europe's fiscal crisis is that countries that see a solid demand for government bonds are more capable of coping with crises. Accordingly, in order to create an advanced and highly liquid government bond market, the Korean government aims to have Korean government bonds added to the World Government Bond Index (WGBI) maintained by FTSE Russell, a subsidiary of the London Stock Exchange. The WGBI is used by global investors as a benchmark for government bond markets.

In order to support the Korean government's efforts towards WGBI inclusion, KSD seeks to actively improve the accessibility of the Korean government bond market for foreign investors. We will implement an infrastructure offering better access to global investors of Korean government bonds through international central securities depositories (ICSDs), which distribute and settle bonds globally, in place of the current method of having to appoint a standing agent or local custodian to invest in Korea.

In this regard, Clearstream, one of the ICSDs, has already obtained Qualified Foreign Intermediary status from the National Tax Service, enabling it to distribute Korean government bonds overseas. To support this, on December 31, 2022, the Korean government established Article 119-3 of the Income Tax Act and Article 93-3 of the Corporate Income Tax Act, exempting foreign investors from taxation on all interest income earned on investments in Korea Treasury Bonds and Monetary Stabilization Bonds.

The world's largest securities depository and settlement institution, the Depository Trust & Clearing Corporation (DTCC) in the U.S., recently celebrated its 50<sup>th</sup> anniversary on May 9, 2023. Established on December 6, 1974, KSD has been in operation almost as long with its 50<sup>th</sup> anniversary coming up next year. Over the years, we have supported Korea's financial market using our accumulated knowledge, experience, and business capabilities, while driving the



development of the capital market by taking the lead in adopting advanced financial infrastructure.

It will be difficult for KSD to accomplish the aforementioned new leap forward only with accumulated experience and capabilities. Therefore, we have recently undergone a reorganization to establish a separate entity that can effectively accomplish such tasks. In particular, we established a division-level task force named “Vision Innovation Task Force” to reset our organizational DNA and create a future growth engine in preparation for the next 50 years.

In November 2014, KSD relocated its headquarters to the Busan International Finance Center (BIFC) in the vibrant city of Busan where silver waves roll under the blue sky. We are pursuing a financial platform that grows together with Busan because we value the community surrounding us as well as our customers and employees.

We have contributed to strengthening Busan's role as a financial hub through activities such as holding the 24<sup>th</sup> General Meeting of the Asia-Pacific Central Securities

Depository Group for the first time in Busan. We have also contributed to the increase of tax revenue in Busan by paying securities transaction taxes and withholding taxes amounting to about KRW 19 trillion and KRW 13.2 trillion in 2021 and 2022, respectively; and are creating jobs for locals by employing at least 30% of our new employees from Busan. In addition, we have supported the development of financial professionals in Busan, nurtured its innovative startup ecosystem by running the K-Camp Busan program, and aided the revitalization of the local economy by contributing to the Busan Social Economy Support Fund (BEF).

However above all, we will make our best efforts to faithfully support Busan in establishing itself as a global financial hub by taking the lead in implementing the strategies detailed in the 6<sup>th</sup> Financial Hub Development Plan, namely, strengthening the functions of a global financial hub, laying the groundwork for a policy financing hub, enhancing digital finance capabilities, and building the foundation for green finance growth. At the same time, KSD will make its utmost efforts to take a new leap forward by effectively meeting the challenges it faces. 

## The 6<sup>th</sup> Financial Hub Policy (2023-2025)

**The Financial Services Commission has prepared four major initiatives: financial innovation for global competition, establishment of financial infrastructure in line with the global financial environment, globalization of the capital market, and reinforcement of the financial hubs.**

On June 21, the Financial Services Commission deliberated and finalized the “6<sup>th</sup> Financial Hub Policy (2023-2025)” at its 12<sup>th</sup> regular meeting. Recently, the global financial environment has been rapidly changing, with the introduction of digitalization, sustainable finance, and virtual assets. How we respond to such a rapidly changing financial environment will determine the competitiveness of global financial hubs.

The Financial Services Commission has established four major tasks under its 6<sup>th</sup> Financial Hub Policy to actively utilize areas in which the Korean financial industry has a comparative advantage while responding quickly to changes in the global financial environment.



## The 6<sup>th</sup> Financial Hub Policy (2023-2025)



### The Promotion Tasks

#### Task 1 Financial innovation for global competition

The Commission will continue to promote regulatory innovation and strengthen support for fintech businesses to enhance the global competitiveness of the financial industry amid the digital transformation.

- (Promoting convergence of financial and non-financial sectors) Revamp the regulatory system so that both financial and Big Tech businesses can actively promote digital innovation.
- Promote reasonable improvement of ancillary business and subsidiary investment regulations of financial companies so that they can flexibly respond to environmental changes such as digitalization and big blur.
  - \* Currently, it is possible for financial companies to operate ancillary businesses and invest in subsidiaries only when they are related to the financial industry.
- Establish a regulatory system that promotes competition and innovation following the advancement of Big Tech businesses while achieving an equitable balance between financial system stability and financial consumer protection.
- (Facilitating the digital transformation of finance) Boost platform-based financial services and strengthen the financial regulatory sandbox.
- Institutionally support the development of financial companies into platforms, such as digital universal banks, healthcare financial platforms, and online financial product brokerage businesses.
- Boost the regulatory sandbox by providing expert consulting and establishing a data analysis support platform

so that the financial regulatory sandbox can continue to lead financial innovation.

- (Reinforcing support for fintech businesses) Strengthen financial support, boost support systems, and promote overseas expansion to ensure sustainable growth and global competitiveness of fintech businesses.
- Expand financial support for fintech businesses where private venture capital is decreasing due to global austerity
- Provide fintech businesses with comprehensive consulting from experts in law, accounting, and technology, and support information and manpower coordination when promoting overseas expansion

#### Task 2 Establishing financial infrastructure that is compatible with the financial environment

The Commission will promptly expand related infrastructure to actively utilize changes in the global financial environment, such as digitalization and sustainable finance, and support globalization of the domestic financial industry through a complete overhaul of the foreign exchange system.

- (Institutionalization of new digital industry) Prepare a balanced regulatory system for responsible growth of new digital industries such as security tokens and virtual assets.
- Prepare a plan to regulate the issuance and distribution of security tokens (STO), support the securitization of various rights that have emerged recently, and improve the efficiency and convenience of securities trading.
- Promote the establishment of a regulatory system step by





step taking into consideration the need for user protection and whether it conforms with global regulations for virtual assets.

- (Expansion of digital financial infrastructure) Strengthen the institutional foundation for the use of new technologies, such as data and AI, and push for advanced financial security regulations.]
- Enhance MyData in the financial sector by expanding the scope of information provision, and lay the groundwork for activating AI utilization by operating test beds and supporting big data acquisition.
- Mitigate network separation and cloud regulations in line with global standards and convert to an autonomous security system to enable financial companies to respond flexibly.
- (Boosting sustainable finance) Revamp the ESG disclosure system and establish an institutional foundation to boost ESG investment.
- Steadily promote compulsory ESG disclosure taking into consideration global standards and domestic conditions.
- Develop various ESG indices and expand policy finance to support for ESG.
- (Improvement of the foreign exchange system) Transform the foreign exchange market into a world-class open and competitive structure, and reform excessive foreign exchange transaction regulations.
- Allow foreign financial institutions that meet the requirements to directly participate in the foreign exchange

market, and gradually expand the operation hours of the foreign exchange market to 24 hours.

- Mitigate regulations on transaction procedures (e.g. the prior reporting system) that make foreign exchange transactions for citizens, corporations, and financial institutions inconvenient.

### Task 3 Globalization of capital markets

The Commission will revamp regulations and systems to expand investment in the domestic capital market by global investors, and enhance competitiveness in the capital and asset management market.

- (Enhancement of accessibility for foreign investors) Improve regulations that have been an obstacle to investing in the domestic capital market and improve the information access environment.
- Abolish the current foreign investor registration system, which has been in place for about 30 years, and improve transaction convenience by activating foreigners' integrated accounts\* and easing the pre-examination of over-the-counter transactions.
- \* An account opened in the name of a global financial company for the purpose of integrating trading of multiple investors
- Gradually promote mandatory English disclosures and support English disclosure for companies.
- (Alleviating factors associated with the “Korea discount”) Improve procedures and practices that have been identified as factors for undervaluation of the domestic

capital market to meet global standards.

- Improve the dividend process so that investment decisions can be made based on the amount of dividends, and enhance confidence in the capital market by strengthening countermeasures against unfair trade.

**I** (Boosting capital market competition and efficiency) Promote institutionalization of unlisted stock trading platforms and the establishment of an alternative exchange (ATS).

- Promote institutionalization of unlisted stock trading platforms (currently, regulatory sandbox) to provide promising investment opportunities to investors and growth opportunities to innovative companies.
- Enhance the efficiency and stability of the stock trading infrastructure by establishing a competition system between exchanges through the establishment of an alternative exchange (ATS).

**I** (Boosting asset management market) Improve related systems to boost investment demand and support the globalization of the domestic financial industry through overseas investment from pension funds.

- Enhance indirect and long-term investment by improving the public offering fund system and support the strengthening of the private equity fund's original function of supplying venture capital.
- Expand alternatives and overseas investment from pension funds, and utilize the Korea Investment Corporation's investment experience as an opportunity to enhance the global competitiveness of the financial industry and attract foreign financial companies.

**Task 4 Reinforcement of financial hubs**


The Committee will simultaneously promote inbound and outbound support strategies and customized strategies for each financial hub in order to leap forward as a global financial powerhouse and financial hubs.

**I** (Support for overseas expansion of domestic financial companies) Strengthen institutional and policy support

for domestic financial companies to expand their overseas sales base and profit share.

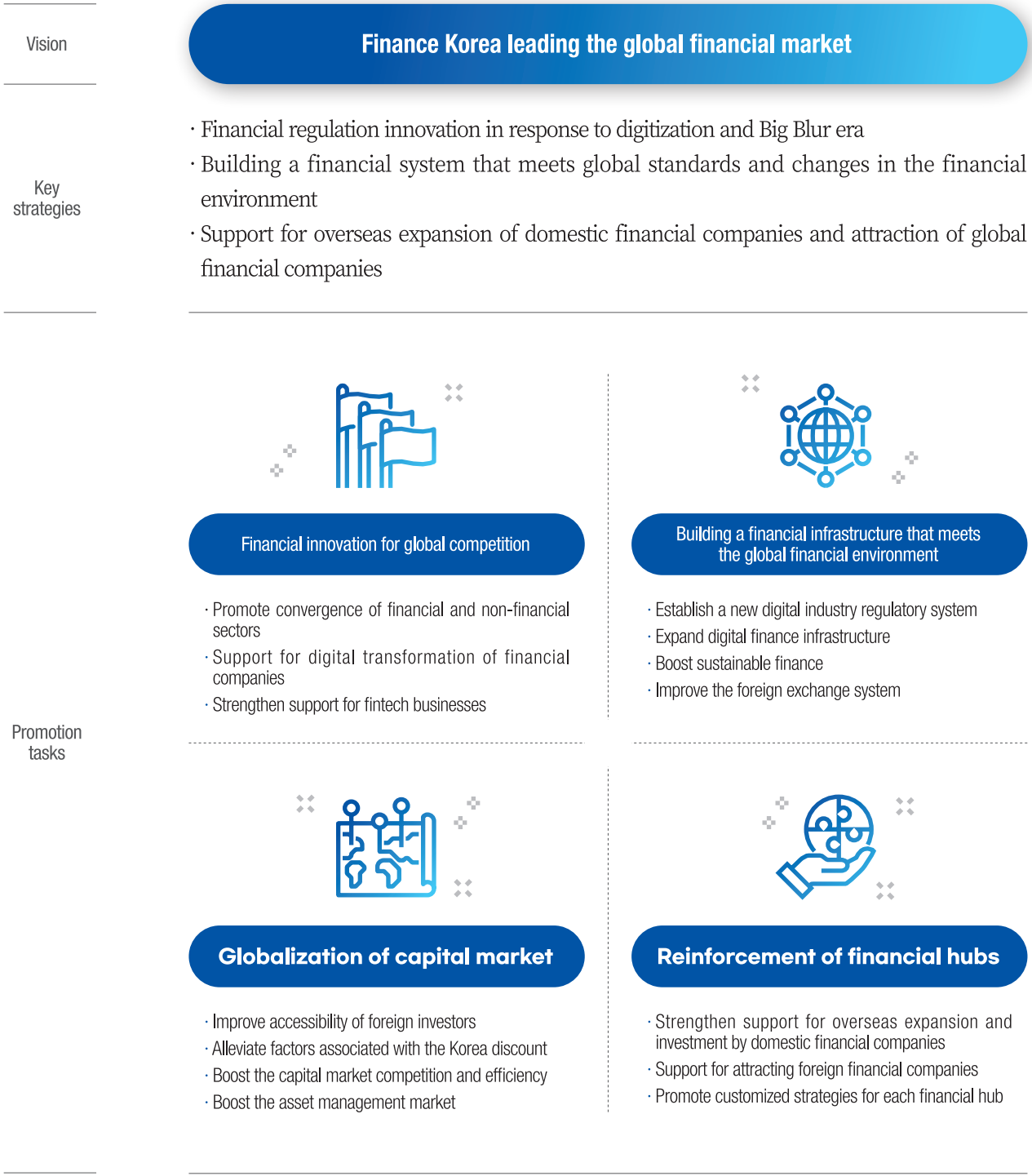
- Establish the “Financial Globalization Response Team” within the Financial Services Commission to work together to find and solve any problems in the process of overseas expansion and local businesses.
- Establish a cooperative network involving local financial companies, local financial authorities, and embassies to resolve business difficulties overseas.

**I** (Support for attracting foreign financial companies in Korea) Continue to improve the management and living environment of foreign financial companies and financial professionals, and strengthen efforts to attract global financial companies and publicize the Korean financial hubs.

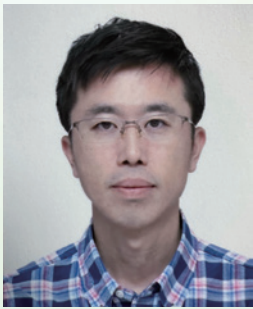
**I** (Promotion of strategies tailored to each region) Establish and promote regional financial hub strategies that meet the conditions and characteristics of Seoul and Busan, respectively: 

<p>Yeouido, Seoul City</p>	<ul style="list-style-type: none"> <li>· <b>Step-by-step support for discovering and nurturing promising fintech businesses</b> * (Seoul Fintech Lab) Support for scale-up of growing companies within 7 years of founding (2<sup>nd</sup> Seoul Fintech Lab) Dedicated to incubating early-stage companies within 3 years of founding</li> <li>· <b>Nurturing digital finance professionals</b> * Nurture professionals in connection with degree programs of professional graduate schools, the city's start-up base facilities, etc.</li> <li>· <b>Promote the Yeouido Financial Development and Promotion District Plan.</b> * Reduction or exemption of local taxes, improvement of living environment for foreigners, support for fintech businesses, etc.</li> </ul>
<p>Munhyeon, Busan City</p>	<ul style="list-style-type: none"> <li>· <b>Strengthen its financial infrastructure and financial ecosystem.</b> * Establish a finance sector data center near the BIFC, create a Busan-specific scale-up parent fund.</li> <li>· <b>Boosting maritime specialized finance</b> * Expand the functions of the Korea Ocean Business Corporation and Marine Finance Center, nurturing maritime finance professionals.</li> <li>· <b>Strengthening digital finance capabilities</b> * Integrate digital finance companies in the building of BIFC phase 3 (to be completed at the end of 2025), expand the blockchain industry fostering infrastructure, create privately-led digital finance graduate school.</li> </ul>

## Financial Hub Policy Vision/System Map



# Voluntary Carbon Market Platform A Man Who Saves the Earth: Geegoin



CEO, Fintech Startup “Geegoin”  
**Cho Keum Taek**



Please tell us about “Geegoin”.

Geegoin is a carbon finance solution company located in the Busan Fintech Hub. We provide comprehensive carbon finance services, including the distribution infrastructure for voluntary carbon offsetting rights necessary for companies and individuals to achieve net-zero emissions based on blockchain technology and data analysis models. Since the stakeholders of climate change are human beings living here on the Earth, and it can be solved only by our best efforts, I named my company “Geegoin(Earthman in Korean)”, like the human being who will save the Earth.

The background of our project began with the identification of a problem; particularly the absence of a response system due to the lack of relevant infrastructure and solutions despite the growing demand for companies and individuals to respond to climate change transition risks. In particular, many companies voluntarily purchase carbon offsetting rights to offset their own carbon emissions in order to comply with various internal and external regulatory factors, such as internationally elevated environmental compliance standards, the government's emission allowance system, and social demands for ESG management.



However, the opacity and inefficiency of the carbon market due to the lack of trading infrastructure is making it difficult for companies to achieve carbon neutrality. For example, the issue of double counting caused by resale of emission rights and verifying the quality of carbon credits, and the verification of trading partners have both been identified as structural problems in the market, preventing the growth of the voluntary carbon market.

As a way to solve this problem, most overseas voluntary carbon offset markets have been converted to blockchain infrastructure, and all stages of the distribution process, including issuances, registrations, transactions, and disposals of carbon offsetting rights, have been recorded for each transaction unit, resulting in building a transparent and convenient distribution system.

Following trends in the global voluntary carbon market, Geegoooin seeks to become a market participant in the global market including Korea, provide a voluntary carbon credit distribution infrastructure that connects the domestic and overseas markets, and help many companies to achieve net-zero emissions easily. We will also provide data analysis services for managing carbon assets and liabilities, which are indispensable for the sustainability of companies. In these ways, we aim to develop into a carbon finance infrastructure company.



**Carbon market, net-zero emissions, carbon emissions trading, etc. have become hot topics these days, but they are unfamiliar concepts to us. Please explain them briefly.**

The “carbon market” is a market where companies can buy and sell carbon allowances and credits, which are the rights to emit greenhouse gases. The carbon emission rights market is largely divided into a regulated market operated by the government and a voluntary market operated voluntarily by private sectors, depending on the operator. The regulated market in Korea is operated through the Korea Exchange. When the Ministry of Environment allocates carbon emission allowance to a company at the beginning of each year, that company will have the right to emit greenhouse gases within the range of their allocated carbon emissions.

Companies that emit greenhouse gases in excess of their allowance can buy carbon emission rights from other companies to offset the excess. Conversely, companies that emit less than their allowance can sell their emission rights to other companies. In the voluntary market, a voluntary carbon credit generation project developer in the private sector promotes a project that can reduce or eliminate greenhouse gases, and receives certification for their carbon reduction and elimination effects from global certification organizations, including the United Nations, thus creating certified carbon emission offsetting rights.

The carbon offsetting rights generated in this way are distributed and traded through the voluntary participation of companies, institutions, and individuals in net-zero emission activities. Unlike carbon emission allowances in the regulated market, where the total amount allocated by the government is fixed, voluntary carbon offsetting rights are growing as an important financial solution to meet the demand for carbon offsets from companies preparing for ESG or climate change transition risks. According to a research report jointly conducted by Shell Group, a global energy and petrochemical company, in 2022 with Boston Consulting Group, the voluntary market valued at \$2 billion in 2021 is expected to grow by about 20 times, up to \$40 billion in 2030. This suggests the possibility of development in the voluntary market and the possibility of creating a new market.

“Net-zero emissions” refers to measures to reduce net carbon dioxide emissions to 0 by absorbing or removing the amount of carbon dioxide emitted. To respond to the risks of climate change, many global companies are declaring long-term net-zero as part of ESG, setting interim goals, and disclosing their achievements. In order to achieve a net-zero roadmap for each company, companies not only build various carbon removal and reduction facilities, but also purchase carbon (emission) offsetting rights certified in the global carbon market to make efforts to offset their carbon emissions every year.

In conclusion, companies can trade carbon allowances or carbon credits in the carbon market operated by the government or the private sector in order to achieve the goal of net-zero carbon, which is one of sustainability.



**Then, how is Geegoin contributing to this climate change response?**

Geegoin has contributed to net-zero emissions with citizens who voluntarily participated in carbon reduction activities at various exhibitions held at BEXCO, including the World Climate Industry Expo. Geegoin has defined it as a “net-zero experience”. By expanding this, we are preparing services that allow individuals and companies to practice or experience net-zero in their daily lives by utilizing voluntary carbon offsetting rights.

And for companies, we provide such services as carbon asset and liability management using carbon alternative data, carbon emission target management, internal carbon pricing, and carbon credit quality verification. Through these services, we are developing a financial management infrastructure that supports sustainable management by supporting the enforcement of individual companies' capabilities to respond to climate change transition risks.



People participating in the World Climate Industry Expo



**What do you see as the role of finance in achieving net-zero carbon by 2050, and what role do you think the Busan financial hub should play?**

Climate finance to achieve net-zero carbon has been recognized as an important method of strengthening response capabilities to the climate crisis even in the Paris Agreement. Climate finance has a role in encouraging net-zero in the entire industrial sector through investments, loans, and contributions.

In Korea, 113 financial institutions made a declaration to support “Carbon Neutral by 2050” and to practice climate finance in 2021. These financial institutions promised to practice climate finance by stopping investment in coal or disclosing climate change-related financial information. This is an active response to the climate crisis and net-zero carbon, and represents their voluntary participation and support of climate finance.

By introducing a regulatory sandbox system in fields such as ICT, Busan Metropolitan Government is making efforts

for digital transformation in the fintech sector by linking fintech and capital markets, expanding fintech investments, innovating regulations, and spreading fintech frontiers. I hope that Busan, which has a vision of becoming a global financial hub, will take a new position in global finance as the center of both climate finance and carbon finance.

Busan Metropolitan Government, which aims to host World Expo 2030 Busan, recently opened a carbon neutral portal, “Net Zero Busan”, informs its citizens of the necessity of realizing “Net-Zero Carbon by 2050”, and is working hard to lead customized campaigns to realize net-zero carbon.

In addition, as a practical carbon-neutral effort, it is possible for Busan to enhance its capacity to respond to climate change through the introduction of Busan's own internal carbon pricing system, or to utilize various carbon finance mechanisms such as voluntary purchase of carbon offsetting rights to achieve net zero carbon. I look forward to the day when Busan not only achieves carbon neutrality, but it also leads the way on the road to Korea's carbon neutrality. ⚡



1

## BIFC Finance Education Course

<b>Education target</b>	General public and undergraduate (graduate) students
<b>Education period</b>	January-December 2023, every other Wednesday, 14:00-16:00
<b>Main Details</b>	A financial lecture jointly operated by 13 major financial institutions in the Busan region to enhance the general public's financial knowledge and asset management proficiency.
<b>Participating organizations</b>	Busan Finance Center, Busan Branch of Financial Supervisory Service, Busan Branch of Korea Financial Investment Association, Korea Technology Finance Corporation, Busan International Finance Institute, Korea Exchange, Korea Securities Depository, Bank of Korea Busan Branch, Korea Asset Management Corporation, Korea Housing Finance Corporation, Marine Finance Center, BNK Busan Bank, National Pension Service Busan Regional Headquarters



2

## Busan Finance Museum Road Tour

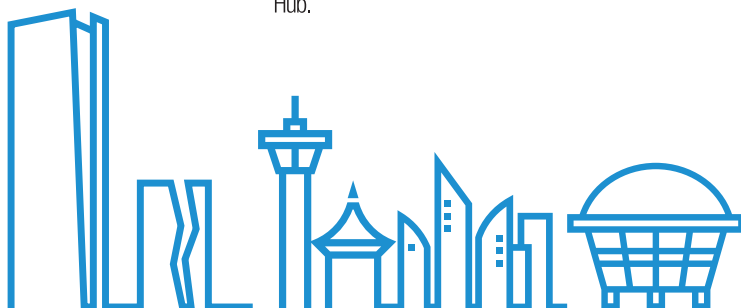
<b>Days of operation</b>	Every Thursday and Friday
<b>Tour places</b>	Busan Bank Financial History Museum, Korea Exchange Capital Market History Museum, Bank of Korea Currency Exhibition Hall, Korea Technology Finance Corporation Science and Technology Experience Hall
<b>Main Details</b>	As an educational donation project that allows children, teenagers and college students to acquire financial knowledge and the history of the capital market, the Busan Finance Museum Road Tour is an experiential learning financial program that connects four financial publicity and museums within the Busan International Finance Center (BIFC).



3

## The 1<sup>st</sup> Busan Financial Hub Development Council 2023

<b>Date</b>	February 24, 2023 at 12:00
<b>Participants</b>	Busan Metropolitan Government and (deputy) heads of 17 public institutions relocated to Busan
<b>Main Details</b>	The council aims to provide a place to share ideas about upcoming issues and facilitate public-private business exchange and cooperation in Busan Financial Hub.





4

## A forum for equitable national development and fostering Busan's financial hub

<b>Date/Venue</b>	April 24, 2023 at 14:00 ~ 16:00 / Conference Room, Yeouido National Assembly Members' Hall
<b>Organized/hosted by</b>	Kim Hee-gon, member of the National Assembly's Political Affairs Committee. Busan Metropolitan Government, Busan Finance Center
<b>Main Details</b>	It aims to establish a new avenue of growth for Korea through a paradigm shift for equitable national development and effective financial hub development by providing a forum for discussions on this topic.



5

## BFC Holds the 2<sup>nd</sup> Busan Financial Hub Supporters Launching Ceremony

<b>Date/Venue</b>	May 2, 2023 / Conference room, 53 <sup>rd</sup> floor, Busan Finance Center
<b>Activity period</b>	May - September 2023 (5 months)
<b>Main Details</b>	University students in the Busan region support internal and external PR activities of Busan financial hub by utilizing various SNS platforms.



6

## Ceremony for a Network Agreement

<b>Name of the Agreement</b>	The agreement for the "ESG project to support storm and flood damage insurance in the local community" through the economic cooperation network in the Busan financial hub
<b>Date of signing</b>	June 22, 2023
<b>Participating organizations</b>	Busan Metropolitan Government ↔ Korea Housing Finance Corporation ↔ Global Fintech Industry Promotion Center ↔ Busan Finance Center
<b>Main Details</b>	This joint cooperation project in the Busan Financial Hub features relocated public institutions nurturing local fintech companies on ESG management practices through economic cooperation.





## Introducing the Korea Securities Depository



**Korea Securities Depository, which will celebrate its 50<sup>th</sup> anniversary next year, has contributed to the development of the domestic capital market by providing stable investment infrastructure as a key infrastructure institution in the capital market.**

Since its establishment in 1974, Korea Securities Depository has expanded its services from the primary and secondary securities markets to the asset management market, short-term financial market, securities financing and global securities market.

As a comprehensive securities services company reaching its 50<sup>th</sup> anniversary, it safely manages securities worth KRW 6,400 trillion through electronic registration and other methods, efficiently handles the settlement of securities transactions, and faithfully manages the assets of investors by accurately exercising various securities rights.

In addition, by providing an efficient and stable innovative finance platform to various participants in the global capital market, as well as in Korea, we are striving to strengthen the foundation for the development of Korea's capital market and national economy.

---

**In order to develop new growth momentum in preparation for the next 50 years, we are also promoting numerous projects in 2023.**

**First, we are promoting the establishment of an innovative financial infrastructure for future growth.**

**1 Establishing a new vision and strategy for Korea Securities Depository**

As we reach the 50<sup>th</sup> anniversary of our founding next year, we review the current status of the company's overall management and prepare a new vision and promotion strategy in response to the rapidly changing business environment.

**2 Supporting and implementing a platform for the introduction of securities tokens**

In accordance with the government's plan to overhaul the regulatory framework for security tokens, our company, as an electronic registration institution, will be responsible for screening the registration of security tokens and managing total issuance volumes.

We will respond to changes in the digital asset market by supporting the institutionalization of security tokens, while establishing a business model and implementation plan for the security token platform.

**3 Building the next-generation system**

We will formulate a master plan for building a next-generation system that can flexibly respond to internal and external changes, such as the emergence of innovative financial services and creation of a smart work environment, and implement the plan in a phased approach.

#### 4 Accommodating the electronic registration of innovative financial products

We will expand electronic registration to accommodate trust beneficiary certificates of fractional investment products and support their institutionalization to aid government policy and new market expansion.

### Second, we support the government's policy projects and vitalization of the capital market.

#### 1 Implementing omnibus accounts for foreign investors of government bonds

We will build links with international central securities depositories (ICSDs) to implement an omnibus account system for government bonds to advance the government bond market and improve the investment environment for foreign investors of Korea Treasury Bonds and Monetary Stabilization Bonds.

#### 2 Building an administration system for government bond for individual investors

As an administrative agency processing funds and managing bond issuance, we will establish detailed operational procedures and implement a system in accordance with the revision of the National Bond Act.

#### 3 Accommodating expanded asset-backed securities information

In accordance with the revision of the Asset-Backed Securitization Act, we will participate in the task force for accommodate expanded asset-backed securities information, support the revision of sub-statutes, and establish an internal regulatory framework and an operations system.

#### 4 Promoting the Korea Overnight Financing Repo Rate (KOFRR)

We will create KOFRR-based derivatives markets and develop related spot products in line with the global trend of benchmark transition to risk-free reference rates (RFR) and the activities promoted by policymakers.

### Finally, we pursue sustainable management through ESG management practices.

#### 1 Strengthening the ESG management system by reorganizing the management structure

In order to practice ESG values, we expanded and reorganized the existing management unit into the ESG Management Department. We also established the ESG Management Committee under the Board of Directors to systematically promote ESG management strategies.

#### 2 Promoting eco-friendly projects and responding to climate change

We will reduce greenhouse gas emissions and respond to climate change by implementing net-zero carbon projects including the forest carbon offset project, sponsoring the 2023 Gangwon World Forest Expo, and conducting company-wide carbon-neutral green campaigns.


#### 3 Practicing the social value of sharing

In order to give back to society what we have gained from the capital market, we will provide support to underprivileged groups through the KSD Foundation, offer finance education and scholarship programs, and promote various social contribution activities through the company's dedicated organization.

#### 4 Providing opportunities for shared growth and co-prosperity

We will alleviate the regional imbalance in non-capital area startup ecosystem and promote job creation by continuously promoting projects such as K-Camp and BIGS to nurture small and medium-sized start-ups and venture companies.

#### 5 Pursuing the integrity of KSD

Finally, we will revamp our systems and organizations so that we can move toward becoming a principled and healthy organization by strengthening responsible management and internalizing ethical management. 

# Government Launches Youth Leap Bank Accounts

**KRW 700,000 per month, up to KRW 50 million in installment savings for five years**

The Youth Leap Bank Account, which supports the mid- to long-term asset formation of young people, will start operating from June 15. The Bank Account is a financial product that subscribers can freely pay within the limit of KRW 700,000 per month. Even if a payment in the interim is missed, the account is maintained with the maturity of 5 years. Government contributions will be matched depending on the individual income level and the amount paid by the person, and tax-free (interest income tax and special tax for rural areas) is provided to interest income.



## 1 Applying for Youth Leap Bank Account

Subscription applicants may check whether or not they can apply for the account at 11 banks\* from June 15 to June 23. They may also check for it non-face-to-face through the banks' app on business days (9:00 a.m. to 6:30 p.m.).

\* Nonghyup, Shinhan, Woori, Hana, Industrial Bank, Kookmin, Busan, Gwangju, Jeonbuk, Gyeongnam and Daegu Bank

\* Standard Chartered Bank Korea (formerly, SC First Bank) will join starting from January 2024.

Subscription applicants can check age requirements and whether or not they are eligible for comprehensive income taxation for finance income immediately upon application in the bank's app.

Without resorting to a face-to-face interview, the individual and household income requirements will be confirmed by the Korea Inclusive Finance Agency. The confirmation

of household income requirements will be made after receiving household members' consent to income inquiry after determining the household members based on the certified copy of resident registration. When all requirements are confirmed, the bank will inform the applicants whether or not they are eligible for application.

Youths who are notified that they can sign up can select one bank and open an account between July 10 and July 21 (one account per person\*).

\* They can check-out their eligibility at multiple banks, but you can only choose one bank to open an account.

**Note** Youth Leap Bank Account: Eligibility, Requirements, etc.

**1 Eligibility and requirements for registering for a Youth Leap Bank Account**

(Targets) Youth (19-34 years old\*, as of the date of account opening) who meet both individual and household income requirements

- \* In the case of military service completed, the period of military service (up to 6 years) is not included when calculating age
- \* Those who have been subject to comprehensive financial income taxation (when the sum of interest and dividend income exceeds KRW 20 million) at least once during the previous three years are restricted from signing up.

(Personal income requirements) If the before tax salary of the previous tax period\* (2022.1-12) is KRW 60 million or less\*\*, government contributions are paid and tax exemption is applied.

- \* Before the income of the previous tax period (2022.1-12) is finalized, personal income requirements and eligibility for signing up are determined based on the income of the previous year (2021.1-12).
- \*\* KRW 48 million or less based comprehensive income added to comprehensive income tax base

- Tax exemption is applied without payment of government contributions if the before tax salary of the previous taxable period exceeds KRW 60 million, but KRW 75 million or less\*.

- \* KRW 63 million or less based on comprehensive income added to comprehensive income tax base

(Household income requirements) The sum of household income including the applicant shall be 180% or less of the median income announced by the Ministry of Health and Welfare.

- \* Before the income of the previous tax period (202.1-12) is finalized, it is necessary to be 180% or less of the median income as of 2021, and after finalization, 180% or less of the median income as of 2022
- In principle, household members are determined as the spouse, parents, children, and minor siblings listed on the certified copy of resident registration of the applicant.
- \* Details related to household income verification, such as exceptions when determining household members, are provided on the website of the Korea Inclusive Finance Agency (<https://www.kinfa.or.kr>).

▶ The government will adjust individual income\* every year from the sign up date to determine whether or not contributions are paid and the amount thereof.

- \* Changes in household income are not reflected to prevent unexpected disadvantages due to changes in household members.

(Linked supports) Low-income applicants are allowed to concurrently sign up for Welfare products for stronger support while employees of small and medium-sized

enterprises are also allowed to concurrently sign up for employment support products.

- \* Youth Tomorrow Savings Account, Youth (Incumbent) Tomorrow Filling Account, local government welfare products, etc.

• Subsequent registration for a Youth Leap Bank Account is allowed after the maturity\* of the Youth Hope Savings.

- \* Including early termination (saving incentives are paid only when the conditions for special early termination of the youth hope savings account are met, and tax exemption is applied)

**2 Contribution Payment Structure and Early Termination of Youth Leap Bank Account**

(Basic structure) This is a 5-year installment savings product that subscribers can freely pay within the limit of KRW 700,000 per month, and the account is maintained even if a payment in the interim is missed.

(Details of support) Government contribution matching support and interest income tax exemption (interest income tax and special tax for rural areas) depending on the individual income level and the amount paid by the person

Contribution Payment Structure of Youth Leap Bank Account by Individual Income					
Personal income		Payment limit (per month)	Contribution pay limit (month)	Matching ratio of contributions	Contribution limit (per month)
Before tax salary	Comprehensive income*				
KRW 24 million or less	KRW 16 million or less		KRW 400,000	6.0%	KRW 24,000
KRW 36 million or less	KRW 26 million or less		KRW 500,000	4.6%	KRW 23,000
KRW 48 million or less	KRW 36 million or less	KRW 700,000	KRW 600,000	3.7%	KRW 22,000
KRW 60 million or less	KRW 48 million or less		KRW 700,000	3.0%	KRW 21,000
KRW 75 million or less	KRW 63 million or less		-	-	-

\* Comprehensive income added to comprehensive income tax base

(Early termination) For those who have reason for special early termination\*, government contributions in addition to their own payments are paid, and tax exemption benefits are also applied.

- \* As prescribed under the Act on Restriction on Special Cases Concerning Taxation: ① subscriber's death or overseas emigration, ② subscriber's retirement, ③ business closure, ④ natural disaster, ⑤ disease requiring long-term treatment, and ⑥ first home purchase

• Government contributions and tax exemption benefits will not be granted to those who do not have any special reasons for early termination, but re-registering is allowed\*.

- \* Re-registering is possible 2 months after the early termination.



## 2 Youth Leap Bank Account: Interest Rate

For youth leap bank accounts, a fixed rate is applied for the first 3 years after signing up, followed by a variable rate\* for the following 2 years. Variable interest rates will be set by combining the base rate at the time and the additional interest rate applied during the fixed interest period. If an individual before tax income is KRW 24 million or less\*\*, income + preferential interest rate (preferential interest rate for low-income families) is granted.

\* The details of the variable rate cycle, etc. applied during the variable interest rate period will be determined through further consultation between the participating banks.

\*\* When the individual before tax income that is added to the comprehensive income tax base is KRW 16 million or less.

The 11 handling banks announced the final interest rate for the youth leap bank account on the Consumer Portal of the Korea Federation of Banks (<https://portal.kfb.or.kr>, interest rate/fee comparison disclosure - deposit accounts interest rate comparison - youth leap bank account interest

rate). On the website, you can check the final basic interest rate (fixed rate applied for 3 years), income + preferential interest rate, preferential and additional interest rate for installment savings loans by bank. In particular, the preferential interest rates of each bank can be compared in detail by classifying them by type.

Assuming that the future base rate, which is difficult to predict, remains unchanged for five years, the account will have the same effect as signing up for 7.68% to 8.86%\*\* per annum of general installment savings (taxable products) per year due to government contributions and related interest income, and non-taxation of interest income. ↙

\* When signing up six general banks among the participating banks

\*\* Individual before tax income of KRW 36 million or less for 5 years: 7.01-8.19% per year

\*\* Individual before tax income of KRW 48 million or less for five years: 6.94-8.12% per year

\*\* Individual before tax income of KRW 60 million or less for five years: 6.86-8.05% per year

Note

Youth Leap Bank Account: Effects

**When a youth with a total annual salary of KRW 24 million or less for 5 years signs up for general installment savings**

**Youth Leap Bank Account<sup>1</sup>**

(Bank-provided interest rate during a fixed period of 3 years<sup>2</sup>  
Base interest rate 4.5% per annum + income + preferential interest rate 0.5% per annum<sup>3</sup> + preferential interest rate by bank 0.0-1.0% per annum<sup>4</sup>)

**General installment savings<sup>1</sup>**

(taxable)  
(interest rate 7.68-8.86% per annum)

※ Average interest rate for bank installment savings<sup>5</sup> 3.59% before tax (3.04% after tax)

**Total amount paid: KRW 42 million**  
(KRW 700,000 paid monthly for 5 years)

+

+

Bank interest on payments made (before tax)  
KRW 5.34 to 6.4 million

Bank interest (before tax)  
KRW 8.2 to 9.46 million

+

Government contributions and related interest (before tax)  
KRW 1.6 million

-

-

Interest income tax  
0 (tax free)

Interest income tax<sup>6</sup>  
KRW 1.26 to 1.46 million

**Amount received at maturity**  
**KRW 48.94 million to 50 million**

**When a youth with a total annual salary of KRW 36 million or less for 5 years signs up for general installment savings**

**Youth Leap Bank Account<sup>1</sup>**

(Bank-provided interest rate during a fixed period of 3 years<sup>2</sup>  
Base interest rate 4.5% per annum + preferential interest rate by bank 0.0-1.0% per annum<sup>3</sup>)

**General installment savings<sup>1</sup>**

(taxable)  
(interest rate 7.01-8.19% per annum)

※ Average interest rate for bank installment savings<sup>4</sup> 3.59% before tax (3.04% after tax)

**Total amount paid: KRW 42 million**  
(KRW 700,000 paid monthly for 5 years)

+

+

Bank interest on payments made (before tax)  
KRW 4.8 to 5.87 million

Bank interest (before tax)  
KRW 7.48 to 8.74 million

+

Government contributions and related interest (before tax)  
KRW 1.53 million

-

-

Interest income tax  
0 (tax free)

Interest income tax<sup>5</sup>  
KRW 1.15 to 1.34 million

**Amount received at maturity**  
**KRW 48.33million to 49.40 million**

1 Assuming payment of KRW 700,000 is made at the beginning of each month for 5 years; simple interest is applied.

2 Interest rates provided by banks may vary by subscription period and bank.

\*Assuming that the base rate during the 2-year floating rate period is the same as the current level (3.5%)

3 Preferential interest rate applied when total annual salary is KRW 24 million or less for 5 years (may differ by subscription period and bank)

4 Preferential interest rates can be provided only when different preferential conditions are met for each bank and at the time of subscription.

5 Based on new subscriptions as of April 2023 (Bank of Korea)

6 Assuming that the interest income tax rate is 15.4%

1 Assuming payment of KRW 700,000 is made at the beginning of each month for 5 years; simple interest is applied.

2 Interest rates provided by banks may vary by subscription period and bank.

\*Assuming that the base rate during the 2-year floating rate period is the same as the current level (3.5%)

3 Preferential interest rates can be provided only when different preferential conditions are met for each bank and at the time of subscription.

4 Based on new subscriptions as of April 2023 (Bank of Korea)

5 Assuming that the interest income tax rate is 15.4%

# Outlook for Derivatives Market in 2023

Director, Samsung Securities Research Center **Jun Gyun**



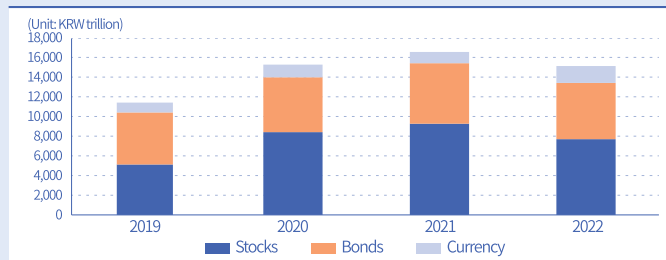
## Introduction

The year 2022 was a time when confusion in the global financial market had been extremely heightened since the COVID-19 crisis as the acceleration of the central bank's tight monetary policy and geopolitical risks overlapped. The global stock market had collapsed and the bond market had entered the so-called “New Normal” phase, escaping from the low interest rate status of the previous decades. All asset-specific volatility trended upward. Concurrent weakness in stocks and bonds, and a strong dollar amplified credit risk. In 2022, when weakness in the asset market and heightened volatility became commonplace, domestic and foreign derivatives markets showed different directions in development for each asset.

### 1 Exchange-traded Derivatives Market

Even in the highly volatile financial market environment of 2022, the domestic exchange-traded derivatives market was unexpectedly stagnant. According to the Korea Exchange (KRX), the trading amount of exchange-traded derivatives in 2022 was KRW 15.139 quadrillion, a decrease of 9% from KRW 16.688 quadrillion in 2021. The trading amount of equity (including stock index) derivatives in 2022 recorded KRW 7,665 trillion, down 18% from the previous year. The trading amount of bond derivatives in 2022 was KRW 5,816 trillion (down 6% from the previous year). In the currency derivatives market, KRW 1,658 trillion was traded, a 44% increase compared to 2021, as exchange rate volatility surged, including KRW/USD. In particular, trading amount of US dollar futures reached an all-time high.

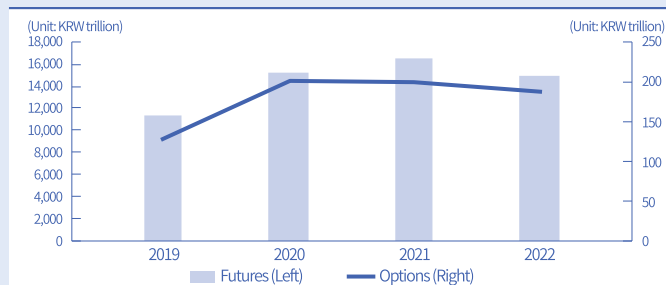
Figure 1. Trading amount of exchange-traded derivatives market by asset



Source: Monthly Statistical Bulletin, Korea Exchange

Looking at the trading volume of domestic exchange-traded derivatives by product, futures showed an increasing trend until 2021, but decreased slightly in 2022. The decline in equity (including stock index) futures trading was the main factor. Options have been stagnant after 2020. Despite the rise in volatility in 2022, slow equity (including stock index) option trading led to the sluggishness of options as well.

Figure 2. Trading amount of exchange-traded derivatives market by product



Source: Monthly Statistical Bulletin, Korea Exchange

The contraction in trading amount of domestic exchange-traded derivatives stemmed from a contraction in the spot market. The trading amount of domestic stock market in 2021 was KRW 6,766 trillion, but in 2022, it plummeted to KRW 3,191 trillion. Due to the accompanying bearish adjustment and rising volatility in the global stock market, the domestic stock spot market contracted, causing the derivatives market to be sluggish as well. In the bond spot market, the size of over-the-counter trading of government bonds also decreased by 17% from KRW 2,569 trillion in 2021 to KRW 2,123 trillion in 2022.

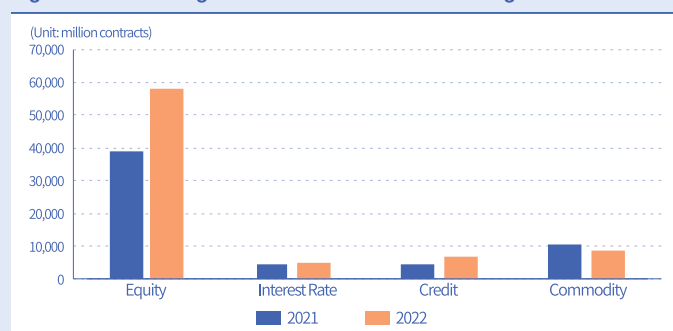
Along with the contraction of the spot market, the decrease in market liquidity due to the rise in market interest rates also contributed to the stagnation of the exchange-traded derivatives market. Customers’ settlement funds for stock trading decreased by 15% from a daily average of KRW 66.6 trillion in 2021 to KRW 56.7 trillion in 2022. In addition, the daily average of customers’ settlement funds deposited for



exchange-traded derivatives trading was KRW 11.9 trillion in 2022, failing to increase from the 2021 level.

According to the World Federation of Exchanges (WFE), the global exchange-traded derivatives market in 2022 reached an all-time high in terms of trading volume. This is the result of an increase in hedging and speculation trading due to turmoil and rising volatility in the global financial market. In particular, options trading on emerging Asian exchanges, such as India, exploded. While trading in commodity products was sluggish, trading in stocks and currency products surged, but bond products recorded a modest increase.

**Figure 3. Trends in global derivatives market trading volume**



Source: World Federation of Exchanges

## 2 OTC Derivatives Market

In 2022, domestic financial institutions' OTC derivatives transactions (excluding credit) increased by 41% from KRW 17 quadrillion in 2021 to KRW 24 quadrillion. Transactions in interest rates and foreign exchange products exploded, with interest rate swaps and interest rate forwards increasing by 76% and 124%, respectively, compared to 2021. Foreign exchange forwarding and currency swaps also increased by 23% and 57%, respectively, compared to 2021. This is the result of the active use of related derivatives to respond to a surge in interest rates and a strong dollar in the global bond market in 2022.

On the other hand, stock transactions decreased compared to 2021. This is due to a decrease in issuance of derivatives-linked securities and the stagnation of the stock market. In particular, stock swaps decreased by 22% from KRW 140 trillion in 2021 to KRW 109 trillion in 2022. Stock swap transactions, which are the main means of back-to-back (B2B) trading of derivatives-linked securities, contracted in 2022 in conjunction with the decrease in issuance of derivatives-linked securities.

**Table 1. Transaction amount of domestic OTC derivatives market**

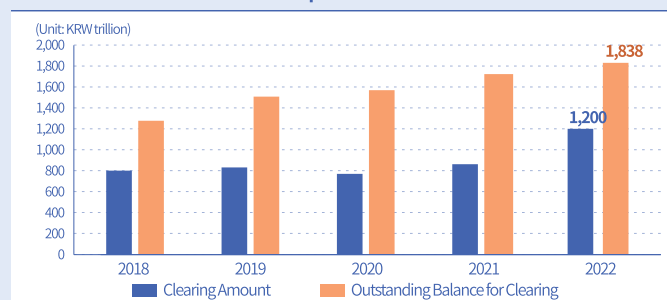
(Unit: KRW trillion)	Stock	Interest Rate	Foreign Exchange	Commodity	Total
2019	194	3,706	13,295	20	17,215
2020	193	3,524	13,250	26	16,993
2021	194	4,121	13,776	43	18,134
2022	213	7,255	17,030	49	24,547

Source: Financial Statistical Information, Financial Supervisory Service

Although banks occupy an overwhelming portion of the OTC derivatives market in terms of transaction volume and outstanding balance, the participation of securities companies in the OTC derivatives market is gradually increasing. As of the end of 2022, the amount of outstanding OTC derivatives (excluding credit) accounted for KRW 9,667 trillion for banks and KRW 1,993 trillion for securities companies. Compared to the end of 2021, the bank's outstanding OTC derivatives increased by only 6%, while outstanding OTC derivatives of securities companies increased by 14%. With the expansion of securities companies into the foreign exchange market as well as stock and bond markets, the utilization of related OTC derivatives has increased as well.

In 2022, the amount of KRW interest rate clearing at the Central Counterparty (CCP) for the domestic OTC derivatives reached a record high of KRW 1,200 trillion. The outstanding balance for clearing was close to KRW 2,000 trillion. In the five years since it exceeded KRW 1,000 trillion in 2017, the clearing amount has doubled. Amid a surge in transactions of interest rate OTC derivatives in 2022, demand for hedge transactions through interest rate swaps increased significantly, and central clearing through CCP has also reached a record high.

**Figure 4. Clearing amount and outstanding balance of KRW-denominated interest rate swaps**



Source: Korea Exchange

The increase in domestic OTC derivatives transaction volume naturally led to an increase in OTC derivatives transaction performance reported in the Trade Repository (TR). The domestic TR started its operations in April 2021 to aggregate transaction information on OTC derivatives related to interest rates and currencies. From 2022, the reporting targets were expanded to all product groups, including stocks and credit. It was amid this setting that we saw an increase in the number of reports of stocks, credit, and commodities in 2022 compared to 2021.

**Table 2. Number of outstanding KRX-TR OTC derivatives by underlying asset**

(Unit: Contracts)	Interest Rate	F/X	Equity	Credit	Commodity
2021	456,467	182,750	276	21	35
2022	467,313	192,126	75,508	1,363	2,941
Increase or decrease	10,846	9,376	75,232	1,342	2,906

Source: Korea Exchange

The global OTC derivatives market also showed an increasing trend centering on foreign exchange and interest rate derivatives. The transaction amount of foreign exchange derivatives increased by \$3 trillion, and interest rate derivatives by \$15 trillion, respectively, compared to 2021. On the other hand, equity derivatives slightly decreased compared to 2021, as in Korea.

**Table 3. Transaction amount of global OTC derivatives (notional amounts outstanding)**

(Unit: \$ billion)	F/X	Interest Rate	Credit	Equity
2020 1H	93,811	495,141	9,050	6,457
2020 2H	97,549	466,494	8,649	7,084
2021 1H	102,471	488,098	9,121	7,506
2021 2H	104,249	475,271	9,061	7,280
2022 1H	109,587	502,586	9,542	6,988
2022 2H	107,576	490,626	9,941	6,919

Source: BIS

In 2022, in the global OTC derivatives market, exposure to systemic risks due to unexpected variables frequently occurred. A typical example was the UK pension fund's LDI (Liability Driven Investment), linked to interest rate swaps. In the second half of 2022, British Gilt bonds surged due to the British government's sudden fiscal policy proposal, and

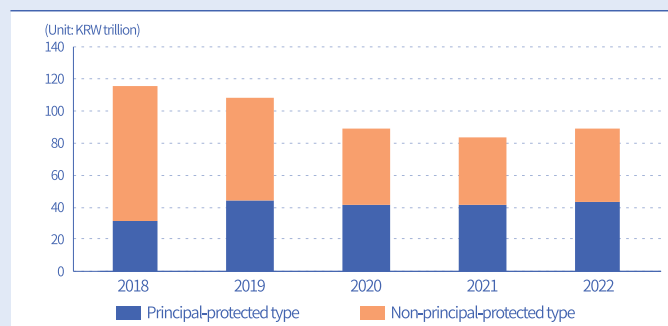
a chain reaction caused a shortage of a margin in LDI, the main investment strategy of British pension funds. British pension funds, which made leveraged investments through interest rate swaps, experienced a margin call due to the rise in bond yields, which even led to the resignation of the British government's cabinet.

### 3 Structured Financial Products Market

The issuance amount of derivatives-linked securities (ELS, DLS), were KRW 74 trillion. As the issuance amount decreased by 17% compared to KRW 89.1 trillion in 2021, the global financial market turmoil in 2022 resulted in avoidance of investment in derivatives-linked securities. Although the issuance of derivatives-linked securities decreased, the outstanding balance increased, mainly in non-principal-protected products, due to the sluggish stock market.

The amount of outstanding derivatives-linked securities increased from KRW 83 trillion at the end of 2021 to KRW 89 trillion at the end of 2022. If the redemption volume of derivatives-linked securities decreases due to a contraction in the financial market, their issuers may face an increase in hedging costs and exposure to tail risk. However, since the ELS margin call incident in 2020, there has been no case in which liquidity/credit risks of derivatives-linked securities issuers have emerged in 2022 due to financial authorities' strengthening of administrative regulations.

**Figure 5. Amount of outstanding principal-protected and non-principal protected derivatives-linked securities**



Source: Korea Securities Depository, Samsung Securities

### 4 Market Outlook for 2023 and Inspection Points

In 2023, the global financial market is experiencing a temporary subdued volatility in the first half of the year due to expectations of changes in the monetary policy stance of the central bank of each country. A reversal in market interest rates has led to a revaluation of technology growth

stocks, and some cyclical sectors are showing strength due to expectations of an imminent economic bottoming out.

However, with the disappearance of “easy money” and the high inflation/high interest rate environment, the economic fundamentals have weakened and credit risk is still high. As cracks occur in the banking system at home and abroad, and economic recession concerns remain unresolved, there is a risk of a chain reaction of volatility in the asset market due to unexpected variables. Frequent spikes in volatility may occur in the global financial market until vulnerabilities in the overall economy are resolved. Thus, the trading volume of the derivatives market in 2023 is highly likely to exceed the 2022 level.

Looking at the domestic exchange-traded derivatives, as of the end of May 2023, KRW 5,800 trillion was traded, which is about 39% of the annual transaction amount in 2022. Demand for hedging transactions using derivatives is relatively sluggish in the first half of 2023 due to the stabilization of market interest rates, the rebound of the stock market, and the calming of the strong dollar. However, in the second half of 2023, the overall financial market volatility is highly likely to rise due to the intensity and timing of the economic recession, rising credit risk in weak links, and heightened volatility in the foreign exchange market following the policies set out by each country's central bank. A market environment in which market response using derivatives can be more active will be created.

As the economic advantages of using derivatives are highlighted, investors' demand will become more diverse. In response to this, the KRX, in its 2023 business plan (“Korea Exchange Core Strategy for a Higher Leap in the Capital Market,” announced in January 2023), proposed: ① early opening of the derivatives market and ② the expansion of the derivatives product lineup to meet the risk-hedging demand to boost the domestic derivatives market.

Overseas derivatives markets open 15 to 30 minutes early or trade 24 hours a day, so price discovery and liquidity are advantageous. The domestic stock-related exchange-traded derivatives market is also scheduled to open 15 minutes earlier than the opening time of the spot market (09:00 am) from the end of July 2023. The early opening of the derivatives market will contribute to mitigating volatility in the early stage of the opening of the spot market, as it will be possible to proactively recognize and respond to the results


of the financial markets in the US and Europe.

To expand the derivatives product lineup, KRX proposed new listings of ultra-long-term government bond futures, expansion of underlying assets of individual stock futures and options, and the additional listing of KOSPI200 weekly options. In a situation where the issuance of ultra-long-term bonds is gradually increasing, the listing of ultra-long-term government bond futures will provide an opportunity to utilize various investment strategies using derivatives including hedging transactions. For individual stock futures and options, it plans to increase the current 170 underlying assets to a level that can cover the market representative index to meet investors' demand.

In the case of KOSPI200 Weekly Options, which are currently listed with products maturing on every Thursday, it plans to expand the product lineup to respond immediately to major events by listing additional products with a maturity on every Monday in the future. The KRX's measures to boost the domestic derivatives market are expected to contribute to reinforcing the dynamics and liquidity of the market.

On the other hand, if the financial market turmoil intensifies again, the risk of systemic risk related to derivatives may also spread. In particular, it is necessary to pay attention to financial system risk factors associated with OTC derivatives, for which transaction information is relatively opaque.

The incident of contracts for difference (CFD) of domestic stocks from a foreign securities company in the first quarter of 2023 showed a similar pattern to “large-scale liquidation sales due to a lack of collateral for leveraged over-the-counter derivatives (CFD, TRS) transactions” during the Archegos Capital hedge fund crisis in 2021. This incident is a case in which unfair trade using CFDs was exposed, showing that the risk management of financial investment companies has not been sufficient.

While dealing with the CFD crisis, the financial authorities strengthened investor protection measures by ① enhancing information transparency, such as outstanding balance and TR reporting; ② strengthening risk management, such as limit management; and ③ establishing new OTC derivatives trading requirements for professional investors. The CFD incident mentioned above raised awareness about the need to strengthen transaction transparency and eradicate unfair trade in relation to OTC derivatives. 

# APPENDIX INFO

- General Status of Busan
- General Status of Financial Institutions Located in Busan
- General Status of Busan Financial Hub
- Institutions Residing in BIFC
- BIFC Incentive System



## General Status of Busan

	Standard	Unit	Figure	Proportion to whole country(%)
--	----------	------	--------	--------------------------------

### GRDP size

Busan	Provisional value for 2021, gross regional product	Billion won	98,652	4.8
Busan-Ulsan-Gyeongnam		Billion won	288,409	13.9
National total		Billion won	2,076,254	100.0

### GRDP by industry in Busan

Agriculture, forestry and fishery	Provisional estimates for 2021, Regional Gross Value Added	%	0.5	1.2
Mining and manufacturing		%	16.4	2.8
Construction		%	5.8	4.9
Services (finance and insurance)		%	75.8(7.1)	5.8(5.2)
Electricity, gas and steam industries		%	1.5	6.3

### GRDP by industry in Busan-Ulsan-Gyeongnam

Agriculture, forestry and fishery	Provisional estimates for 2021, Regional Gross Value Added	%	1.8	12.5
Mining and manufacturing		%	35.7	17.4
Construction		%	5.0	12.0
Services (finance and insurance)		%	55.7(4.9)	12.0(10.1)
Electricity, gas and steam industries		%	1.8	20.5

### Container throughput

Busan	Middle of 2022	1000 TEU	22,078	76.6
National total			28,822	100

### Living environment(Busan)

Area	End of 2022	km <sup>2</sup>	770	0.8
Population	End of 2022	Number of people	3,367,246	6.5
Temperature	Average of 2022	°C	15.4	
Rainfall	Average of 2022	mm	991.9	

### Foreigner related(Busan)

Foreign residents	End of 2022	Number of people	49,434	
International schools	End of 2022	Number of unit	6	
Foreign tourists	End of 2022	Number of people	482,305	

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

## General Status of Financial Institutions Located in Busan<sup>1)</sup>

(Unit: Number of Institutions)

Institution Name	As of the End of 2021	As of the End of 2022	Increase
<b>TOTAL</b>	<b>1,977</b>	<b>1,927</b>	<b>-50</b>
<b>Depository Bank</b>	<b>495</b>	<b>477</b>	<b>-18</b>
<b>Commercial Bank</b>	<b>379</b>	<b>364</b>	<b>-15</b>
<b>Nationwide Commercial Bank</b>	<b>184</b>	<b>173</b>	<b>-11</b>
Woori Bank	44	42	-2
Standard Chartered Bank	13	12	-1
KB Kookmin Bank	53	51	-2
Citibank Korea	2	2	0
Shinhan Bank	35	29	-6
KEB Hana Bank	37	37	0
<b>Local Bank</b>	<b>192</b>	<b>189</b>	<b>-3</b>
DGB Daegu Bank	5	5	0
BNK Busan Bank	177	174	-3
Jeju Bank	1	1	0
BNK Kyongnam Bank	9	9	0
<b>Branch of Foreign Banks</b>	<b>3</b>	<b>2</b>	<b>-1</b>
Yamaguchi Bank	1	1	0
Industrial & Commercial Bank of China	1	1	0
Metro bank	1	0(withdrawal)	-1
<b>Specialized Bank</b>	<b>116</b>	<b>113</b>	<b>-3</b>
Industrial Bank of Korea	41	39	-2
Korea Development Bank	60	59	-1
National Agricultural Cooperative Federation	12	12	0
National Federation Fisheries Cooperatives	3	3	0
<b>Non-bank Financial Institution</b>	<b>1,482</b>	<b>1,450</b>	<b>-32</b>
Korea Exim Bank	1	1	0
Trust Company <sup>2)</sup>	555	537	-18
Asset Management Company <sup>3)</sup>	573	558	-15
Mutual Savings Banks	28	27	-1
Credit Union <sup>4)</sup>	47	47	0
Mutual Savings and Finance Union <sup>4)</sup>	22	24	2
Community Credit Cooperative <sup>4)</sup>	140	140	0
Korea Post Office <sup>5)</sup>	116	116	0

Notes

1) As of the End of 2022  
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



## 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)
- In January 2009, Busan was designated as a financial hub specialized in marine and derivative finance, and Seoul as a comprehensive financial hub.

### ■ Busan International Finance Center (BIFC)

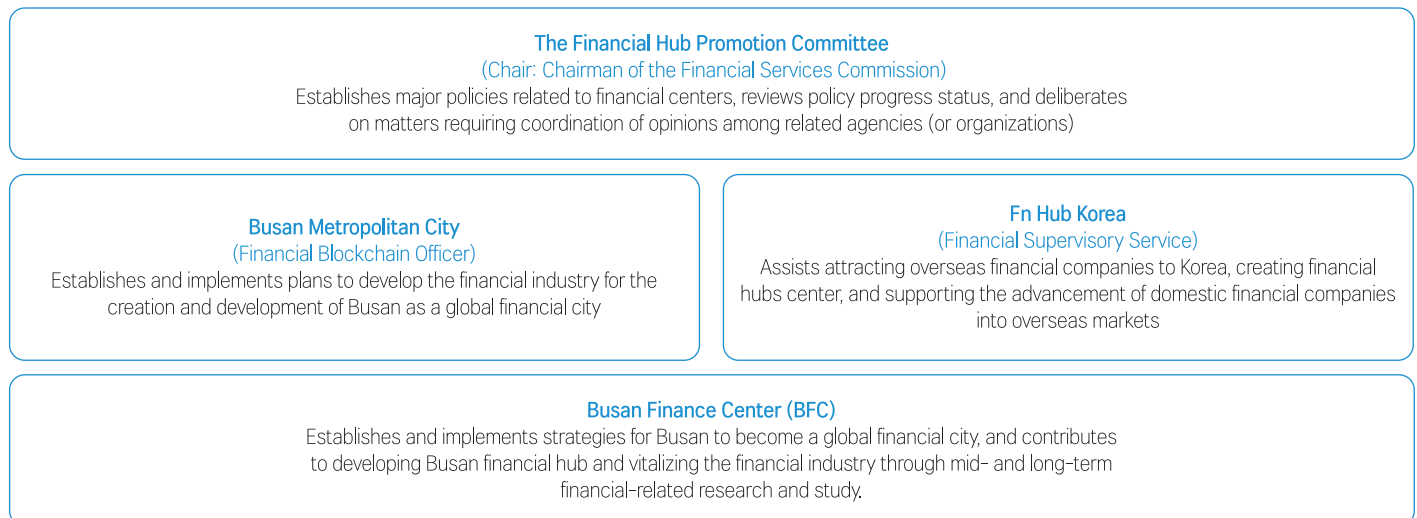
- Location : 40 Munhyeongeumyung-ro, Namgu, Busan, Korea
- Land Space : 102,352m<sup>2</sup>
- Complex development

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

- 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 Finance Center



## 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<sup>rd</sup> floor) 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 2<sup>nd</sup> phase of Busan International Finance Center
- November 2018, Completed BIFC Phase 2 construction
- July 2020, Launched Busan Finance Center
- In May 2021, BFC joined as an official member of the international network of the Financial Centres for Sustainability “FC4S”.
- In March 2022, construction of the third phase of the Busan International Finance Center began.

### • 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 IOIMA (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 tax or individual income tax: will be extended until December 31, 2023 (Article 121-21 Paragraphs 1 and 2 of the Restriction of Special Taxation Act), Acquisition tax: will be extended until December 31, 2023 (Article 14 Paragraph 1 of the Municipal Tax Reduction Ordinance)

\*\* 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

As of April 2023

### • 63 Story Complex Building

63	Citibank Korea	2
	BMI Group	1
	Yozma	1
62~56, 55, 51~50	KOREA EXCHANGE	496
55	IBK Changgong	20
53	KAMCO Ship Investment Management Financial Action Task Force	15
52	Busan Finance Center	13
	Shinhan Bank	5
	Busan International Finance Institute	2
	Busan Office of Korea Financial Investment Association	7
	Busan Center of Koscom	2
	Korean Commercial Arbitration Board, Asia-Pacific Maritime Arbitration Center	2
40~47, 3	Korea Asset Management Corporation	610
63, 54, 39~36, 5	Korea Securities Depository	395
30~35, 4	Korea Southern Power	482
27~23, 13~12, 7	Korea Housing Finance Corporation	680
22	Korea Development Bank	23
22~21, 9	Busan Techno Park	32
21	Korea Trade Insurance Corporation	13
20	Korea Exim Bank	40
19, 11~10, 6	Korea Housing & Urban Guarantee Corporation	440
14	Korea Credit Guarantee Fund	50
9	BNK Busan Bank	6
	Korea Securities Finance Corp.	6
	International Plant-quarantine Accreditation Board	20
8	B-SPACE	80
2	NongHyup Bank	10
	Woori Bank	12
	HF Bogeumjari Daycare Center	
	Blue Sea Daycare Center	
1	BIFC Daycare Center	

### • IFC BUSAN

11	Global FinTech Industry Promotion Center	5
7~10	Korea Asset Management Corporation	149

### • Independent Premises

Korea Technology Finance Corporation 15 floors above ground and 2 floors below ground	331
The Bank of Korea Busan Branch 4 floors above ground and 1 floor below ground	71
BNK Busan Bank 23 floors above ground and 3 floors below ground	933

## 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 <sup>1)</sup> Income Tax <sup>1)</sup>	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 <sup>1)2)</sup>		100% tax exemption for 3 years from the first date when tax liability is formed		Not applicable	
Acquisition Tax <sup>3)</sup>		Acquisition tax will be exempted for the assets acquired by startup (or establishment) until 31 Dec. 2023		Not applicable	
Entrance Subsidy <sup>4)</sup>	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 <sup>4)</sup>	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 <sup>4)</sup>	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 <sup>4)</sup>	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 <sup>1)</sup> Income Tax <sup>1)</sup>	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 <sup>1)2)</sup>		100% tax exemption for 3 years from the first date when tax liability is formed		Not applicable	
Acquisition Tax <sup>3)</sup>		Acquisition tax will be exempted for the assets acquired by startup (or establishment) until 31 Dec. 2023		Not applicable	
Entrance Subsidy <sup>4)</sup>	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 <sup>4)</sup>	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 <sup>4)</sup>	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 <sup>4)</sup>	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

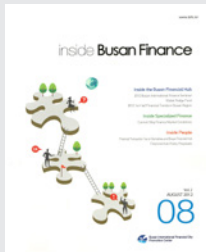
4) Ordinance of the Busan Metropolitan City Financial Industry Cultivation (Article 5, 6, 7, 8, 12)



# inside Busan Finance Previous issues



Vol.1 May 2012



Vol.2 August 2012



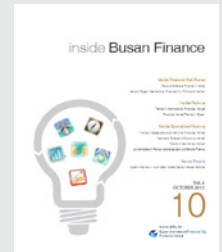
Vol.3 December 2012



Vol.4 April 2013



Vol.5 July 2013



Vol.6 October 2013



Vol.7 January 2014



Vol.8 April 2014



Vol.9 July 2014



Vol.10 October 2014



Vol.11 January 2015



Vol.12 May 2015



Vol.13 August 2015



Vol.14 November 2015



Vol.15 December 2015



Vol.16 June 2016



Vol.17 October 2016



Vol.18 December 2016



Vol.19 August 2017



Vol.20 December 2017



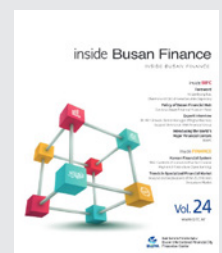
Vol.21 August 2018



Vol.22 December 2018



Vol.23 October 2019



Vol.24 December 2019



Vol.25 December 2020



Vol.26 June 2021



Vol. 27 December 2021



Vol. 28 June 2022



Vol. 29 December 2021

# World EXPO 2030 BUSAN, KOREA

In 2030, Busan will be a city for the world.  
Transforming Our World, Navigating Toward a Better Future.

For centuries, the city of Busan has been a beacon pointing the way forward for Korea.  
Now, Busan aims to take a greater leap and become the financial hub of Asia with  
World EXPO 2030 and Busan International Finance Center (BIFC).



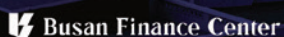
## 63rd Floor, the Apex of BIFC

Busan Metropolitan City offers up to 25 years of free long-term lease for foreign financial institutions on part of the top floor (63rd) of Busan International Finance Center (BIFC).

- Total 521m<sup>2</sup> of office space available for rent on the 63<sup>rd</sup> floor of BIFC
- Lease contract renewed every three years after evaluation, for up to 25 years

There are also attractive incentive packages including tax exemption and subsidies.

For more information, please visit [www.kbfc.or.kr/eng](http://www.kbfc.or.kr/eng)  
and 3D virtual tour for 63rd free office <https://my.matterport.com/show/?m=czPqrpCjJ7e>



Contact [info@kbfc.or.kr](mailto:info@kbfc.or.kr)