

MEMO# 7977

June 14, 1996

TREASURY REQUEST FOR INSTITUTE VIEWS ON KOREAN MARKET ACCESS

URGENT ACTION REQUESTED June 14, 1996 VIA FAX TO: INTERNATIONAL COMMITTEE No. 18-96 RE: TREASURY REQUEST FOR INSTITUTE VIEWS ON KOREAN MARKET ACCESS

In connection with multilateral negotiations over Korea's application for membership in the Organization for Economic Cooperation and Development (OECD), Treasury Department officials have asked for our views on Korea's plan to gradually open its domestic investment advisory and mutual fund markets to participation by foreign firms. Treasury would like to know whether any of the measures would assist US firms in gaining market access in Korea and, if the measures are deficient, what are the most important ways they should be improved to provide meaningful access for US firms. We understand that Korea's plan to open its market would include the following:

- 1) Access Through Branches As of January 1996 a foreign firm may enter Korea's investment advisory and investment trust management markets by establishing a branch in Korea. The market needs test for entering the investment trust management business will be eliminated for branches of foreign firms after January 1997. To establish a branch, a foreign firm must have had a representative office in Korea for at least one year. The requirement for a representative office will be eliminated in January 1997 for investment advisory branches and in December 1998 for investment trust management company branches. In addition, to establish a branch office, a foreign firm must have assets under management of at least 14 trillion won (about \$17 billion), cannot have been sanctioned by its home-country regulators during the last three years, must have no accumulated loss, and cannot have any company in its same business group which holds a 10% or more equity participation in a domestic Korean investment trust management company. A foreign branch must have operating funds of 5 billion won (\$6.3 million) to engage in the investment trust management business or 300 million won (\$376,000) to engage solely in the investment advisory business. A foreign branch engaging in the investment trust business must have at least 7 employees specialized in investment management.
- 2) Access Through an Equity Interest in an Existing Korean Company As of January 1996 foreign firms may own up to a 49% equity interest in an existing Korean investment advisory or investment trust management firm. A single foreign company may hold no more than a 10% participation. In December 1997 the aggregate foreign limit will increase to 100% and the limit on participation by a single foreign firm will increase to 30%. To be eligible to acquire an equity interest in such a Korean company, a foreign firm must have been engaged in the business of investment management continuously for the last 10 years, not have been sanctioned by its home-country regulator during the last three years, and not have any accumulated loss.
- 3) Access Through a Joint Venture Joint venture investment trust management companies can be established after December 1996. Foreign and domestic partners each cannot own more than 30% of the

shares of the joint venture. The aggregate cap on all foreign holdings in the joint venture of 49% will be abolished in December 1998. The largest foreign joint venture partner must have been engaged in the investment management business for at least 10 years and have assets under management of at least 13 trillion won (\$16 billion). The minimum capital for a joint venture is 30 billion won (\$37 million), the same as the minimum capital for a new domestic investment trust management company. 4) Access Through a Wholly-owned Subsidiary Beginning in December 1998 a foreign firm will be able to establish wholly owned subsidiaries in Korea to enter the investment advisory or investment trust management businesses. Please provide any comments you have by to me by COB Monday, June 17 by phone at 202 326-5826 or by fax at 202 326-5839. Mary S. Podesta Associate Counsel - International

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