

# Market booms and busts

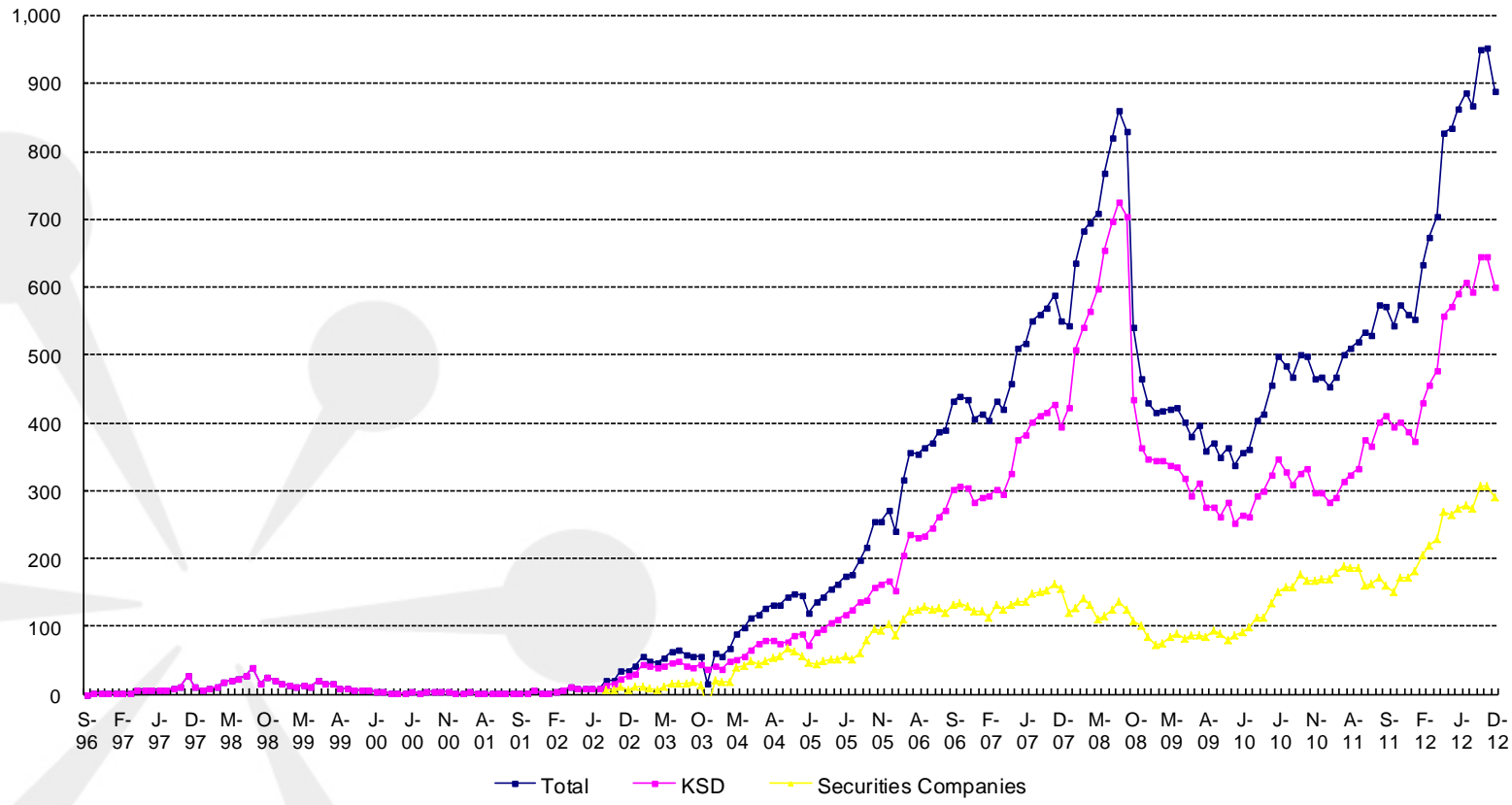
## -A SLB Default Case-

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**Korea Securities Depository**

- ❑ SLB market opened (August 1996)
  - KSD is firstly authorized as SLB intermediary
- ❑ SLB by Foreign investors was allowed (July 1998)
- ❑ KSFC (Korea Securities Finance Cooperation) and securities companies are allowed to act as SLB intermediary in 2000.
- ❑ Securities borrowing by indirect investment vehicles and banks was allowed (May 2006)
- ❑ Borrowing Limit for foreigners increased to KRW 50 billion (Dec. 2007)
  - Foreigners who intend to borrow securities exceeding KRW 50billion from local investors, they should report to the BOK in advance
- ❑ Foreign currency and foreign securities are added to eligible collateral for SLB transaction (Jan. 2008)

## <SLB Balance>

(million shares)



## □ Market Participants

- Lenders : Institutional investors including investment-trust companies, banks, insurance companies, mutual funds and pension funds, foreign investors
- Borrowers : Securities companies, foreign investors, etc.
- SLB Intermediaries : KSD, KSFC, Securities companies

## □ Eligible Securities

- KRX(Korea Exchange) listed stocks & bonds, ETFs, etc.

## □ Disclosure

- Reporting to KOFIA(Korea Financial Investment Association) and FSS(Financial Supervisory Service)

# KSD SLB - Transaction Type



Division	Settlement Coverage	Bid-Offer	Arranged	Customized
<b>Objective</b>	Fail coverage	Investment strategy		
<b>Period</b>	3 business days	1 year		
<b>Fee rate</b>	Bid-offer(25% max)	Bid-offer	Decided between trade parties	
<b>Collateral rate</b>	100~110% according to participants credit rate			Mutual agreement
<b>Pledgee</b>	KSD			Lender
<b>Early Termination</b>	Only for borrower	<ul style="list-style-type: none"> <li>- Both borrower and lender</li> <li>- In case of recall, the borrower must return the shares within 3 business days (4 business days for recalls after 12:00p.m.)</li> </ul>		
<b>Rollover</b>	<ul style="list-style-type: none"> <li>- Application and consent 3 business day prior to the maturity date</li> <li>- In settlement coverage transactions, application and consent is possible until the maturity date</li> </ul>			
<b>Partial Return</b>	Possible			

## ❑ Collateral Ratio

- Collateral ratio is determined at the level of 105% for all types of SLB transactions (except for customized transactions)

## ❑ Pledgee

- Customized Transactions: Lender
- Bid-offer, settlement coverage, arranged transactions: **KSD**

## ❑ Eligible Collateral and Evaluation Rate

- KOSPI 200 Constituent stocks : 80% of previous day's closing price
- Listed Bonds : 95% ~ 100% of market price(according to issuer and credit rate)
- ETFs : 70% of previous day's closing price
- Cash : 100%(Rebate is paid to borrower)

## ❑ Marking-to-market

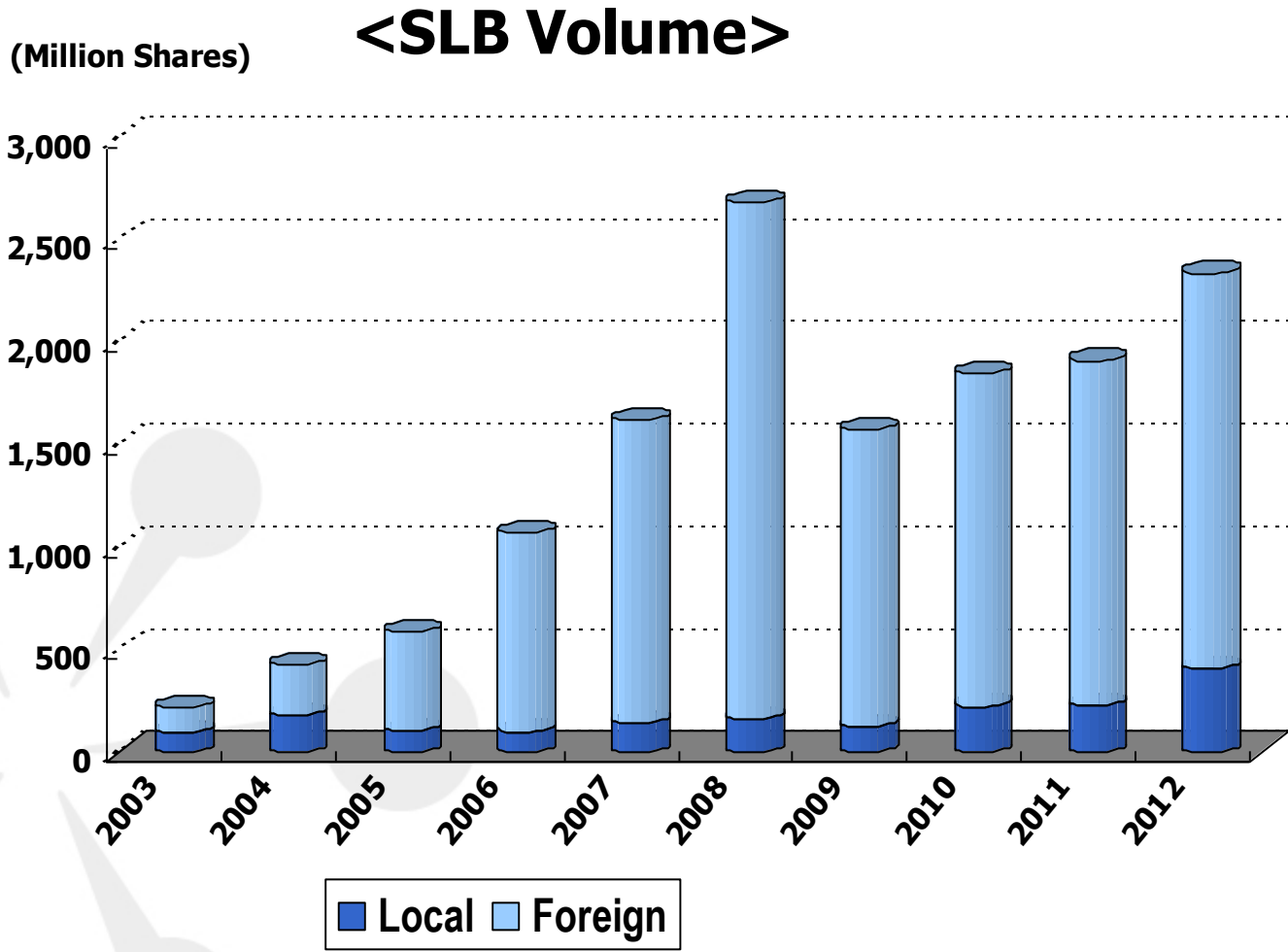
- Collateral is marked-to-market daily to account for the changes in the price of the loan securities and collateral securities

## ❑ Default Events

- The borrower is unable to return the loan securities or deliver the entitlements derived from the loaned securities
- The borrower is unable to supplement insufficient collateral

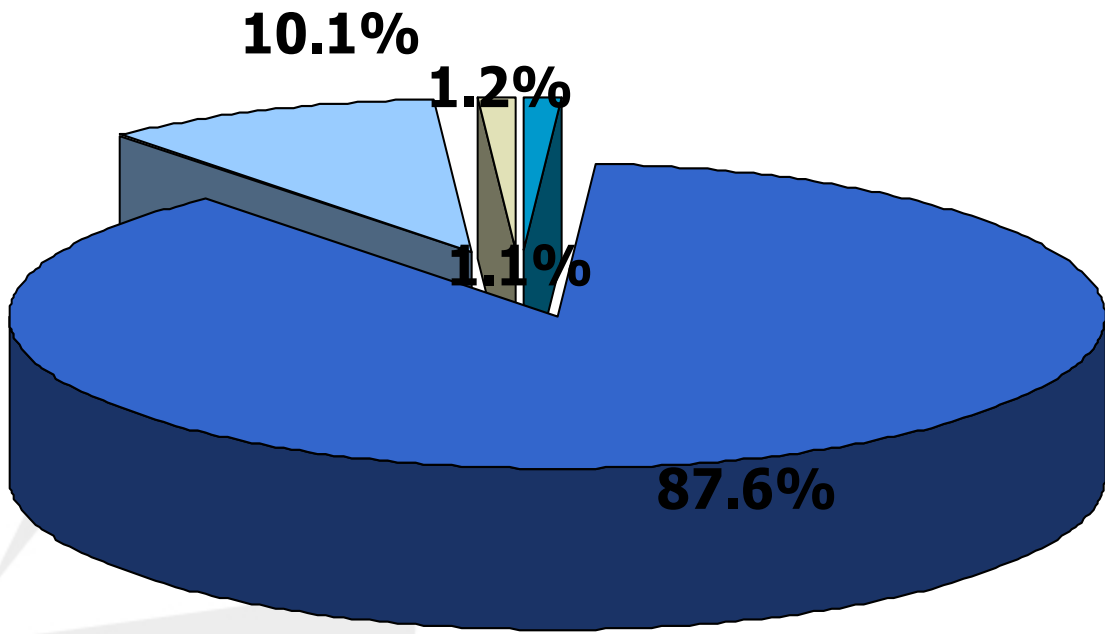
## ❑ Default Rules

- Customized Transactions : The lender liquidates the collateral to cover the loss
- Bid-offer, Arranged and Settlement Coverage Transactions : KSD liquidates the collateral to settle the transaction, and afterwards claims indemnification from the borrower



Year 2012

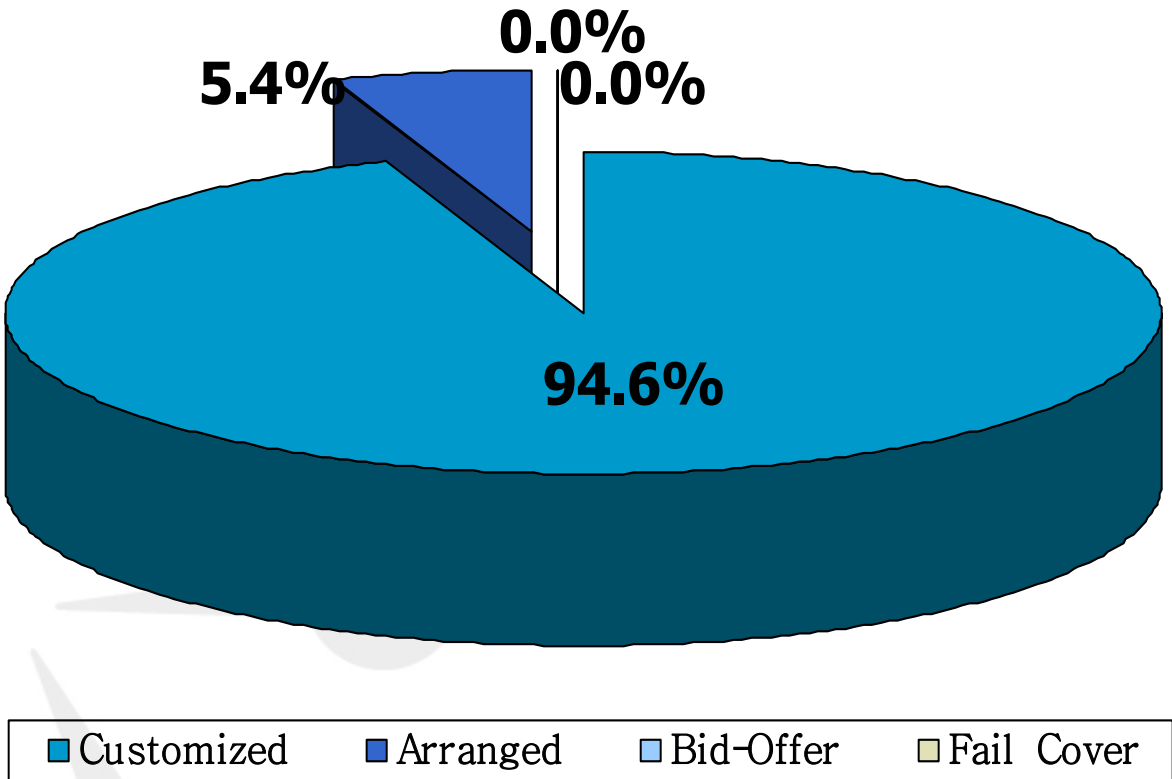
## <Local Investors>



■ Customized   ■ Arranged   ■ Bid-Offer   ■ Fail Cover

Year 2008

## <Foreign Investors>



## <Details of Default>

Transaction Types	No. of Names	Volume (thousand shares)	Value (million USD)	Other (Vicarious performance)
Bid-offer	28	1,651	85	KSD
Arranged				
Customized		54,349	2,277	None
Total	-	56,000	2,362	

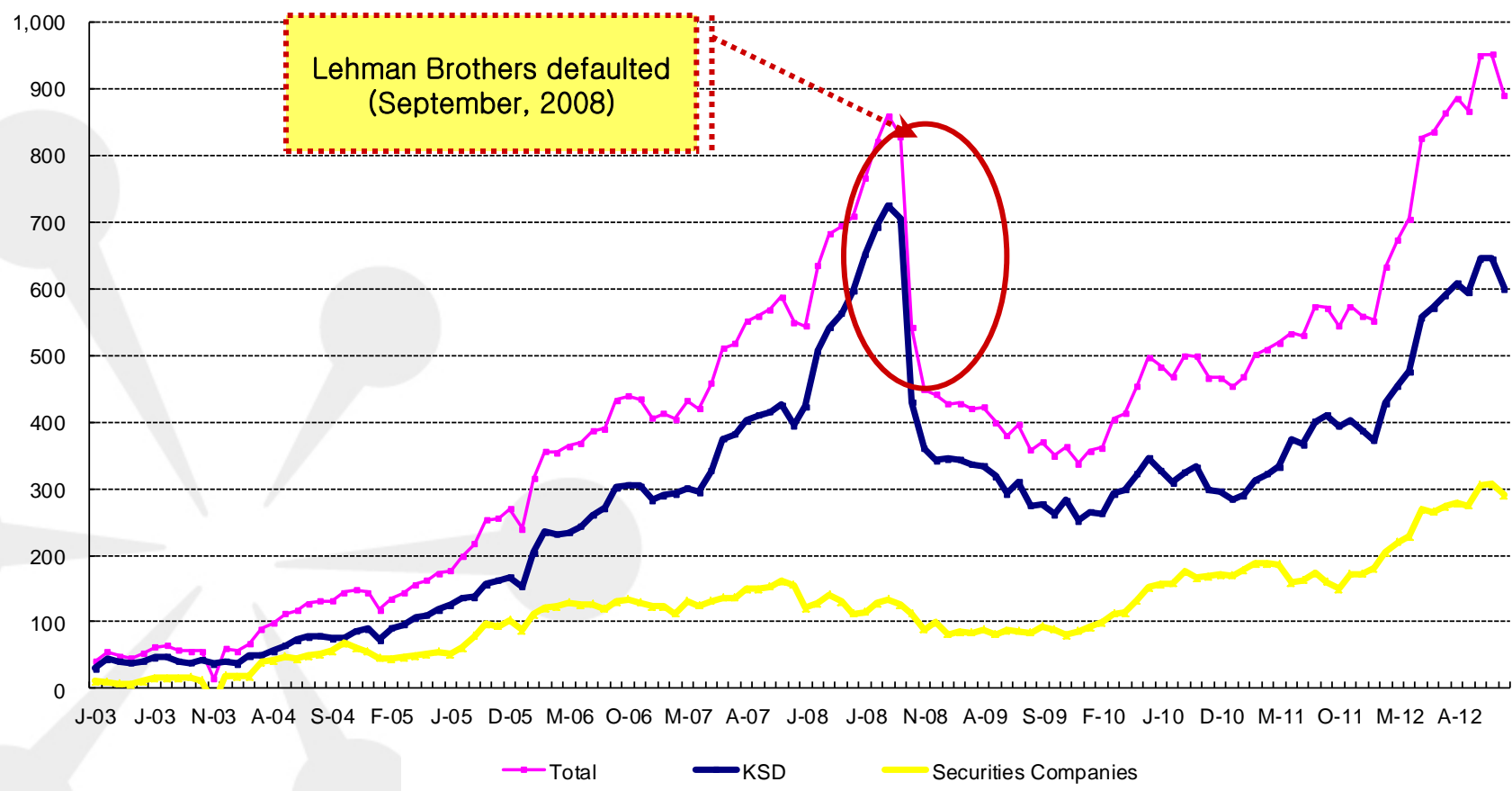
- KSD guarantees return of securities in case that a borrower is in default for all types of SLB transactions except customized transaction

# Korean SLB Market – Growth(Revisit)



<SLB Balance>

(million shares)



- ❑ **Restriction on short-selling (Oct. 1<sup>st</sup>, 2008~)**
  - Covered short-selling of all listed stocks are banned.
  - If the market conditions improve, the measure will be either lifted or replaced with a cooling period for short-selling extensive stocks.
- ❑ **Stricter verification of settlement ability (Feb. 2009~)**
  - Brokers are obligated to verify the settlement ability of covered short-selling by all investors including foreign investors.
- ❑ **Higher collateral level for securities borrowing (Oct. 2008~)**
  - Collateral ratio for stock borrowing raised to 130%
- ❑ **Stronger disclosure requirements (Oct. 2008~)**
  - Short-selling info is disclosed by the KRX
  - Consolidated SLB info is provided through the KOFIA

- ❑ Reinforcement of collateral management.
  - Change to collateral level
    - 130% for stock borrowing
    - 105% for bond borrowing
  - Change to eligible collateral for SLB transactions
- ❑ Change of SLB transaction period
  - The transaction period for all types of transactions except settlement coverage shortened from one year to six months.
- ❑ Introduction of SLB compliance function
  - Market watch
  - Monitoring collateral composition
  - Monitoring borrowers' credit status
  - SLB risk management

- ❑ Collateral management
  - Value vs Liquidity.
- ❑ Risk mitigation
  - Firewall between SLB service and historical CSD functions
- ❑ Maintenance of sound SLB market
  - Balanced market in terms of SLB participants



**Thank you.**

