

KOREA SECURITIES AND FUTURES EXCHANGE ACT

Act No. 7112, Jan. 29, 2004
Amended by Act No. 7428, Mar. 31, 2005
Act No. 8852, Feb. 29, 2008
Act No. 8863, Feb. 29, 2008
Act No. 8907, Mar. 14, 2008

CHAPTER I GENERAL PROVISIONS

Article 1 (Purpose)

The purpose of this Act is to contribute to the sound development of the national economy by establishing and operating the Korea Securities and Futures Exchange to promote the stability and efficiency of transactions of securities and futures trading.

Article 2 (Definitions)

- (1) The term “securities market” in this Act means the market excluding KOSDAQ, which is established by the Korea Securities and Futures Exchange (hereinafter referred to as the “Exchange”) for the purposes of the transaction of securities.
- (2) The term “KOSDAQ” in this Act means the market established by the Exchange for the purposes of the transaction of securities prescribed by Presidential Decree.
- (3) The term “futures market” in this Act means the market established by the Exchange for the purpose of trading futures as provided for in subparagraph 1 of Article 3 of the Futures Trading Act.
- (4) The term “member” in this Act means any person who may participate in transactions in the securities market, KOSDAQ or futures market established by the Exchange and who is under the provisions of Article 16 (1).
- (5) The term “Acts and subordinate statutes related to securities and futures” in this Act means this Act, the Securities and Exchange Act and the Futures Trading Act.

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(6) The term “Acts and subordinate statutes related to finance” in this Act means Acts and subordinate statutes in each of the following subparagraphs: <Amended by Act No. 8863, Feb. 29, 2008>

1. Banking Act;
 2. Indirect Investment Asset Management Business Act;
 3. Insurance Business Act;
 4. Act on Real Name Financial Transactions and Guarantee of Secrecy;
 5. Act on the Establishment, etc. of Financial Services Commission;
 6. Depositor Protection Act;
 7. Act on the Efficient Disposal of Non-Performing Assets, etc. of Financial Institutions and the Establishment of Korea Asset Management Corporation;
 8. Specialized Credit Financial Business Act;
 9. Trust Business Act;
 10. Use and Protection of Credit Information Act;
 11. Foreign Exchange Transactions Act;
 12. Act on the Structural Improvement of the Financial Industry; and
 13. Other Acts prescribed by Presidential Decree.
- (7) Except paragraphs (1) through (6), the definitions of terms used in this Act shall be as prescribed by the Securities and Exchange Act and the Futures Trading Act.

Article 3 (Application of Commercial Act)

Except cases specifically prescribed by Acts and subordinate statutes related to securities and futures, the provisions concerning stock companies of the Commercial Act shall apply to the Exchange.

CHAPTER II ESTABLISHMENT AND ORGANIZATION

Article 4 (Establishment)

- (1) The Exchange shall be established to set and stabilize fair prices, and facilitate negotiations in securities transactions and futures trading
- (2) The Exchange shall be a stock company with capital of 100 billion won or more.
- (3) The Exchange shall have its head office in Busan Metropolitan City and may have branch offices wherever necessary.

Article 5 (Articles of Incorporation)

- (1) Matters in each of the following subparagraphs shall be entered in

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the articles of incorporation of the Exchange:

1. Purpose;
2. Trade name;
3. Total number of stocks to be issued by the Exchange;
4. Price per stock;
5. Total number of stocks to be issued at the time of establishment of the Exchange;
6. Method of public announcements by the Exchange;
7. Matters concerning the classification of market: securities market, KOSDAQ, futures market, etc.;
8. Matters concerning the establishment, amendment, and repeal of the regulations of the Exchange;
9. Matters concerning executive and managing staff of the Exchange;
10. Matters concerning the board of directors, subcommittees thereunder and the nomination committee for director;
11. Matters concerning the audit and inspection committee;
12. Matters concerning the market surveillance committee; and
13. Matters concerning the management of business.

(2) The Exchange shall modify the articles of incorporation with the approval of the Financial Services Commission. In the approval of the modification of the articles of incorporation, the Financial Services Commission shall give due consideration to the autonomy of operation of each market into consideration. <Amended by Act No. 8863, Feb. 29, 2008>

Article 6 (Affairs)

The Exchange shall conduct the affairs of each of the following subparagraphs:

1. Affairs concerning the establishment and operation of the securities market, KOSDAQ, and the futures market;
2. Affairs concerning the transaction of securities and futures trading;
3. Affairs concerning the listing of securities;
4. Affairs concerning the listing of futures trading items (including month of settlement);
5. Affairs concerning the public announcements of the corporations listed on the securities market and the corporations listed on KOSDAQ;
6. Affairs concerning the examination of abnormal trading prescribed by Presidential Decree, including trading, etc. where the prices or trading volumes of securities or items of futures trading fluctuate abnormally (hereinafter referred to as “abnormal trading”), and the supervision of

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members;

7. Auction business of securities;
8. Affairs concerning the autonomous conciliation of disputes related to transactions in the securities market and KOSDAQ, and futures trading in the futures market;
9. Affairs incidental to the establishment of the securities market, KOSDAQ, or the futures market; and
10. Other affairs corresponding to the affairs under subparagraphs 1 through 9, which are prescribed in the articles of incorporation.

Article 7 (Prohibition on Use of Similar Name)

No person, other than the Exchange, shall use the name or trade name of the Korea Securities and Futures Exchange, the Stock Exchange, the Futures Exchange, the securities market, KOSDAQ, the futures market or other similar name as its name or trade name.

Article 8 (Executive)

(1) The Exchange shall have no more than 15 executives as provided for in each of the following subparagraphs:

1. One chief executive officer;
2. One commissioner of audit and inspection committee, who is the executive director;
3. One chairperson of the market surveillance committee; and
4. Not more than 12 directors.

(2) The term of office of an executive shall be three years and an executive may be reappointed as prescribed by the articles of incorporation.

(3) The chief executive officer shall be elected from among those who have experience and knowledge in finance, and are not likely to impair the sound management of the Exchange and the fair trade order, at the general meeting of stockholders on the recommendation of the director nomination committee (hereinafter referred to as the "nomination committee") under Article 14 (1).

(4) Where the chief executive officer elected under paragraph (3) is considered as unsuitable to exercise the duties of his/her office, the Financial Services Commission may request the dismissal of the chief executive officer within one month of the election, by clearly stating the grounds therefor in detail. In this case, the duties of his/her office of the chief executive officer whose dismissal has been requested shall be suspended and the Exchange shall elect a new chief executive officer within two months therefrom. <Amended by Act No. 8863, Feb. 29, 2008>

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(5) Outside directors and a commissioner of the audit and inspection committee who is the executive director shall be elected respectively at the general meeting of stockholders on the recommendation of the nomination committee. In this case, the provisions of Articles 191-11 (1) and 191-12 (3) of the Securities and Exchange Act shall apply *mutatis mutandis* to the commissioner of the audit and inspection committee who is the executive director.

Article 9 (Board of Directors)

(1) The board of directors organized with the persons of each subparagraph of Article 8 (1) shall be set up in the Exchange. In this case, the outside directors shall comprise a majority of the board of directors.

(2) For the purposes of the autonomous operation of the securities market, KOSDAQ, and the futures market, and the effective performance of the affairs of the board of directors, subcommittees for the respective markets deliberating and resolving the matters delegated by the board of directors shall be established as a committee within the board of directors, pursuant to Article 393-2 of the Commercial Act.

(3) Other matters necessary for the organization and operation of the board of directors and subcommittees shall be prescribed by the articles of incorporation.

Article 10 (Disqualification as Executive)

No person who falls under any of the following subparagraphs shall be appointed as executive of the Exchange, and he/she shall relinquish the office of executive when he/she falls under any of the following subparagraphs after he/she has been appointed as executive: <Amended by Act No. 7428, Mar. 31, 2005; Act No. 8907, Mar. 14, 2008>

1. A minor, an incompetent person or a quasi-incompetent person;
2. A person who was declared bankrupt and has not been reinstated;
3. A person for whom five years have not elapsed since his/her imprisonment without labor or heavier punishment sentenced by a court or his/her fine or heavier punishment sentenced under Acts and subordinate statutes related to securities and futures, under Acts and subordinate statutes related to finance or under Acts and subordinate statutes related to foreign finance (referring to foreign Acts and subordinate statutes corresponding to Acts and subordinate statutes related to securities and futures or Acts and subordinate statutes related to finance; hereafter the same shall apply in this Article) was completely executed (including case where the execution was deemed completed) or exempted;

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4. A person who is under a suspended sentence of imprisonment without labor or a heavier punishment as sentenced by a court;
5. A person for whom five years have not elapsed since he/she was dismissed or removed from office under Acts and subordinate statutes related to securities and futures, under Acts and subordinate statutes related to finance or under Acts and subordinate statutes related to foreign finance; and
6. A person for whom five years (in cases where five years from the date of notification exceeds seven years from the date of discharge or dismissal, seven years from the date of discharge or dismissal shall apply) have not elapsed since he/she, as a discharged executive or dismissed employee, was notified that he/she would have received the disposal of request for discharge (including advice to be discharged) or for dismissal if he/she had been holding office or in active service, under Acts and subordinate statutes related to securities and futures, and under Acts and subordinate statutes related to finance.

Article 11 (Responsibility of Executives, Employees, etc.)

- (1) No person who is or has been an executive or employee of the Exchange shall reveal nor use any secret which has come to his/her knowledge with respect to the duties of his/her office.
- (2) Except cases of each of the following subparagraphs, no executive or employee of the Exchange shall conduct transactions of securities and futures trading nor entrust such transactions at his/her own judgement regardless of the name used:
 1. In cases of acquisition of beneficiary certificates of investment trusts or stocks of investment companies pursuant to the Indirect Investment Asset Management Business Act: *Provided*, That the same shall not apply to cases where the securities or stocks acquired by means other than invitation for subscriptions or sale are disposed of within one year after such acquisition;
 2. In cases of disposition of stocks acquired before he/she becomes an executive or employee;
 3. In cases of conclusion of futures trading conducted before he/she becomes an executive or employee; and
 4. Other cases prescribed by Presidential Decree.
- (3) An executive or employee of the Exchange shall neither grant funds to, divide the profit and loss with nor have special interests with respect to other business with the organizations related to securities under the

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provisions of Article 2 (17) of the Securities and Exchange Act, and the persons who have been established, or have been permitted or authorized to perform the business or affairs under the Futures Trading Act.

(4) The provisions of paragraphs (1) through (3) shall apply *mutatis mutandis* to the persons of each of the following subparagraphs: <Amended by Act No. 8863, Feb. 29, 2008>

1. Commissioners of the Financial Services Commission and public officials belonging thereto;
2. Commissioners of the Securities and Futures Committee; and
3. The Governor, deputy governor, assistant governor, auditor, and employees of the Financial Supervisory Service.

Article 12 (Request for Dismissal of Executive, etc.)

(1) Where an executive of the Exchange has violated any Act and subordinate statute related to securities and futures or a disposition of the administrative agency under an Act and subordinate statute related to securities and futures, the Financial Services Commission may order the suspension of his/her duties within a fixed time frame not exceeding one year or request his/her dismissal. <Amended by Act No. 8863, Feb. 29, 2008>

(2) Where the request for dismissal pursuant to paragraph (1) has been made, the duties of the executive concerned shall be suspended, and the Exchange shall dismiss him/her from office within two months thereafter.

(3) The Financial Services Commission may request the Exchange to dismiss its employee where he/she has violated any Act and subordinated statute related to securities and futures or any disposition under any Act and subordinate statute related to securities and futures of an administrative agency. <Newly Inserted by Act No. 8907, Mar. 14, 2008>

Article 12-2 (Notification of Contents of Measures to Executive Discharged, etc.)

(1) The Financial Services Commission may instruct the Governor of the Financial Supervisory Service to notify the chief executive officer of the Exchange of the contents of the measures acknowledged to have been taken, where it is acknowledged that the executive discharged or employee dismissed would have received the disposition under Article 12 (1) or (3) if he/she had been holding office or had been in active service.

(2) Where the chief executive officer of the Exchange has been notified under paragraph (1), he/she shall notify the executive or employee concerned thereof and keep and maintain a record.

[This Article Newly Inserted by Act No. 8907, Mar. 14, 2008]

Article 13 (Audit and Inspection Committee)

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(1) The audit and inspection committee under the provisions of Article 415-2 of the Commercial Act (hereinafter referred to as the “audit and inspection committee”) shall be established within the Exchange.

(2) The provisions of Article 54-6 of the Securities and Exchange Act shall apply *mutatis mutandis* to the audit and inspection committee.

Article 14 (Director Nomination Committee)

(1) The Exchange shall have a nomination committee for the proper election of the chief executive officer and outside directors.

(2) The chief executive officer of the Exchange shall appoint the persons under each of the following subparagraphs as commissioners of the nomination committee, and the chairperson of the nomination committee shall be elected from among them:

1. Five outside directors;
2. One person recommended by the Korea Securities Dealers Association;
3. One person recommended by the Korea Futures Association;
4. One person representing the corporations whose stocks are listed on the securities market prescribed by Presidential Decree; and
5. One person representing the corporations of whose stocks are listed on KOSDAQ prescribed by Presidential Decree.

(3) Matters necessary for the organization and operation of the nomination committee shall be prescribed by the articles of incorporation.

CHAPTER III MARKETS

Article 15 (Establishment of Markets)

(1) Markets established by the Exchange shall be as set out under each of the following subparagraphs:

1. Securities market;
2. KOSDAQ; and
3. Futures market.

(2) No person, other than the Exchange, shall establish the markets under the provisions of paragraph (1) or other similar facilities, nor conduct the transactions of the securities or futures trading through the other similar facilities: *Provided*, That the same shall not apply to persons who conduct securities business under Article 2 (8) 8 of the Securities and Exchange Act.

Article 16 (Members)

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- (1) The qualifications, etc. for members shall be prescribed by the member management regulations.
- (2) Matters under each of the following subparagraphs shall be included in the member management regulations of paragraph (1):
 1. Matters concerning class of members and membership;
 2. Matters concerning entry and secession of members;
 3. Matters concerning rights and obligations of members; and
 4. Other matters necessary for the management of members.
- (3) The Exchange shall establish, amend, or repeal the member management regulations with the approval of the Financial Services Commission.
<Amended by Act No. 8863, Feb. 29, 2008>
- (4) Deleted. <by Act No. 8852, Feb. 29, 2008>

CHAPTER IV MARKET SURVEILLANCE AND DISPUTE CONCILIATION

Article 17 (Market Surveillance Committee)

- (1) The Exchange shall establish a market surveillance committee to perform the affairs under each of the following subparagraphs:
 1. Examination of abnormal trading and supervision of members;
 2. Surveillance of the connection among the securities market, KOSDAQ, and the futures market;
 3. Discipline of members or decisions on request for discipline of the executive or employee concerned pursuant to the findings of examination of abnormal trading, supervision of members and surveillance of the connection among the securities market, KOSDAQ, and the futures market;
 4. Affairs concerning the autonomous conciliation of disputes related to the transaction of securities in the securities market and KOSDAQ, and futures trading in the futures market;
 5. Establishment, amendment and repeal of the market surveillance regulations pursuant to the provisions of Article 18 and the dispute conciliation regulations pursuant to the provisions of Article 20 (1); and
 6. Other affairs incidental to subparagraphs 1 through 5.
- (2) The market surveillance committee shall be comprised of the members under each of the following subparagraphs: <Amended by Act No. 8863, Feb. 29, 2008>
 1. The chairperson of the market surveillance committee;

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2. One person recommended by the Korea Securities Dealers Association;
 3. One person recommended by the Korea Futures Association;
 4. Deleted; and <by Act No. 8852, Feb. 29, 2008>
 5. Two persons recommended by the chairperson of the Financial Services Commission.
- (3) The term of office of members of the market surveillance committee shall be three years and they may be reappointed, as prescribed by the articles of incorporation.
- (4) The chairperson shall be elected from among persons who have experience and knowledge in finance, and who are not likely to impair the sound management and fair trade order of the Exchange, prescribed by the Presidential Decree, at the general meeting of stockholders on the recommendation of the market surveillance committee.
- (5) Where the chairperson elected under the provisions of paragraph (4) is considered as unsuitable to perform his/her duties, the Financial Services Commission may request the dismissal of the chairperson within one month from the date of election by clearly stating the reasons in detail. In such cases, the duties of the chairperson whose dismissal has been requested shall be suspended and the Exchange shall elect a new chairperson within two months thereafter. <Amended by Act No. 8863, Feb. 29, 2008>
- (6) The provisions of Articles 10, 11 (1) and 12 shall apply *mutatis mutandis* to the members of the market surveillance committee.
- (7) Other matters necessary for the organization and operation of the market surveillance committee shall be prescribed by the articles of incorporation.

Article 18 (Market Surveillance Regulations)

- (1) The market surveillance committee shall establish the market surveillance regulations including the matters of each of the following subparagraphs and shall perform the affairs pursuant to such regulations:
1. Matters concerning the examination of abnormal trading, supervision of members, and surveillance of the connection among the securities market, KOSDAQ, and the futures market;
 2. Matters concerning the discipline of members or decisions on requests for discipline of the executive and employee concerned pursuant to the findings of examination of abnormal trading, supervision of members, and surveillance of the connection among the securities market, KOSDAQ and the futures market; and

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3. Other matters incidental to subparagraphs 1 and 2.

(2) The provisions of Article 16 (3) shall apply *mutatis mutandis* to the establishment, amendment, and repeal of the market surveillance regulations. <Amended by Act No. 8863, Feb. 29, 2008>

Article 19 (Examination or Supervision of Abnormal Trading)

(1) Where there is suspicion of abnormal trading in the securities market (including the case of intermediation of transactions of securities under the provisions of Article 52-2 of the Securities and Exchange Act; hereafter the same shall apply in this Article), KOSDAQ, and the futures market, the Exchange may request, in writing clearly stating the reasons therein, the securities companies and futures dealers to submit the related materials or may supervise the business, financial status, books, documents and other articles related to the abnormal trading of the members in order to ascertain the trading circumstances of the items of the securities concerned or the futures trading items, or to confirm whether the business-related regulations of the Exchange have been observed.

(2) The Exchange may, if deemed necessary for the examination and supervision pursuant to the provisions of paragraph (1), request members to submit reports and documents on abnormal trading, etc. or the persons concerned to attend and give a statement.

(3) Where a member refuses the request for presentation of materials or attendance and statement under the provisions of paragraph (1) or (2), or does not cooperate in the supervision under the provisions of paragraph (1), the Exchange may suspend the membership or restrict the transaction of securities and futures trading as prescribed the market surveillance regulations.

Article 20 (Autonomous Conciliation of Disputes)

(1) The market surveillance committee shall establish the dispute conciliation regulations necessary for the autonomous conciliation of disputes pursuant to the provisions of Article 17 (1) 4.

(2) The provisions of Article 16 (3) shall apply *mutatis mutandis* to establishment, amendment, and repeal of the dispute conciliation regulations in paragraph (1). <Amended by Act No. 8863, Feb. 29, 2008>

(3) The market surveillance committee may request the parties concerned to confirm the facts and submit the related materials when considered as necessary for the conciliation of disputes.

(4) The market surveillance committee may, if considered as necessary to hear the opinions of the parties concerned and other interested persons,

request them to attend a meeting and make statements.

CHAPTER V REGULATION, ETC. ON
OWNERSHIP, CAPITAL AND
ASSETS

Article 21 (Restriction on Stock Holding)

(1) Except in cases falling under any of the following subparagraphs, no person shall own in excess of 5/100 of the total number of stocks with voting right issued by the Exchange: *<Amended by Act No. 8863, Feb. 29, 2008>*

1. Where the stocks are held by investment trust or investment companies pursuant to the Indirect Investment Asset Management Business Act (excluding cases where the stocks are held by the mutual indirect investment funds pursuant to Article 175 of the same Act);
2. Where the approval of the Financial Services Commission has been obtained as necessary for cooperation with the overseas securities and futures exchange; and
3. Where the stocks are held by the Government.

(2) When falling in any of the following subparagraphs, it shall be deemed to hold the stocks restricted pursuant to the provisions of paragraph (1):

1. In cases of holding the authority to exercise voting right, in the stocks pursuant to trust deed, other agreements or provisions of Acts, or holding the authority to instruct the exercise of voting right in such stocks;
2. In cases where a person who has a special relationship prescribed by Presidential Decree holds the stocks; and
3. Other cases prescribed by Presidential Decree as equivalent to subparagraphs 1 and 2.

(3) Where the stocks are held in violation of the provisions of paragraph (1), the voting rights in the excess stocks shall not be exercised and the person who holds the stocks in violation of the provisions of paragraph (1) shall adjust to meet the limit prescribed in paragraph (1) without delay.

(4) The Financial Services Commission may order the person who has not observed the provisions of paragraph (3) to dispose of the stocks exceeding the limit within a fixed time frame not exceeding six months. *<Amended by Act No. 8863, Feb. 29, 2008>*

Article 22 (Charge for Compelling Compliance)

(1) As for a person who has been ordered to dispose of stocks pursuant

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to Article 21 (4) but has not implemented the order for the disposition of stocks within the fixed time frame, the Financial Services Commission shall order him/her again to dispose of the stocks concerned within a substantial period for the implementation of such order, and if the order has not been implemented within the fixed deadline, the Commission shall impose the charge for compelling the compliance not exceeding 5/100 of the acquisition value of the stocks to be disposed of. <Amended by Act No. 8863, Feb. 29, 2008>

(2) The Financial Services Commission shall issue a written warning in advance, stating that the charge for compelling the compliance shall be imposed and collected under the provisions of paragraph (1) prior to the imposition of the charge for compelling the compliance under the provisions of paragraph (1). <Amended by Act No. 8863, Feb. 29, 2008>

(3) Where the Financial Services Commission imposes the charge for compelling compliance under the provisions of paragraph (1), it shall impose the charge for compelling compliance in writing clearly, stating the amount of the charge, grounds for the imposition, payment deadline and receipt period, the method of raising objections, and agencies to which such objections may be raised. <Amended by Act No. 8863, Feb. 29, 2008>

(4) The Financial Services Commission may repeatedly impose and collect charges for compelling compliance under the provisions of paragraph (1) on up to two occasions within a year, starting from the date when the disposition of the stocks has been ordered under the provisions of Article 21 (4), until the order is complied with. <Amended by Act No. 8863, Feb. 29, 2008>

(5) Where a person who has been ordered to dispose of the stocks has implemented the order, the Financial Services Commission shall suspend the imposition of new charges for compelling compliance, but shall collect any charge for compelling compliance already imposed. <Amended by Act No. 8863, Feb. 29, 2008>

(6) The provisions of Articles 206-12 (excluding paragraph(1) thereof) through 206-16 of the Securities and Exchange Act shall apply *mutatis mutandis* to the imposition and collection of charges for compelling compliance.

Article 23 (Approval for Transfer of Business, etc.)

Where the Exchange intends to conduct the transfer of business, merger, split-off or comprehensive exchange or transfer of stocks, it shall obtain

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the approval of the Financial Services Commission. <Amended by Act No. 8863, Feb. 29, 2008>

Article 24 (Approval for Listing and Delisting Securities Issued by Exchange)

(1) The Exchange shall obtain the approval of the Financial Services Commission when listing or delisting securities issued by the Exchange. <Amended by Act No. 8863, Feb. 29, 2008>

(2) Where the stocks are listed under the provisions of paragraph (1), the Exchange shall conduct the examination and supervision of abnormal trading, the public announcement as occasion calls and other management of the listing by itself, and report the results thereof to the Financial Services Commission. <Amended by Act No. 8863, Feb. 29, 2008>

Article 25 (Committee for Enhancement of Market Efficiency)

(1) The committee for enhancement of market efficiency shall be established in the Financial Services Commission to deliberate on matters related to the reduction of transaction expenses in the securities market, KOSDAQ, and the futures market. <Amended by Act No. 8863, Feb. 29, 2008>

(2) Where the Exchange, organizations established under the Securities and Exchange Act or the Futures Trading Act, or other agencies prescribed by Presidential Decree intend to change commissions or service fees or to invest in the computerization in excess of the amount prescribed by Presidential Decree, such change or investment shall undergo deliberation by the committee for enhancement of market efficiency.

(3) Matters necessary for the organization and operation of the committee for enhancement of market efficiency shall be prescribed by Presidential Decree.

CHAPTER VI PENAL PROVISIONS

Article 26 (Penal Provisions)

Any person who falls under any of the following subparagraphs shall be punished by imprisonment for not more than three years or by a fine not exceeding twenty million won:

1. A person who has violated the provisions of Article 11 (including cases where it shall apply *mutatis mutandis* to Article 17 (6)); and
2. A person who has established or used the facilities in violation of Article 15 (2).

Article 27 (Concurrent Punishment by Imprisonment and Fine)

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A person who commits a crime prescribed in Article 26 may be concurrently punished by imprisonment and a fine.

Article 28 (Joint Penal Provisions)

Where a representative of a corporation, or an agent, employee, or other employed person of a corporation or an individual commits an offense as prescribed in Article 26 with respect to the affairs of the corporation or the individual, not only shall the offender be punished but the corporation or the individual shall also be fined as prescribed in the same Article.

Article 29 (Fine for Negligence)

(1) A person who uses the name of the Exchange or other similar name in violation of Article 7 shall be punished by a fine for negligence not exceeding twenty million won.

(2) The provisions of Article 213(3) through (6) of the Securities and Exchange Act shall apply *mutatis mutandis* to the disposition of a fine for negligence under paragraph (1) of this Article.

ADDENDA

Article 1 (Enforcement Date)

This Act shall enter into force on the date when the incorporation of the Exchange is registered under Article 11 of the Addenda: *Provided*, That Articles 2 through 16 of the Addenda shall enter into force on the date of its promulgation.

Article 2 (Matters concerning Consolidation of Korea Stock Exchange, etc.)

The Exchange shall be established by merging (hereinafter referred to as "merger") any division of the Association brokerage market as managed by the Korea Securities Dealers Association with the Korea Stock Exchange, the Korea Futures Exchange and any securities company (hereinafter referred to as "KOSDAQ") established for the purpose of brokerage of transactions of securities in the Association brokerage market under Article 2 (14) of the Securities and Exchange Act.

Article 3 (Establishment of Committee for Establishment of Korea Securities and Futures Exchange)

(1) The Committee for the Establishment of the Korea Securities and Futures Exchange (hereinafter referred to as the "Establishment Committee") shall be established to deal with affairs of the merger and the establishment of the Exchange under the provisions of Article 2 of the Addenda.

(2) The Establishment Committee shall be comprised of ten or less members designated by the Minister of Finance and Economy and shall include the

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Deputy Minister of Finance and Economy, the Vice Chairman of the Financial Supervisory Commission, and persons recommended by the Korea Stock Exchange, the Korea Futures Exchange and the KOSDAQ (hereinafter referred to as "corporations subject to merger").

(3) The Chairman of the Establishment Committee shall be the Deputy Minister of Finance and Economy.

(4) The Establishment Committee may, if necessary for the establishment of the Exchange, request corporations subject to merger to provide any human and material support that is required for the performance of its duties.

(5) The Establishment Committee shall prepare a written application for the approval of merger and the articles of incorporation of the Exchange and obtain approval of the Minister of Finance and Economy.

(6) Where the Establishment Committee obtains the approval under paragraph (5), it shall register the incorporation of the Exchange.

(7) The Establishment Committee shall, where it completes the registration of incorporation under paragraph (6), transfer duties thereof to the chief executive officer of the Exchange.

(8) The Establishment Committee member shall, when the transfer of his/her duties is completed under paragraph (7), be deemed to be dismissed from his/her office.

(9) The Establishment Committee shall complete necessary procedures for the establishment of the Exchange within one year after the date of promulgation of this Act.

(10) The expenses required for the establishment the Exchange shall be borne by the Exchange.

Article 4 (Merger Agreement)

(1) Corporations subject to merger shall prepare a merger agreement for the establishment of the Exchange.

(2) A merger agreement under paragraph (1) shall include the following matters:

1. The name or trade name and purpose of the Exchange and the place of the head office thereof;
2. Total number of shares to be issued by the Exchange and the par value per share;
3. Matters relating to the capital and reserves of the Exchange;
4. Total number and classes of shares to be issued by the Exchange at the time of merger, number of shares according to such classes and

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matters relating to allocation thereof;

5. Assets of each corporation subject to merger which are to be transferred to the Exchange and their values;
6. Where the amount to be paid to the members of corporations subject to merger is determined, the regulations thereon;
7. Date of the general meeting of members and shareholders where the resolution of merger is to be made;
8. Date of merger; and
9. Other matters necessary for merger.

Article 5 (Public Notification of Balance Sheet, etc. of Merger)

Corporations subject to merger shall keep the following documents in their head offices and branch offices for a period of six months from one week before the date of the general meeting where the resolution of merger under Article 6 of the Addenda is to be made:

1. Merger agreement;
2. Documents explaining the rationale for allocation of shares to be issued to members of corporations subject to merger; and
3. Final balance sheets of corporations subject to merger.

Article 6 (Resolution of Merger)

(1) In case of the Korea Stock Exchange, the Korea Futures Exchange or the Korea Securities Dealers Association, a merger agreement shall be approved at the general meeting of members, and in case of the KOSDAQ, a merger agreement shall be approved at the general meeting of shareholders.

(2) In case of the Korea Stock Exchange, Korea Futures Exchange or Korea Securities Dealers Association, the approval under paragraph (1) shall be made by a majority vote, and in case of the KOSDAQ, the approval shall be made in accordance with Article 434 of the Commercial Act.

(3) When the general meeting for the approval of a merger agreement is convened, the purposes of the general meeting and the main points of the merger agreement shall, in writing, be announced to the members and shareholders not later than one week before the date of the general meeting.

(4) The resolution of merger under paragraph (1) shall be made within nine months after the promulgation date of this Act.

(5) Where the resolution of merger is not made within the period stated in paragraph (4), the Minister of Finance and Economy may, *ex officio*,

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determine the contents of a merger agreement. In this case, such *ex officio* determination shall be deemed to be the approval at the general meeting of members or shareholders pursuant to paragraph (1).

Article 7 (Measures against Members or Shareholders Opposing Merger)

(1) Where the Board of Directors of the Korea Stock Exchange passes a resolution for merger under Article 6 of the Addenda of this Act, the members of the Korea Stock Exchange who oppose such resolution may, notwithstanding the provisions of Article 76-4 (1) of the Securities and Exchange Act, file a written application for withdrawal of membership prior to the general meeting of members. In this case, it shall be deemed that such members lose their membership at the time of filing an application for membership withdrawal, and the Korea Stock Exchange shall return the equities of such members within one month after the date of such application under Article 76-5 (2) of the Securities and Exchange Act.

(2) The provisions of paragraph (1) of this Article shall apply *mutatis mutandis* to the members of the Korea Futures Exchange. In this case, “Article 76-4 (1) of the Securities and Exchange Act” as referred to in the former part of paragraph (1) of this Article shall be deemed “Article 16 (1) of the Futures Trading Act” and “Article 76-5 (2) of the Securities and Exchange Act” as referred to in the latter part of the said paragraph shall be deemed “Article 16 (3) of the Futures Trading Act”.

(3) Where the board of directors of the KOSDAQ passes a resolution for merger under Article 6 of the Addenda of this Act, the shareholders who oppose such resolution may, notwithstanding the provisions of Article 374-2 (1) and (2) of the Commercial Act, make a written request for the purchase of their shares including the classes and number thereof to the KOSDAQ. In this case, it shall be deemed that the shares are purchased at the time when such written request is made, and the KOSDAQ shall pay the price thereof within one month after the date of the request.

(4) The provisions of Article 374-2 (3) through (5) of the Commercial Act shall apply *mutatis mutandis* to the determination of the purchase price amount of shares under paragraph (3) of this Article.

(5) The Minister of Finance and Economy may request the members or shareholders who oppose any merger to file an application for withdrawal of their membership or to exercise a claim for the purchase of shares.

Article 8 (Procedures for Protection of Creditors)

(1) Corporations subject to merger shall, within one week after the date

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when the resolution of merger is made at the general meetings under Article 6 of the Addenda (including the date when the Minister of Finance and Economy determines the contents of a merger agreement under Article 6 (5) of the Addenda), publicly notify the creditors that they shall raise objections against merger, if any, within two weeks or less and give the creditors known by corporations subject to merger a peremptory notice thereof.

(2) The provisions of Article 232 (2) and (3) of the Commercial Act shall apply *mutatis mutandis* to any public notification and peremptory notice under paragraph (1) of this Article.

Article 9 (Inaugural General Meeting)

(1) When the procedures under Article 8 of the Addenda is terminated, the Establishment Committee shall, without delay, convoke the inaugural general meeting.

(2) The provisions of Articles 308 (2), 309, 311, 312 and 316 (2) of the Commercial Act shall apply *mutatis mutandis* to the inaugural general meeting under paragraph (1) of this Article. In this case, the “promoter” as referred to in Article 311 of the said Act and the “auditor” as referred to in Article 312 thereof shall be deemed to be the “Chairman of the Establishment Committee” and the “member of the Audit Committee”, respectively.

Article 10 (Written Application for Approval of Merger)

(1) A written application for approval of merger as referred to in Article 3 (5) of the Addenda shall include the following matters:

1. Trade name or name;
2. Places of the head office, branch offices and other business offices;
3. Places of the securities market, the KOSDAQ and the futures market;
4. Names, resident registration numbers and domiciles of the officers;
and
5. Trade names or names of the members.

(2) The following documents shall be attached to a written application for approval of merger under paragraph (1):

1. A merger agreement; and
2. The articles of incorporation of the Exchange, the market supervision regulations, the member supervision regulations, the business regulations, the listing regulations, the public notification regulations and other documents determined by the Minister of Finance and Economy.

(3) The provisions of Articles 35 through 37 of the Securities and Ex-

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change Act shall not apply to any merger of the KOSDAQ.

Article 11 (Registration of Merger)

(1) When corporations subject to merger complete the procedures for merger thereof, corporations subject to merger (excluding the Korea Securities Dealers Association; hereafter the same shall apply in this Article) which are to be dissolved as a result of the merger shall register such dissolution and the Exchange which is established as a result thereof shall register such establishment within two weeks at the place of the head office and within three weeks at the place of any branch office after the said merger is approved under Article 3 (5) of the Addenda.

(2) The merger shall become effective at the time when the Exchange registers its establishment under paragraph (1). In this case, corporations subject to merger shall be dissolved at the time of such registration.

(3) When the establishment of the Exchange is registered under paragraph (1), the following matters shall be registered:

1. Purpose;
2. Trade name;
3. Total number of shares to be issued by the Exchange;
4. Par value per share;
5. Places of the head office and branch offices;
6. Places of the securities market, the KOSDAQ and the futures market;
7. Methods of public notification;
8. Total amount of capital;
9. Total number of issued shares, their classes and details and number of shares in each class;
10. If it is provided that the transfer of shares should be approved by the board of directors, the regulations thereon;
11. If the term of existence of the Exchange or reason for dissolution thereof is provided, such term or reason;
12. If it is provided that shares should be retired for the profit distributed to shareholders, the regulations thereon;
13. Names, resident registration numbers and domiciles of the members of the board of directors and the audit committee of the Exchange;
14. Name, resident registration number and domicile of the chief executive officer of the Exchange; and
15. If a transfer agent is appointed, the trade name and head office place of the transfer agent.

(4) When the establishment of the Exchange is registered under para-

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graph (1), the following documents shall be attached:

1. A merger agreement;
2. The articles of incorporation of the Exchange;
3. The minutes of the general meeting of members or shareholders of corporations subject to merger, where the resolution of merger was made before such merger;
4. Documents proving the facts that the public notification under Article 8 of the Addenda was made, the facts that the reimbursement, return of collateral or entrustment is made to creditors if they have raised an objection, or that they need not be concerned about any damage resulting from the merger;
5. Documents validating the values of net assets owned by corporations subject to merger prior to the merger;
6. Documents confirming the facts that the directors of the Exchange and the members of the audit committee accept their appointment;
7. If a transfer agent is appointed, documents proving such appointment; and
8. Copy of a written approval for merger granted by the Minister of Finance and Economy.

Article 12 (Transitional Measures on Establishment of Securities Market, etc.)

(1) Where the establishment is registered under Article 11 (1) of the Addenda, the securities market established by the Korea Stock Exchange, the Association brokerage market established the Korea Securities Dealers Association and the futures market established by the Korea Futures Exchange shall be deemed to be the securities market, the KOSDAQ and the futures market established by the Exchange.

(2) Where the establishment is registered under Article 11 (1) of the Addenda, the approval for the business regulations and any other authorization and permission which the Korea Stock Exchange, the Korea Securities Dealers Association (limited to the business of the Association brokerage market), the Korea Futures Exchange and the KOSDAQ obtain from the Minister of Finance and Economy and the Financial Supervisory Commission shall be deemed to be those obtained by the Exchange.

Article 13 (Succession of Rights and Duties)

(1) Where the establishment is registered under Article 11 (1) of the Addenda, the Exchange shall succeed to the rights and duties of corpo-

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rations subject to merger that are ceased to exist as a result of such merger (limited to any business of the Association brokerage market, in case of the Korea Securities Dealers Association; hereafter the same shall apply in this Article).

(2) The Exchange shall succeed to the employment contracts that corporations subject to merger have made with their employees.

Article 14 (Transitional Measures on Election of Chief Executive Officer, etc.)

(1) The chief executive officer, outside directors and any such full-time director as is a member of the audit committee, who are elected at the inaugural general meeting under Article 9 of the Addenda, shall be deemed to be nominated by the nomination committee under Article 8 (3) and (5) of this Act.

(2) The chairman of the market supervision committee who is elected at the inaugural general meeting under Article 9 of the Addenda shall be deemed to be nominated by the market supervision committee under Article 17 (4) of this Act.

Article 15 (Transitional Measures on Securities and Futures Trading)

Where the establishment is registered under Article 11 (1) of the Addenda, securities and futures trades which are conducted on the securities market established by the Korea Stock Exchange, the Association brokerage market established the Korea Securities Dealers Association and the futures market established by the Korea Futures Exchange and the settlement of which is not concluded, shall be deemed to be trades conducted under the same trading conditions on the securities market, the KOSDAQ and the futures market that the Exchange establishes following the merger.

Article 16 (Transitional Measures on Members)

The members (including those who have any equivalent status; hereafter the same shall apply in this Article) of the Korea Stock Exchange, the Korea Securities Dealers Association and the Korea Futures Exchange shall be deemed to be the member of the Exchange as determined by the Exchange taking into consideration their previous rights and duties, at the time when the Exchange is established.

Article 17 (Transitional Measures on Penal Provisions or Fine for Negligence)

With respect to any such act as is committed before this Act enters into force, the previous penal provisions or fine for negligence shall apply.

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Article 18 (Relationship with Other Acts and Subordinate Statutes)

(1) At the time when this Act enters into force, where the Korea Stock Exchange, the Korea Securities Dealers Association (limited to any business of the Association brokerage market) or the Korea Futures Exchange (hereafter referred to as the "Exchanges, etc." in this Article) is cited or the Securities and Exchange Act, the Futures Trading Act or respective provisions thereof are cited in connection with the Exchanges, etc. in other Acts and subordinate statutes, it shall be deemed that this Act or provisions corresponding to this Act are cited in lieu of the former provisions if such corresponding provisions exist in this Act.

(2) In applying the provisions of paragraph (1) of this Article, the Exchange shall be deemed to be the Korea Stock Exchange referred to in Article 2 (12) of the former Securities and Exchange Act in cases of transactions of securities and to be the Korea Futures Exchange referred to in Article 4 of the previous Futures Trading Act in cases of futures trading and the relevant provisions of corresponding Acts and subordinate statutes shall apply.

ADDENDA <Act No. 7428, Mar. 31, 2005>

Article 1 (Enforcement Date)

This Act shall enter into force one year after the date of its promulgation.

Articles 2 through 6 Omitted.

ADDENDA <Act No. 8852, Feb. 29, 2008>

Article 1 (Enforcement Date)

This Act shall enter into force on the date of its promulgation. (Proviso Omitted.)

Articles 2 through 7 Omitted.

ADDENDA <Act No. 8863, Feb. 29, 2008>

Article 1 (Enforcement Date)

This Act shall enter into force on the date of its promulgation.

Articles 2 through 5 Omitted.

ADDENDA <Act No. 8907, Mar. 14, 2008>

(1) (Enforcement Date) This Act shall enter into force on the date of its promulgation.

(2) (Applicability to Modification of Disqualification as Executive) The amended provisions of Article 10 shall apply from the first person who becomes disqualified as executive due to the reason occurring after this Act enters into force.