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KSD businesses are grouped into the following categories:

- Centralized deposit of securities
- Settlement of securities by book-entry transfer
- Cross-border securities deposit & settlement
- Transfer agent service
- Bond registration service
- Intermediary services for securities lending and borrowing
- Tri-party Repo service
- Entitlement processing (voting, dividends, redemption, payment, etc)
- Custodian services for DR underlying shares
- CB/BW conversion into shares
- OTC derivatives collateral management
- Substitute securities management for future transactions
- Separate custody of securities

关于KSD

韩国证券存管中心（KSD）负责一系列与证券相关的业务，包括证券交易的发行、存管、结算和权益处理。KSD是一个非营利的、具有法定实体性质的机构，由截至2003年底的92名股东拥有。股东包括证券公司、银行、保险公司、投资和信托公司，以及其他金融机构。目前有468家机构参与KSD系统，其中大多数是金融机构。KSD总部设在首尔，设有5个分公司在全国范围内运营。

作为KSD的角色直接影响了韩国的金融和证券市场，一系列严格的措施被实施，以确保其操作的公平性和透明度。监管KSD业务的实体包括财政部（MoFE），金融监管委员会（FSC），以及金融监管服务（FSS）。
KSD Repo Service is a Tri-party (third party) Repo service, which means that securities are held by an independent third party, usually custodians like KSD. KSD places the securities into a segregated account in which the buyer is able to maintain full control over the securities for Repo, and provides management services for settlement of securities and cash, MTM (Mark to Market), etc. Also BOK (The Bank of Korea) is supposed to take part in KSD Tri-party Repo service from April, 2006 for money supply as part of Open Market Operation. In accordance with the policy, KSD Tri-party Repo service is expected to play more important role in Korean Repo Market.

Characteristics of KSD Repo Service

- Fairness by Independence
  Including evaluation and substitution, all management process with regard to transactions is executed and maintained by an independent KSD in a completely fair manner.

- Flexibility by Customization
  KSD Repo Service is designed for Over-the-Counter (OTC) market, so it is suited to various forms of transactions. With consent from both parties of a transaction, most of the trade conditions can be set and adjusted: transaction type, Repo rate, term, and so on.

- Safety by Repo Account
  Repo Account is an exclusive account for Repo transactions distinct from ordinary deposit accounts, although the legal status of a Repo account is the same as that of an ordinary deposit account. Therefore, the Repo account is used as a proper tool for safe custody and as evidence for proving that certain securities are objects of Repo transactions.

Overview

Repo is an abbreviation for “Repurchase Agreement”, referring to a purchase or sale of securities, which entails a transaction in the opposite direction afterwards. One party sells securities to another while simultaneously agreeing to repurchase them on a future date at a specified price. The two parties involved agree to make two separate deals as a package. In Korea, it is called as “RP trading between institutions”.

Initially, Repo was introduced in Korea as a means for loans. Also, in addition to its initial role, Repo has now positioned itself as a tool for other forms of transactions like matched book operation, arbitrage, hedging a position, etc.

Repo in Korea

From a legal point of view, Repo is a transaction of bonds. Therefore, legal title to the securities is passed over to the buyer (transferee) so that the buyer can dispose of the securities during the predetermined period.

Although a Repo transaction appears to be a sale and purchase of securities, the substance of the transaction is basically a collateralized loan.

Therefore, the buyer should regard the securities as collateral and cannot state them as a kind of asset on its balance sheet, even if it retains the legal ownership and can dispose of them. Also, if any income payment happens during the Repo transaction period, the buyer is obliged to compensate a matching payment to the seller (transferor) for the loss of the income from the securities at the same day.
Participation

As a foreign participant has difficulties in exercising rights and fulfilling duties, KSD regulates that foreign participants must appoint standing proxies for their Repo transactions. In addition, a foreign participant is required to register his personal details with the Financial Supervisory Service (FSS) in advance, as specified in the Regulation on Securities Business Supervision (§ 7-16).

In order to participate in KSD Repo Service, an applicant should file an application with KSD by submitting the specific forms as follows.

- Application form for participation and opening an account
- A copy of Investment Registration Certificate (IRC, Investment ID)
- A copy of standing agent agreement

**Principal institutions** defined in the Regulation on Securities Business Supervision (§ 5-26): banks, securities investments, insurers, trusts, mutual savings and finance, agricultural/fisheries cooperatives, credit unions, foreign institutions corresponding to above mentioned institutions, etc.

Besides, settlement agents, brokers (intermediaries) can participate as principal institutions.

Eligible Securities

All kinds of bonds including government bonds, municipal bonds, special bonds, corporate bonds, and other kinds of bonds are eligible as long as they are denominated in the Korean Won (KRW).

Also a range of Collateral for Repo Trade will be extended to CD, CP, MBS etc. in the near future.
Settlement

Method of Settlement

KSD settles cash and securities on Delivery Versus Payment (DVP) basis using its own system linked with the national payment system by the Bank of Korea (BOK-wire). The real-time gross settlement (RTGS) of KSD Repo Service is especially suitable for various transactions in the OTC market.

However, in case that both of the trade parties agree, they can choose Free Of Payment (FOP) settlement whereby securities and cash are settled separately.

Settlement for start leg (first leg)

In order to use KSD Repo Service, both trade parties are obliged to notify KSD of trade details through KSD Repo system. If a Repo transaction is intermediated by an Inter Dealer Broker (IDB), all trade details are automatically notified by the IDB.

If trade details from each of the trade parties or IDB are exactly matched, the KSD system will proceed with settlement process. In the case of intermediation, the system requires the approval of trade counterpart.

For the success of settlement, above all, the seller should deposit proper securities corresponding to trade conditions into its ordinary account. After checking whether the securities in that account is enough to meet security requirements, KSD asks for the payment from the buyer. When the proceeds are paid out to the seller, the securities are delivered to the buyer simultaneously by KSD system and BOK-wire.

IDB (Inter Dealer Broker)

Intermediaries doing brokerage. KSD cannot act as a Repo intermediary, only IDB can. Especially, Korea Inter Dealer Broker (KIDB), one of Korean IDBs, has the system linked with KSD Repo Service, so trade details are automatically notified to KSD by KIDB.

Settlement for close leg (second leg)

At maturity or in the occurrence of default defined in the terms and conditions of the agreement, KSD notifies trade parties involved that the outstanding transaction should be taken to go through the settlement for the close leg. The settlement of the close leg is proceeded in the opposite direction to the start leg.
Mark To Market (MTM)

In order to minimize market risk (price fluctuation risk), KSD Repo Service carries out marking to market (MTM), for which KSD evaluates the market value of securities at the close of business.

If the value of purchased securities changes over an agreed amount or percentage (margin maintenance limit), one party calls for extra margin to the other party. KSD receives the price of securities on a daily basis from three bond pricing companies authorized by Financial Supervisory Service (FSS) to evaluate bonds.

If a participant intends to defer exercise of margin call, it has to notify KSD of such intention in advance.

Of course, MTM is also an option which can be done or not according to the consent of both parties. If both parties feel that there is no need to mark to market, KSD doesn't.

Classification of Securities

KSD classifies securities involved in a Repo transaction into two categories, 'purchased securities (underlying securities)' and 'margin securities'.

Purchased securities are the ones delivered at the initiation of Repo transaction. They can be disposed of at anytime at the buyer's own will. Margin securities are the ones put up in order to minimize market risk after initiation. They are just regarded as collateral, so the buyer holds them but cannot dispose of them except when the involved transaction is in default.

If the market value of the purchased securities rises, the seller calls for extra margin securities. If the market value of purchased securities falls, the buyer calls for extra margin securities, too.

Purchased securities and margin securities are managed separately because KSD draws a clear line between them. Therefore, participants don't have to care about discrimination.

As purchased securities are at buyer's disposal, they should be substituted and exchanged with the counterpart's consent. On the contrary, margin securities just play a role as collateral. When they are substituted, they don't need the counterpart's consent.

However, margin must be substituted within margin pool. Margin pool defines which kinds of securities can be put up and it is fixed with the consent of both trade parties. Of course, if both parties agree, margin can be paid with cash in place of securities.
**Default**

Default occurs at stages of repurchase, adjusted settlement, margin call, exchange of securities, or income payment. Major events of default are as follows.

- Fail to pay the cash amount on the close leg of a transaction
- Fail to pay a margin call
- Fail to pay a manufactured payment
- Fail to exchange purchased securities, etc.

When a default occurs, follow-up measures taken by KSD differ depending on the cause of defaults.

**Default by seller**

Purchased securities and all margin are delivered to the buyer's ordinary account.

**Default by buyer**

Purchased securities are transferred to the buyer's ordinary account from buyer's Repo account, and the seller doesn't have to refund the proceeds and interest. All margin, including cash and securities, is delivered to the seller's ordinary account.

In any case, the most important basis of legal proceedings for default is the Repo agreement. Therefore, both trade parties should ensure that documentation is in place to claim losses and check related provisions in advance.

In order to reduce extra administrative burden, it is much better to use generally authorized agreement, such as Global Master Repo Agreement (GMRA) or Agreement by Korea Securities Dealers Association (KSDA).
Trade counterparts may change terms and conditions of Repo transaction before the transaction becomes due.

**Trade Adjustment (including roll-over)**

The size and term of a Repo transaction can be adjusted before the transaction is due. Once an adjustment is made, the outstanding transaction is settled on the day of adjustment and the parties are engaged in a new transaction.

Only netted amount of securities and money is settled when adjustment is made, but the accrued Repo interest during the past term must be paid to the buyer from the seller.

**Change of Conditions**

Both of the trade parties can change part of trade conditions with or without a prior consent from the other party depending on cases. Changes can be made in such areas as appointment of a settlement agent, Repo rate, etc.

Change of a settlement agent, which does not affect counterpart's interest, can be made without a prior consent. However, other changes require consent from the other party.

**Repo Securities Substitution and Exchange**

A seller may substitute other securities for the purchased securities, at any time between the purchase date and the repurchase date, with the consent of the buyer. Substituting margin securities has different process from purchased securities. It is provided that margin substitute securities must be within margin pool and there is no need to get consent from the counterpart. However, even after the substitution of margin, the market value of remained margin must meet required margin.

If the issuer of purchased securities becomes subject to the suspension by a clearing house or a corbs-bank, for example, declaration of bankruptcy or actual insolvency, the buyer can request the seller to exchange the purchased securities. Since KSD manages the information of securities as a public institution, trade parties can be informed of that kind of information by KSD in advance.
At the date of income payment, the buyer is obliged to make a matching payment to the seller to compensate for the loss of income. This is the basic nature of Repo and applicable regulatory provisions are the provisions of GMRA and the agreement of the Korea Securities Dealers Association (KSDA).

Income Payment
As a Repo Service agent, KSD operates in a way that the seller directly receives income proceeds from purchased securities and margin securities, which is usually interest from bonds, not through the buyer, as if the seller had securities.

Even though the buyer isn’t holding the purchased securities at the income payment date after selling them, the buyer should pay the net amounts after tax withheld through KSD.

Exchanging securities differs from substitution in the absence of prior consent. Also, if there is a request for exchange from the buyer in accordance with the preceding paragraph, the seller is bound to undertake its obligation at the date of request. This may cause the default of the involved transaction otherwise.

As the serious change of margin in credit is immediately reflected on the price of securities, for margin securities just as collateral, there is no exchange.

Income Management: manufactured payment

Income Management
When a Repo transaction is initiated, both parties must agree on the sort of securities. Only margin securities within the range of the margin pool are allowed to be involved in the particular Repo transaction.
Cross Currency Repo

The seller can take cash in other currencies (USD, JPY, EUR, etc.) other than Korean won but offer securities denominated in Korean won. This is called cross currency Repo.

The exchange rate applied to MTM in cross currency Repo is also one of trade conditions. The other services are the same as in the case of Korean Won Repo.

Reporting

KSD reports to both parties detailed information about each transaction including balance of securities and history on a daily basis.

Taxation

If the buyer is holding the purchased securities at the income payment date, KSD pays to the seller the net amount after withholding tax and issues a certificate of tax withholding to the seller, which reduces much administrative work for both sides. This process is also applied to margin securities.

However, if the buyer isn't holding purchased securities, which means KSD is in a state where it cannot withhold tax, KSD settles taxation problems as possible as it can so that the seller can be free from those taxation problems and the buyer will be notified of tax amount paid and advice, if any.
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