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CASH AND TREASURY MANAGEMENT
COUNTRY REPORT

SOUTH KOREA

Executive Summary

Banking

The South Korean central bank is the Bank of Korea (BOK). Within the BOK, the main objective is to maintain price stability. Bank supervision is performed by the (FSC) and its executive arm, the Financial Supervisory Service (FSS).

South Korea applies central bank reporting requirements. These are managed by the BOK, according to the rules set out in the Bank of Korea Act and the Statistics Law of 1962 and relevant regulations.

Resident entities are permitted to hold foreign currency bank accounts domestically and outside South Korea. Domestic currency accounts are not convertible into foreign currency. Non-resident entities are permitted to hold domestic and foreign currency bank accounts within South Korea. Non-residents are also allowed to hold “non-resident free won accounts,” which are convertible.

Since implementing a number of banking and regulatory reforms following the Asian financial crisis in 1997, the number of credit institutions operating within South Korea has reduced from 33 commercial banks in 1997 to 12. The banking sector consists of seven nationwide commercial banks, six local banks, and five specialized banks. There is a significant foreign banking presence in South Korea – 42 foreign banks have established branches in the country.

Payments

South Korea’s two main interbank payment clearing system operators are the BOK and the Korea Financial Telecommunications and Clearing Institute (KFTC). The BOK operates the country’s RTGS system, while the KFTC operates the country’s main retail payment systems.

The most important cashless payment instruments in South Korea are credit cards in terms of volume, and, in terms of value, credit transfers.

Liquidity Management

Korean-based companies have access to a variety of short-term funding alternatives. There is also a range of short-term investment instruments available.

Foreign exchange regulations which previously prohibited liquidity management techniques have been liberalized over the past ten years, allowing for the establishment of cash management practices. Of the available cash concentration techniques, zero-balancing is the most commonly used.

Notional pooling is not available in South Korea.

Trade Finance

Almost all trade between South Korea and the member states of the Association of South-East Asian Nations (ASEAN), is free from tariffs and other controls. South Korea has bilateral agreements with Australia, Canada, Chile, China, the European Union, India, Kyrgyzstan, Peru, Singapore, Turkey, Vietnam, New Zealand and the USA.

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PNC's International Services

PNC can bring together treasury management, foreign exchange, trade finance and credit capabilities to support your international needs in a coordinated and collaborative way.

International Funds Transfers

International Funds Transfers to over 130 countries in USD and foreign currency can be accessed through PINACLE®, PNC's top-rated, online corporate banking portal.

Multicurrency Accounts

Set up demand deposit accounts that hold foreign currency instead of U.S. dollars. These accounts offer a simple and integrated way to manage and move money denominated in more than 30 currencies, including offshore Chinese Renminbi. You can easily view deposit and withdrawal details through PINACLE.

PNC Bank Canada Branch ("PNC Canada")

PNC Bank, through its full service branch in Canada, can help you succeed in this important market. PNC Canada offers a full suite of products including payables, receivables, lending, and specialized financing to help streamline cross border operations.

Multibank Services

PNC's Multibank Services provide you with balances and activity for all your accounts held with PNC and other financial institutions around the world. PINACLE's Information Reporting module can give you a quick snapshot of your international cash position, including USD equivalent value, using indicative exchange rates for all your account balances. You can also initiate Multibank Transfer Requests (MT101s), and reduce the time and expense associated with subscribing to a number of balance reporting and transaction systems.

Establish accounts in foreign countries

Establishing good banking relationships in the countries where you do business can simplify your international transactions. PNC offers two service models to help you open and manage accounts at other banks in countries outside the United States.

- PNC Gateway Direct comprises an increasing number of banks located in many European countries and parts of Latin America. PNC's team will serve as a

point of contact for setting up the account helping with any language and time barriers and will continue to serve as an intermediary between you and the bank you select. You can access reporting and make transfers via PINACLE.

- PNC's Gateway Referral service can connect you to a correspondent banking network that comprises more than 1,200 relationships in 115 countries.

Foreign Exchange Risk Management

PNC's senior foreign exchange consultants can help you develop a risk management strategy to mitigate the risk of exchange rate swings so you can more effectively secure pricing and costs, potentially increasing profits and reducing expenses.

Trade Services

PNC's Import, Export, and Standby Letters of Credit can deliver security and convenience, along with the backing of an institution with unique strengths in the international banking arena. PNC also provides Documentary Collections services to both importers and exporters, helping to reduce payment risk and control the exchange of shipping documents. We assign an experienced international trade expert to each account, so you always know your contact at PNC and receive best-in-class service. And PNC delivers it all to your computer through advanced technology, resulting in fast and efficient transaction initiation and tracking.

Trade Finance

For more than 30 years, PNC has worked with the Export-Import Bank of the United States (Ex-Im Bank) and consistently ranks as a top originator of loans backed by the Ex-Im Bank both by dollar volume and number of transactions.¹

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(1) Information compiled from Freedom of Information Act resources.

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Financial Environment

Country Information

Geographical Information

Capital	Seoul
Area	99,720 km ²
Population	50.92 million
Official language	Korean
Political leaders	Head of State — Acting president Hwang Kyo-ahn (since December 9, 2016) Head of Government — Prime Minister Hwang Kyo-ahn (since June 18, 2015)

Business Information

Currency (+ SWIFT code)	South Korean won (KRW)
Business/banking hours	08:30/09:00-17:30/18:00 (Mon-Fri)
Bank holidays	2017 – March 1, May 1, 3, 5, June 6, August 15, October 3-6, 9, December 20, 25 2018 – January 1, February 15-17, March 1, May 1, 7, 22, June 6, August 15, September 23-26, October 3, 9, December 25 2019 – January 1, February 4-6, March 1, May 1, 6, 12, June 6, August 15, September 12-14, October 3, 9, December 25 Source: www.goodbusinessday.com .
International dialing code	+ 82

Country Credit Rating

FitchRatings last rated South Korea on October 20, 2016 for issuer default as:-

Term	Issuer Default Rating
Short	F1 +
Long	AA -
Long-term rating outlook	Stable

Source: www.fitchratings.com, February 2017

Economic Statistics

Economics Table

		2010	2011	2012	2013	2014
GDP per capita	(USD)	22,590	24,676	24,648	26,190	28,186
GDP	(WAN trillion)	1,265	1,333	1,377	1,429	1,486
GDP	(USD billion)	1,094	1,202	1,223	1,306	1,411
GDP volume growth*	(%)	+ 6.5	+ 3.7	+ 2.3	+ 2.9	+ 3.3
BoP (goods, services & income) as % GDP		+ 3.1	+ 1.9	+ 4.6	+ 6.5	+ 6.3
Consumer inflation*	(%)	+ 3.0	+ 4.0	+ 2.2	+ 1.3	+ 1.3
Population	(million)	48	49	50	50	50
Unemployment	(%)	3.7	3.4	3.2	3.1	3.5
Interest rate (local currency MMR)[†] (%)		2.2	3.1	3.1	2.6	2.3
Exchange rate[‡]	(WAN per USD)[†]	1,156.1	1,108.3	1,126.5	1,094.9	1,053.0
		2015		2016		
		Q4	Year	Q1	Q2	Q3
GDP per capita	(USD)	-	27,398	-	-	-
GDP	(WAN trillion)	-	1,559	-	-	-
GDP	(USD billion)	-	1,378	-	-	-
GDP volume growth*	(%)	+ 3.1	+ 2.6	+ 2.8	NA	NA
BoP (goods, services & income) as % GDP		-	+ 8.0	-	-	-
Consumer inflation*	(%)	+ 1.1	+ 0.7	+ 1.0	+ 0.9	NA
Population	(million)	-	50	-	-	-
Unemployment	(%)	3.1	3.6	4.3	3.8	3.6
Interest rate (local currency MMR)[†] (%)		1.5	1.7	1.5	1.4	NA
Exchange rate[‡]	(WAN per USD)[†]	1,157.1	1,131.2	1,202.1	1,163.2	1,120.0

*Year on year. [†]Period average. [‡]Market rate.

Sources: *International Financial Statistics*, IMF, December 2016.

Sectoral Contribution as a % of GDP

Agriculture - 2.3%

Industry - 37.6%

Services - 60.2% (2016 estimate)

Major Export Markets

China (26%), USA (13.3%), Hong Kong (5.8%), Vietnam (5.3%), Japan (4.9%),

Major Import Sources

China (20.7%), Japan (10.5%), USA (10.1%), Germany (4.8%), Saudi Arabia (4.5%)

Political and Economic Background

Economics

Interest Rate Management Policy

South Korea's interest rate is set by the Bank of Korea (BOK). Its main objective is to maintain price stability, defined by the BOK for 2016 -2018 as keeping inflation at 2% (plus or minus 0.5%) calculated by the year-on-year change in the Consumer Price Index (CPI). Interest rates are set at monthly meetings of the BOK's Monetary Policy Committee.

Foreign Exchange Rate Management Policy

Following the country's currency crisis, South Korea has operated a free-floating exchange rate policy since December 16, 1997. The KRW exchange rate is determined through supply and demand in the foreign exchange market. The BOK is permitted to intervene to manage the won exchange rate relative to other currencies during volatile periods in the market.

Major Economic Issues

South Korea achieved impressive growth in the latter part of the 20th century through a policy of state-directed capitalism. The government promoted rapid industrialization, an export-driven economy and high consumer savings and investment rates, and emphasized education standards. As a result, South Korea lifted the GDP per head to that of an advanced nation, experienced low unemployment and good public services, entered the group of trillion dollar economies in 2004 and became the fourth largest exporting country in Asia, all in a period of 40 years.

However, the Asian Crisis of 1997 exposed weaknesses in the country's outdated economic and financial model. Following an IMF bailout package for the financial system, the government enacted a series of reforms to bring better transparency to the financial system and to move towards a more market-led economy. A key feature was the aim of bringing about the restructuring of the country's conglomerates or *chaebols*, which had been highly leveraged prior to the crisis. The government liberalized exchange controls and foreign investment rules with the 1998 Foreign Exchange Transaction Act (FETA). It also recognized the need to address its rigid labor market practices and to make its public finances more transparent and efficient.

The economy expanded at an annualized rate of 3.0% during 2013, 3.3% in 2014 and 2.6% in 2015 according to government estimates, but the government has continued to initiate economic stimulus packages to aid the economy, the most recent of which was a USD 17 billion package in announced in June 2016.

Politics

Government Structure

Political power is divided between the executive, legislative and judicial branches of government at a national level in South Korea under the terms of the Korean constitution (Constitution of the Republic of Korea).

The national government is based in Seoul.

There are nine regional provinces and seven metropolitan cities, within which there are 16 provincial-led governments and 230 municipal governments.

The president is the head of state, exercising power as chief executive, chief policy maker and commander-in-chief of the armed forces.

Executive

At the national level, the executive is headed by the president. The president is directly elected every five years for a single term. The president performs his executive role through the State Council. Members of the State Council are appointed by the president on the recommendation of the prime minister. The prime minister is appointed by the president and approved by the National Assembly. The prime minister serves as the principal executive assistant to the president, managing the administrative bodies and overseeing the Office for Government Policy Coordination.

The current administration is headed by acting President Park Hwang Kyo-ahn who has been appointed to the position while the Constitutional Court in South Korea decides whether to uphold a parliamentary vote of impeachment for former President Park Geun-Hye. The former President was a conservative Saenuri Party candidate (formerly Grand National Party) and won the presidential election held on December 19, 2012. The main opposition parties are the United New Democratic Party, the left-leaning Democratic Labor Party and the centrist Reformists Democratic Party.

Legislature

At a national level, South Korea has a unicameral legislature.

The 299-member National Assembly (or Kukhoe) is elected every four years. Members are elected either via simple majority voting (243 members) or via proportional representation (56 members).

International memberships

South Korea is a member of the Organization for Economic Cooperation and Development (OECD), the Bank for International Settlements (BIS), the World Trade Organization (WTO), the United Nations (UN) and is a dialogue partner with the Association of South East Asian Nations (ASEAN).

Major Political Issues

The future development of relations with North Korea remains the dominant domestic issue for South Korea. When former President Lee Myung-bak took office in February 2008, ending a decade of center-left rule, he abolished the “Sunshine Policy” of engagement with North Korea leader Kim Jong Il, pioneered by former president Kim Dae-jung. The government of former president Lee Myung-bak’s adopted a policy that links economic cooperation with its northern neighbor to resolving the international standoff over the country’s nuclear program and this showed some signs of a gradual thawing in relations. However, on March 26, 2010, the Cheonan South Korean naval ship was sunk close to a disputed inter-Korean maritime border. International investigators concluded that a North Korean submarine was responsible for the attack. South Korea suspended all trade with the North as well as referring North Korea to the United Nations. North Korea denied the attack and, on May 25, 2010, announced it was severing all ties with the South. South Korea has since run joint military exercises with the USA. North Korea has since held a series of nuclear weapons tests, cut-off the direct hotline for communication between the two states and closed the Kaesong joint industrial park, all resulting in tensions remaining elevated.

Another ongoing political issue is South Korea’s relations with the USA, one of its largest trading partners. South Korea and the USA signed a free trade agreement in April 2007, which was eventually ratified by the US Congress in October 2011, having been delayed by opposition from some US exporters. In South Korea some trade unions and opposition politicians also oppose the deal, which they see as weakening South Korea’s position in its relationship with the US. However, South Korea’s parliament finally ratified the deal in November 2011 and the agreement came into force from March 2012. The Saenuri Party government is also supportive of South Korea’s military and political alliances with the USA. The softening of the US administration’s stance towards engagement with North Korea, the South Korean government’s harsher stance toward its northern neighbor and a Saenuri Party victory in both presidential and National Assembly elections have improved relations between South Korea and the USA.

In December 2012 Park Geun-hye won a close election to become South Korea’s first female president, taking office on February 25, 2013. Park Geun-hye represents the same conservative Saenuri Party as her predecessor Lee Myung-bak, meaning the party retains power of both the presidency and government in South Korea, which it won in National Assembly elections April 2008, after a decade of center-left rule. However from October 2016 President Park Geun-Hye’s position was thrown into crisis when revelations emerged that she allowed a personal friend, with no government position, to act in affairs of state. South Korea’s parliament voted to impeach Park Geun-Hye in December 2016 and Prime Minister Kyo-ahn has been appointed acting president until the Constitutional Court decides whether this parliamentary decision will be upheld.

Hwang Kyo-ahn became South Korea’s latest prime minister in June 2015 following a series of prime minister resignations since 2014.

Taxation

Resident/Non-resident

A company which has its headquarters, main office or a place of effective management in South Korea is considered to be a domestic company.

Tax Authority

National Tax Service (NTS).

Tax Year/Filing

The business year should be specified in the company's articles of incorporation or in the bylaws, and should not exceed one year. Most companies use the calendar year.

Korea operates a self-assessment system. If the business year is longer than six months, advance tax must be paid for the first six-month period of the business year, based on 50% of the previous year's tax liability or the actual financial performance for the six-month period. Filing and payment of advance tax must be made within two months after the first six-month period. Companies must file a year-end income tax return within three months (four months for companies filing a consolidated tax return) after the end of a fiscal year and attach the balance sheet, income statement, statement of appropriation of retained earnings (or statement of disposition of deficit) and other relevant documents. A branch of a foreign corporation may be granted an extension of time to file its tax return in certain cases. Domestic companies subject to mandatory external audit also may have a one-month extension for filing in certain cases.

A consolidated return system is available for a parent company and its 100% directly or indirectly owned domestic subsidiaries.

Corporate Taxation

A domestic company is taxable on its worldwide income. A foreign company with a permanent establishment (PE) in South Korea is required to file its corporate tax return disclosing the income attributable to the PE. A foreign company without a PE in South Korea is taxable on its Korean-sourced income for Korean corporate income tax purposes.

Corporate income tax rates are as follows:

Tax base	Tax rate (including local surtax)
Above KRW 20 billion	22% (2.2%)
KRW 200 million–KRW 20 billion	20% (22%)
KRW 200 million or below	10% (11%)

A local surtax of 10% of the corporate income tax due applies.

Corporate taxpayers are subject to a minimum tax that is imposed at a rate of 10% on taxable income up to KRW 10 billion, 12% on taxable income above KRW 10 billion up to KRW 100 billion, and 17% on taxable income over KRW 100 billion (7% for SMEs).

Losses may be carried forward for up to ten years. Small and medium-sized enterprises may be allowed to carry losses back for one year. Effective from January 1, 2016, a deduction limitation on the tax loss carryforward is introduced. Under the new deduction limitation rule, companies other than small and medium-sized enterprises (SMEs) may utilise their tax loss carryforwards to set off only 80% of the taxable income for a fiscal year.

Various types of tax credits and exemptions are available, such as an investment tax credit, R&D tax credit, tax exemption for high-tech foreign-invested companies, etc., provided the requirements of the Tax Incentive Limitation Law are met.

Advance Ruling Availability

A taxpayer can submit a written ruling request to the NTS or the Ministry of Strategy and Finance (MOSF) to resolve or clarify certain tax issues before entering into transactions. Obtaining a ruling can take from a few weeks to several months. Such rulings are public information. Although third parties can refer to rulings, they are only binding upon the party requesting them.

The tax authorities may issue a private tax ruling in response to a taxpayer's inquiry as to the interpretation/application of the tax law.

An advance ruling system also is in place.

Withholding Tax (Subject to Tax Treaties)

	Dividend	Interest	Royalties	Technical Service Fees	Branch Remittances
Resident company	None	14% or 25%	None	None	NA
Non-resident company (including local surtax)	22%	15.4-22%	22%	22%	5%-15%

Interest on a regular loan paid to a non-resident company or an individual is subject to a 22% withholding tax (including the local surtax). Interest on bonds is subject to a 15.4% withholding tax (including the local surtax). The rate may be reduced under a tax treaty, although withholding at the domestic, rather than treaty, rate may be required for certain payments to jurisdictions regarded as tax havens.

Disallowed interest may be treated as a dividend; refer to the Thin capitalization section.

The taxation of a gain from trading in derivative products or sophisticated financial products is still in the development stage in South Korea and there are currently no definite rules. Certain gains are treated as interest and other gains are treated as other income. Withholding tax rates would differ depending upon the character of the income derived.

Income from transactions in financial investment services and capital markets law derived by a foreign company with no permanent establishment in South Korea are not treated as Korean-sourced income subject to Korean withholding tax.

Services rendered by a non-resident company or an individual in Korea generally are classified as personal services income and subject to a 22% withholding tax (including the local surtax). An exemption may apply under a tax treaty. Technical service fees for any transfer of technical information or know-how may be classified as a royalty.

In general, there is no branch remittance tax. However, a branch tax, ranging from 5% to 15% of after-tax profits less deemed re-invested capital, may be levied if a tax treaty between Korea and the country in which the branch's head office is resident allows Korea to impose the branch tax.

Application for Reduced Tax Rate

Foreign companies or non-residents who become substantial beneficiary owners of domestic source income, such as interest, dividends etc., that is subject to withholding taxes in Korea, should submit an 'Application for Reduced Tax Rate' to the withholding agent before the date of payment in order to enjoy the reduced tax rate in tax treaties between Korea and other countries.

Tax Treaties / Tax Information Exchange Agreements (TIEAs)

The South Korean government has entered into tax treaties with more than 80 countries. When domestic tax law conflicts with a tax treaty, the tax treaty overrides domestic law.

South Korea has exchange of information relationships with 106 jurisdictions through 95 double tax treaties and 11 TIEAs (www.eoi-tax.org, January 2017).

Transfer Pricing

Transactions with overseas related parties must be made on arm's length terms. The following transfer pricing-related information must be disclosed when filing a corporate income tax return:

- a report on the selected transfer pricing method and the reason for its selection;
- a schedule of the taxpayer's international transactions with foreign related parties; and
- a summary income statement for foreign related parties.

Effective from January 1, 2016, domestic companies and permanent establishments of a foreign company that have annual sales of more than KRW 100 billion and a transaction volume with foreign related parties of more than KRW 50 billion per year are required to submit additional transfer pricing documentation (i.e. a comprehensive report on cross-border transactions, including a "master file" and a "local file"), which provides organization/management information, cross-border transaction information, various business/intangible asset/financial/tax information, etc.

Both unilateral and bilateral advance pricing agreements are available.

Thin Capitalization

For domestic companies, thin capitalization applies where borrowings exceed 300% of net equity or paid-in capital, but in the case of borrowings advanced by a financial institution the limit is increased to 600%.

In addition, the foreign exchange rate on the fiscal year-end date is used by general companies to convert borrowings denominated in foreign currencies for thin capitalization purposes. Financial institutions, however, can choose one of the following two exchange rates:

- (i) standard foreign exchange rate on fiscal year-end date; or
- (ii) standard foreign exchange rate on each day.

If a foreign invested company borrows from a foreign controlling shareholder (FCS), or an FCS or head office guarantees borrowings from third parties, and such borrowing exceeds 200% (600% for financial institutions) of its net equity or paid-in capital, whichever is greater, then the interest expense on the debt exceeding 300% (600% for financial institutions) of the FCS's share of the borrower's net equity or paid-in capital is not a deductible expense for Korean corporate income tax purposes. Furthermore, any disallowed interest is treated as a dividend to the FCS and is subject to withholding tax. An FCS is a head office or a foreign entity owning, directly or indirectly, 50% or more of the shares of a Korean company or a foreign entity that substantially controls the Korean company.

When a company borrows funds that are then used to lend to related parties, a portion of the interest expense incurred by the company, equivalent to the ratio of the loans made to the related party over the company's total borrowings, would not be deductible for income tax purposes. This is because the loan to a related party would be considered a non-business asset under the corporate income tax law when the lender is not engaged in a financing business.

Cash Pooling

There are no specific tax rules for cash pooling arrangements. However, under the commercial law and foreign currency transaction regulations, there is a provision to enable cash pooling and cash concentration among affiliates worldwide.

Real Estate Taxes

A company that owns land, buildings, ships and aircraft as at a certain assessment date is subject to property tax on such assets. The tax rates range from 0.24% to 0.6% (including the education surtax), depending on the type of property. A company that owns real estate, such as land or residential buildings, is subject to the comprehensive real estate tax in addition to the local property tax.

Also see Stamp duty section.

Controlled Foreign Companies

When 10% or more of the issued shares in a foreign company are owned by a Korean resident and the average effective income tax rate of the foreign company for the most recent three consecutive years is 15% or less, the Korean resident is deemed to have received a dividend of an amount equal to “deemed distributable retained earnings” multiplied by the shareholding ratio, even though there has been no actual distribution of such retained earnings to the Korean resident.

Acquisition Tax

When a taxpayer acquires certain assets, such as real estate, a vehicle or luxury assets (including golf club membership) set out in the Local Tax Law, generally, a 4.6% acquisition tax (including local surtax) is imposed on the purchasing price of the assets acquired.

When a shareholder acquires over 50% of the shares in a domestic company, the shareholder is deemed to have acquired the underlying assets, as mentioned above, of that company; therefore the acquiring shareholder is subject to deemed acquisition tax on the book value of such assets.

Assets located in the Seoul metropolitan area are subject to an increased tax burden equal to two to four times the acquisition tax.

Registration Tax

A company is subject to capital registration tax at 0.48% (including local surtax) on the amount of capital contributed. The tax rate triples when the company is located in the Seoul metropolitan area to 1.44%.

The registration tax for certain acquired assets has been combined with acquisition tax.

Securities Transaction Tax

Securities transaction tax is imposed on the seller at a rate of 0.5% for unlisted shares and 0.3% for listed shares of the transfer price upon the sale of securities.

Sales Taxes / VAT

VAT is levied on all taxable goods and services and on all taxable goods imported into South Korea.

The standard rate is 10%, but VAT is zero-rated for certain supplies or services, including the export of goods, services provided outside Korea, and international navigation services involving ships and aircraft.

Public transportation services, certain food products, publications, medical services, and services provided by financial institutions such as banking, insurance and securities listed in the VAT law are exempt from VAT.

As from July 1, 2015, VAT applies to foreign suppliers that provide electronic services (e.g. games,

audio or video files, software, etc. activated through mobile communication devices or computers) to persons (other than tax-registered businesses) in Korea using information communication networks.

All domestic businesses supplying taxable goods or services must register with the tax authorities for VAT purposes. Foreign suppliers that provide electronic services via information communication networks should access the National Tax Service (NTS) website and apply for simplified registration of the business with the NTS.

Stamp Duty

Stamp tax is imposed when a document verifying that property rights are found, transferred or changed is newly made, but the tax is not significant.

Capital Gains Tax

Domestic companies report capital gains, together with other profits earned by the company, on their corporate tax return and there is no preferential rate for capital gains.

Korean-source capital gains derived by a non-resident are taxed at the lesser of 11% of the sales proceeds received or 22% of the gains realized.

Payroll and Social Security Taxes

Employers are required to withhold income taxes, pension contributions and insurance contributions from their employees' payroll on a monthly basis, and to submit them to the appropriate government offices by the tenth day of the month following the month in which salaries are paid.

An employer must make four types of social security contributions – National pension, national health insurance, (un)employment insurance and industrial injury compensation insurance (with employees also contributing to the first three) – to the government at approximately 8% to 11% of the salaries paid to its employees.

All tax information supplied by Deloitte Touche Tohmatsu and Deloitte Highlight 2017 (www.deloitte.com).

Cash Management

Banking System

Banking Regulation

Banking Supervision

Central bank

The South Korean central bank is the Bank of Korea (BOK). It was established in 1950 and is based in Seoul. Its authority derives from the Bank of Korea Act and its subsequent amendments.

Within South Korea, it is the banker to the government and to other banks. It issues currency, decides and implements monetary policy, manages South Korea's monetary reserves and operates and manages payment and settlement systems. Within the BOK, the main objective is to maintain price stability.

The BOK has 16 domestic branches.

Other banking supervision bodies

Bank and insurance company supervision is performed by the Financial Services Commission (FSC) and its executive arm, the Financial Supervisory Service (FSS). The Securities and Futures Commission, established under the FSC, is responsible for supervising securities firms.

In addition, the BOK performs certain supervisory functions as stipulated by the Bank of Korea Act, such as requesting on-site examination of banking institutions by the FSS or joint examination with the FSS.

Central Bank Reporting

General

South Korea applies central bank reporting requirements. These are managed by the BOK, according to the rules set out in the Bank of Korea Act and relevant regulations.

What transactions - listed

Transactions in the following categories must be reported monthly to the BOK:

- All payments and receipts between resident and non-resident bank accounts
- All remittances and withdrawals made by residents from residents' accounts held abroad. (However, there is no requirement to report transactions between non-residents' accounts with residents' accounts held outside South Korea.)

Whom responsible

All payments and receipts between residents and non-residents should be conducted through foreign exchange business institutions or, more specifically, foreign exchange banks. Foreign exchange banks need only register with the Financial Services Commission and include all domestic and foreign banks operating in the country. The foreign exchange bank is required to transmit its payment records for balance of payments purposes to the BOK.

Additional reporting for liquidity management schemes

Additional reports are required to be made to the BOK (or, in some cases, the designated foreign exchange banks) for particular payments. These include netting payments, third party payments and payments which bypass foreign exchange banks.

Exchange Controls

Exchange structure

South Korea has a unitary exchange structure.

Classification

South Korea has a free floating exchange rate structure. The value of the won is determined freely in the foreign exchange market, based on supply and demand with no predetermined path.

Exchange tax

There is no exchange tax.

Exchange subsidy

There is no exchange subsidy.

Forward foreign exchange market

For import and export transactions, companies in South Korea are restricted to a forward transaction trading limit worth 100% of the transaction value.

Domestic financial institutions operating in South Korea are not permitted to take forward currency positions worth more than 40% of their equity capital. Foreign banks operating in South Korea are restricted to taking forward currency positions of no more than 200% of their equity capital.

Foreign exchange banks can carry out forward foreign exchange transactions without restriction.

Capital flows

There are no controls on capital flows with regards to outward direct investment provided that a company notifies the relevant foreign exchange bank. As long as the requirements of relevant laws are met, controls on inward direct investment only apply to sectors designated on a “negative list” such as rice, meat, tobacco, nuclear power generation, transportation, communication and in any public sector utilities involved in privatization.

Loans, interest and repayments

As of July 2010, foreign currency financing for resident South Korean companies can only be obtained for use overseas, with the exception of some small and medium sized manufacturers who

can obtain foreign currency loans for purchasing domestic facilities, provided these loans do not exceed the levels of mid-2010.

For foreign currency financing exceeding USD 30 million, companies must notify the Ministry of Strategy and Finance (MOSF) through their foreign exchange banks. Foreign exchange banks are allowed to extend domestic currency loans to non-residents of up to KRW 30 billion per borrower in South Korea without any restriction.

Royalties and other fees

There are no restrictions.

Profit remittance

Proceeds from capital and invisible transactions in excess of USD 500,000 or equivalent must be repatriated within 18 months to South Korea. However, they can be held abroad for foreign transactions according to the foreign exchange regulations.

Bank Account Rules

Resident entities are permitted to hold foreign currency bank accounts domestically and outside South Korea. Prior notification to the BOK is required for resident accounts held abroad where transfers abroad by individuals exceed USD 50,000. The MOSF must receive prior notification when a foreign currency account is opened abroad by a resident entity.

Non-resident entities are permitted to hold domestic and foreign currency bank accounts within South Korea. They may hold “non-resident domestic currency accounts” with foreign exchange banks in South Korea. The BOK must be notified of overseas remittance of funds withdrawn from these accounts. Non-residents are also allowed to hold “non-resident free won accounts,” which are settlement accounts for current transactions and reinsurance contracts. A non-resident may convert KRW-denominated funds in this account into foreign currency and transfer the proceeds abroad.

To open a bank account, a company must bring appropriate identification such as a copy of its registration documents along with the appropriate account opening documentation. Account opening documentation can also be completed in English.

The Korea Financial Telecommunications & Clearings Institute (KFTC) has developed a bank account opening service that will allow accounts to be opened at banks remotely online or via smartphones using biometric authentication.

Anti-money Laundering and Counter-terrorist Financing

- South Korea has implemented anti-money and counter-terrorist financing laundering legislation, (the Real Name Financial Transaction and Guarantee of Secrecy Act of 1997; the Financial Transaction Reporting Act of 2001 as amended 2012 and 2014; the Proceeds of Crime Act 2001, as amended; and Prohibition of Financing for Offences of Public Intimidation Act

2007, amended 2011 and 2014). The Korea Financial Intelligence Unit also issued the AML/CFT Regulation in 2010 which is legally binding.

- A Financial Action Task Force (FATF) member, South Korea is also a member of the Asia Pacific Group on Money Laundering (APG).
- South Korea has a financial intelligence unit (FIU), the Korea Financial Intelligence Unit (KoFIU), which is a member of the Egmont Group. The KoFIU operates within the Financial Services Commission.
- Account opening procedures require formal identification of the account holder and beneficial owners.
- Financial institutions are required to carry out ongoing CDD throughout the course of the customer relationship.
- Customers must also be identified for occasional transactions in a single or series of linked transactions over seven days equal to or exceeding USD 5,000 or its equivalent for foreign currency transactions; for domestic currency transactions the threshold is KRW 10 million.
- Customers carrying out international wire transfers equal to or exceeding USD 1 million must be identified and information recorded.
- Financial institutions in the broadest sense must record and report suspicious transactions to the KoFIU.
- Financial institutions must also report all cash transactions (or multiple linked cash transactions within seven days) equal to or exceeding KRW 10 million, except when the transaction is with a government body or other financial institution or the transaction is 'low risk' (as defined in a Presidential Enforcement Decree).
- Individuals carrying more than USD 10,000 or its equivalent in other foreign currency are required to report the currency to the Korean Customs Service.
- Records must be kept for five years.

Data as at January 2017.

Banking Sector Structure

Major Domestic Banks

Bank	Total assets (USD million) December 31, 2015
Korea Development Bank	262,372
Hana Bank	247,886
Woori Bank	247,423
Kookmin Bank	246,083
Shinhan Bank	241,615
Industrial Bank of Korea	203,327
Nonghyup Bank	196,610
Korea Exchange Bank	97,782*
The Export-Import Bank of Korea	69,946
Citibank Korea	48,448*
Standard Chartered First Bank Korea	47,840

* Data as of December 31, 2012.

Source: www.accuity.com.

Overall Trend

Since several banking and regulatory reforms were implemented following the Asian financial crisis in 1997, the number of credit institutions operating within South Korea has reduced significantly - from 33 commercial banks in 1997 to 12 currently. At the end of June 2016, the banking sector consisted of six nationwide commercial banks, six regional banks, five specialized banks, seven bank holding companies and two non-bank holding companies. There is a significant foreign banking presence in South Korea - 42 foreign banks have established 49 branches in the country.

The nationwide commercial banks - Woori Bank, Standard Chartered Bank, Citibank Korea, Hana Bank, KEB Hana Bank, Shinhan Bank and Kookmin Bank - can provide a range of banking services to corporate clients; however, cash management services, as understood in a Western sense, remain fairly limited, with foreign banks offering the majority of cash management services. This is due to domestic regulations such as South Korea's real-name transaction scheme, which limits intermediation in financial transactions by a third party, and reporting requirements. However, in recent years a number of local and regional banks have started to enter the cash management market. Although the majority of South Korean banks offering cash management services are focused solely on medium-sized companies, there has been a recent move away from this model with local banks now focusing their services on large companies and public enterprises.

In recent years, the government has announced privatization plans for a series of state-owned companies, including the Industrial Bank of Korea and Korea Development Bank and the

government's 56.97% in the banking business of Woori Finance Holdings. These plans were put on hold during the global financial slowdown, which threatened to restrict any returns on the banks' sale and subsequent attempts to sell the banks failed to find sufficient bidders. The government announced its latest privatization plans for the bank in August 2016, with the aim of completing the sale of the bank before the end of the year.

In January 2012, the South Korea's Financial Services Commission approved Hana Financial Group's acquisition of a controlling stake in Korea Exchange Bank and the acquisition was completed in September 2015 to create KEB Hana Bank. In March 2013 the government announced it was dropping plans to sell its stake in Korea Development Bank and would retain at least 50% of Industrial Bank of Korea. In January 2015 Korea Development Bank re-merged with Korea Finance Corp, having originally been a merged entity prior to a split in October 2009. Plans for the privatization of Woori Finance Holdings are continuing, with Woori Finance Holdings absorbed by Woori bank, as part of the privatization process.

Further consolidation within the South Korean banking industry remains possible, with the implementation of the Capital Market Consolidation Act in February 2009, which lifted some regulatory barriers separating the banking, securities and insurance industries, and further legislation in July 2009, which allowed non-financial companies to make larger investments in banks. It is hoped this will encourage increased competition and participation from foreign global players. However, global financial conditions, which in recent years have seen foreign banks reducing their overseas exposure, have limited the initial impact of the new legislation.

In September 2011, South Korea's government announced a temporary suspension of the operations of 16 of the country's 105 savings banks, due to insufficient capital levels. In May 2012, a further four mutual savings banks had their operations suspended for at least six months after they failed to meet financial strength regulations. Many of South Korea's savings banks have sustained heavy losses in recent years due to non-performing property loans. Some financial regulators in South Korea have faced allegations that they have taken bribes to ignore the worsening condition of saving banks, which accounted for approximately 1.4% of the total assets of South Korea's financial system during 2012. In 2013, the Financial Services Commission announced it was easing the rules on the number of branches and range of products that savings banks are permitted to offer in an attempt to boost this damaged section of the banking sector.

Two internet only banks are preparing to be launched into South Korea's banking sector with K-bank to launch by the end of 2016 and KakaoBank by the end of 2017.

Payment Systems

Overview

South Korea's two main interbank payment clearing system operators are the BOK and the Korea Financial Telecommunications and Clearing Institute (KFTC).

The Bank of Korea Financial Wire Network (BOK-Wire+) is the country's real-time gross settlement system, used for high-value and urgent electronic payments. It also settles net obligations from the country's retail payment systems. Operated by the BOK, the system was upgraded in 2009 to incorporate a new hybrid system, enabling it to combine the merits of bilateral and multilateral settlement processes with new settlement accounts, as well as provide direct server-to-server connections between the BOK and its participants for straight-through processing. It has also established a new monitoring system, the Information and Control System (ICS). The BOK has also developed the Beneficiary Designated Fund Transfer (BDFT) module of BOK-Wire, which processes large value funds transfers.

The KFTC, which is owned by its participating banks, operates a number of retail payments clearing systems. These multilateral net settlement systems are divided into the following:

- Check and Bill Clearing
- Bank Giro
- Financial Information Network Systems (FINS), which is sub-divided into:
 - IFTNET
 - HOFINET (Firm Banking)
 - CDNET
 - EFTPOS
 - CMS
 - BANKLINE and
 - K-Cash.

The KFTC also provides two e-commerce payment services. Payment Gateway (PG) is a B2C service that facilitates customer payments made to merchants via their websites. The B2B System allows businesses to exchange contract data and serves as a payment channel for the ORB (online registered bill), a payment instrument that encompasses the functions of both checks and bills.

High-value

Name of system	BOK-Wire+
Settlement type	Real-time gross settlement.
Settlement cycle	Payments are settled on a same-day, first-in, first-out basis with immediate finality. Net obligations arising from the country's retail payment systems are settled at designated times each day.
Links to other systems	BOK-Wire links to the DVP and PVP Systems.
Payments processed	High-value and urgent electronic payments, both domestic and cross-border, as well as government and treasury payments
Currency of payments processed	KRW (and USD and JPY for foreign currency fund transfers between banks with foreign currency deposit accounts at the BOK)
Value and other limits to processing	There are no value thresholds, except for transfer entries of third-party funds, in which case the minimum value threshold is KRW 1 billion.
Operating hours	09:00 to 17:30 local time, Monday to Friday (09:00 to 17:00 local time, Monday to Friday for payments submitted to BOK-Wire+ regional headquarters). The BOK has the right to extend operating hours when necessary.
System holidays	The system is closed on national public holidays.
Cut-off times	Final settlement for net obligations arising from retail payment systems = 11:00 T+1.
Participants	131 participants, of which 58 are banks and 73 non-banks (2016)
Access to system	Using international SWIFT standards
Future developments	BOK is planning on extending the operating hours of BOK-Wire+ by 2019.

Low-value

Name of system	Check and Bill Clearing
Settlement type	Multilateral net settlement
Settlement cycle	Checks are delivered to one of 50 regional clearing houses after business hours (17:00) on the day of deposit for overnight clearing. Clearing occurs until one hour before the start of the next business day. Net positions for final settlement are then transmitted to BOK-Wire+ via the internet. Funds can be withdrawn from 11:00 on the day after they are deposited.
Links to other systems	NA
Payments processed	The system processes two types of checks (cashier's checks and current account checks), and two kinds of bills (promissory notes and bills of exchange). Since the start of 2011, all types of checks and bills in South Korea are truncated through the cashier's checks truncation system (CTS), which has been operational since 2000.
Currency of payments processed	KRW
Value and other limits to processing	There are no value thresholds.
Operating hours	Clearing houses operate overnight from 17:00 to 08:00.
System holidays	Closed on all national public holidays
Cut-off times	Final settlement of all checks via BOK-Wire+ at 11:00.
Participants	25 direct participants including 17 banks (2015)
Access to system	All checks and bills will be processed by CTS.
Future developments	NA

Name of system	Bank Giro
Settlement type	Multilateral net settlement
Settlement cycle	When a customer makes a giro payment, the information is sent to the KFTC for processing. Electronic payments can be settled on a next-day basis and paper giros are settled after two working days. Final settlement of net positions occurs through BOK-Wire+. Payments are cleared for settlement normally within two to three business days.
Links to other systems	NA
Payments processed	The system processes three types of giros (paper-based credit transfers, electronic giros — direct debits, credit transfers, standing orders — and internet giros). Giros are used for regular, pre-scheduled payments.
Currency of payments processed	KRW
Value and other limits to processing	There are no value thresholds.
Operating hours	09:00 to 17:00 local time, Monday to Friday. The internet giro service has extended hours until 22:00.
System holidays	Closed on all national public holidays
Cut-off times	Final settlement of net obligations through BOK-Wire+ is 11:00.
Participants	25 direct domestic participants
Access to system	Participants connect electronically to the KFTC. Customers can take paper-based giros to any participant bank, or make payment through the ATM network or over the internet.
Future developments	NA

Name of system	Interbank Funds Transfer Network (IFTNET)
Settlement type	Multilateral net settlement
Settlement cycle	Customers of participant banks can remit cash, cashier's checks and collected money from one bank's branch to another through any participating bank in real time. Upon payment instruction, a customer's account is instantly debited or credited. Net positions arising from IFTNET are settled on a next-day basis through BOK-Wire+.
Links to other systems	NA
Payments processed	Cash, cashier's checks, irregular credit transfers and cashier's checks information queries
Currency of payments processed	KRW
Value and other limits to processing	There is a maximum value threshold of KRW 500 million per transaction.
Operating hours	09:00 to 16:00 local time, Monday to Friday
System holidays	Closed on all bank holidays
Cut-off times	Final settlement of net obligations through BOK-Wire+ = 11:00.
Participants	17 domestic direct participants and 13 special participants
Access to system	Host computers of participants are connected through relay computers of the KFTC. Customers can make payment at any participating bank's branches.
Future developments	NA

Name of system	Electronic Banking / Firm Banking System (HOFINET)
Settlement type	Multilateral net settlement
Settlement cycle	Payments can be made on a 24-hour basis, however individual banks may choose to cut-off the electronic banking system between midnight and 07:00. Payments are settled on a next-day basis. Final settlement of net positions occurs through BOK-Wire+. Payments are cleared for settlement normally within two to three business days.
Links to other systems	NA
Payments processed	The system processes payments and banking transactions made via the electronic banking system through personal computers. In 2001, KFTC enabled the existing infrastructure (known as ARSNET) to handle transactions from internet, phone, and mobile banking. It was subsequently renamed HOFINET.
Currency of payments processed	KRW
Value and other limits to processing	There is a ceiling of KRW 1 billion per transaction.
Operating hours	24 hours per day, seven days per week. Participants may choose to stop operating their system between 00:00 and 07:00 at their discretion.
System holidays	NA
Cut-off times	Final settlement of net obligations through BOK-Wire+ = 11:30.
Participants	18 direct domestic participants, two foreign banks (HSBC and Deutsche Bank), four specialist institutions
Access to system	Communication can be made via a workstation connected to the bank's firm banking system, or through internet banking, phone, mobile, PDA and TV devices. Participant banks are connected to the HOFINET system at the KFTC.
Future developments	NA

Name of system	Interbank Cash Dispenser / Automated Teller Machine (CDNET) System
Settlement type	Multilateral net settlement
Settlement cycle	NICE e-Banking Services, which manages the CD/ATM network, sends transaction information daily to the KFTC for clearing. Payments are settled on a next-day basis. Final settlement of net positions occurs through BOK-Wire+.
Links to other systems	NA
Payments processed	The system processes cash withdrawals, cash advances on credit cards, funds transfers and giro payments, as well as KRW-denominated cashier's checks and withdrawals made through CD/ATM terminals.
Currency of payments processed	KRW
Value and other limits to processing	There is a maximum value of KRW 10 million per funds transfer transaction.
Operating hours	07:00 to 23:30, seven days per week (09:00-17:00 Monday to Friday at indoor CD/ATMs)
System holidays	NA
Cut-off times	Final settlement of net obligations through BOK-Wire+ = 11:30.
Participants	All South Korean domestic banks, excluding Eximbank, the Post Office, cooperative members of the National Agricultural Cooperative Foundation and the National Federation of Fisheries Cooperatives, the Korean Federation of Community Credit Cooperatives, the National Union Federation of Korea, the Korea Federation of Savings Banks, and the domestic branches of HSBC. It has eight special participants.
Access to system	Through the CD/ATM network at each participating bank. Host computers of the participating members are connected through relay computers of the KFTC.
Future developments	NA

Name of system	Electronic Funds Transfer at the Point of Sale (EFTPOS) System
Settlement type	Multilateral net settlement
Settlement cycle	The KFTC compiles debit card purchase information on the day following the transaction through records it receives from a VAN business. The net transaction values are calculated for each bank and then files are sent to the BOK for final settlement of net positions. The merchants' banks are also notified in order that their accounts may be credited. KFTC also operates a VAN service for credit card purchases.
Links to other systems	NA
Payments processed	The system processes purchases made with a bank-issued debit card at POS terminals.
Currency of payments processed	KRW
Value and other limits to processing	There is a minimum value threshold of KRW 1,000 per transaction.
Operating hours	08:00 to 23:30, seven days per week. (The VAN service for credit cards is available 24 hours per day.)
System holidays	NA
Cut-off times	Final settlement of net obligations through BOK-Wire+ = 11:30.
Participants	17 direct participants
Access to system	A VAN business collects transaction data from POS terminals to send to the KFTC for processing.
Future developments	NA

Name of system	Cash Management Service (CMS)
Settlement type	Multilateral net settlement.
Settlement cycle	The system has both a credit and debit transfer service network. Credit transfers can be settled on a same day basis if the transaction occurs before 11:30. Debit transfers are settled on a next-day basis.
Links to other systems	NA
Payments processed	The system allows participating companies to manage their funds held with several different banks without having to go to the bank physically by interconnecting their computers to their banks through an intermediary system at the KFTC. CMS processes high-volume, low-value payments. There is a debit transfer service for collecting money and a credit transfer service for paying money.
Currency of payments processed	KRW
Value and other limits to processing	There are no value thresholds.
Operating hours	24 hours per day
System holidays	NA
Cut-off times	Final settlement of net obligations through BOK-Wire+ = 11:00.
Participants	18 direct domestic bank participants, one foreign bank (HSBC), four special participants
Access to system	Company computers are interconnected to their banks through the KFTC's relay system.
Future developments	NA

Name of system	Local Banks Shared (BANKLINE) System
Settlement type	Multilateral net settlement
Settlement cycle	The system is designed for customers of local banks without nationwide branch networks. Transactions are made during banking hours through BANKLINE terminals located at any participating local bank branch. Payments are settled on a next-day basis. Final settlement of net positions occurs through BOK-Wire+.
Links to other systems	NA
Payments processed	The system processes funds transfers and other transactions such as account enquiries for local banks.
Currency of payments processed	KRW
Value and other limits to processing	There are no value thresholds.
Operating hours	09:30 to 16:30 local time, Monday to Friday
System holidays	Closed on all national public holidays
Cut-off times	Final settlement of net obligations through BOK-Wire+ = 11:30.
Participants	South Korea's six regional commercial banks
Access to system	Through dedicated BANKLINE terminals at all participant banks which are connected to the KFTC.
Future developments	NA

Name of system	K-Cash (E-money card)
Settlement type	Multilateral net settlement
Settlement cycle	Information regarding purchases with K-Cash cards is compiled by a VAN service. The information is then sent to the KFTC for calculation of net balances for each financial institution. Final settlement of net positions occurs generally on D+2. Payments are cleared for settlement normally within three business days.
Links to other systems	NA
Payments processed	The system processes debits and credits for financial institutions arising from electronic money card transactions associated with the corresponding K-Cash card. The K-Cash card is a rechargeable e-money card used for low-value transactions such as on public transport.
Currency of payments processed	KRW
Value and other limits to processing	There is a maximum rechargeable amount of K-Cash of KRW 500,000 for a registered card and KRW 50,000 for a non-registered card.
Operating hours	24 hours per day, seven days per week
System holidays	NA
Cut-off times	Final settlement of net obligations through BOK-Wire+ = 11:30.
Participants	10 bank participants
Access to system	A VAN business collects transaction data from K-Cash cards to send to the KFTC for processing.
Future developments	NA

Payment and Collection Instruments

Overview and Trends

The most important cashless payment instruments in South Korea are credit cards in terms of volume, and, in terms of value, credit transfers. The increased use of electronic and internet banking in the past 20 years has led to a growth in the use of electronic credit transfers, payment cards and direct debits. In particular, card payments have increased rapidly, especially in the retail sector, due to the government promotion of debit cards, the loosening of credit card regulations and the introduction of credit card tax deductions in 1999.

Statistics of Instrument Usage and Value

	Transactions (million)		% change 2015/2014	Traffic (value) (KRW billion)		% change 2015/2014
	2014	2015		2014	2015	
Checks and bills	310.7	254.4	- 18.1	6,005,764.8	5,681,764.4	- 5.4
Debit cards	2.9	1.9	- 34.5	11.1	7.6	- 31.5
Credit cards	8,857.2	9,818.4	10.8	581,964.4	614,241.2	5.5
Check cards	4,400.2	5,400.8	22.7	113,804.9	134,213.7	17.9
IC cards	11.0	22.4	103.6	100.9	199.6	97.8
Credit transfers	3,699.8	4,015.5	8.5	75,294,317.4	85,450,880.3	13.5
Debit transfer	1,700.0	1,709.1	0.5	177,670.8	179,801.9	1.2
Direct debits	952.6	925.6	- 2.8	89,737.6	89,307.2	- 0.5
E-money	8.4	5.7	- 32.1	12.3	11.8	- 4.1
Total	19,942.8	22,153.8	11.1	82,263,384.20	92,150,427.70	12.01

Source : ECOS Economic Statistics System, May 2016.

Paper-based

Checks

Checks are commonly used by both companies and consumers for a variety of payments, though their use has generally declined in favor of electronic payments.

There are two types of check available in South Korea: cashier's checks and current account (or corporate) checks. Cashier's checks are bearer-form bank drafts and can be used in place of cash for payments such as loan installments and bank deposits. Pre-printed cashier's checks are available from any ATM, with the most popular pre-set value being KRW 100,000. Companies can use current account checks to make post-dated, high-value payments. However, the government has tried to discourage this practice in favor of corporate purchase cards or corporate

procurement loans, in an effort to assist smaller suppliers when negotiating deferred payment terms with larger companies.

All checks and bills are truncated into electronic items through the CTS before processing through the Check and Bill Clearing System. Final settlement takes place via BOK-Wire+ at 11:00 the following business day.

Though they remain popular, the use of checks, has begun to wane in favor of electronic paperless instruments.

Bills

Bills are legally different instruments to checks in South Korea. There are two kinds of bills: bills of exchange and promissory notes. Promissory notes are used by companies in a similar fashion to current account checks, i.e. as post-dated instruments for large-value fund or tax payments.

All stock companies subject to an external audit are required to only use electronic bills, rather than paper-based bills.

Electronic

Credit Transfers

Credit transfers are a highly popular form of payment instrument used by companies to pay suppliers and salaries, as well as to make tax and benefit payments. They are also used for a variety of consumer transactions. Credit transfers can be either paper-based or electronic. However, in 2015 only 6.6% of the total volume and 0.5% of total the value of credit transfers were effected via paper-based means.

High-value

High-value and urgent credit transfers are processed through the Beneficiary Designated Fund Transfer (BDFT) module of BOK-Wire+. Payments must be submitted by 16:00 to be settled on a same-day basis. All payments settled through BOK-Wire+ are done so with immediate finality.

Because BOK-Wire+ is connected to the PvP System operated by CLS Bank through SWIFT, it can process cross-border payments. Most large banks have direct access to SWIFT.

Low-value

Non-urgent and low-value credit transfers are processed through the country's nine retail payment systems operated by the KFTC. Most payments are processed to be settled on a next-day basis. Pre-scheduled payments are made through the Bank Giro System, through either paper-based or electronic means. Non-scheduled credit transfers are effected through either the Internet Giro Service or the one of payment systems that make up the Financial Information Network Systems (FINS). Though final settlement takes place through BOK-Wire+ on a next-day basis, customers using a FINS system can obtain cash immediately after a funds transfer because the banks are connected to each other through a shared platform at the KFTC.

Low-value cross-border transfers can be processed through banks' correspondent banking relationships, through which many have access to TARGET2, EURO1, STEP1 and STEP2 for retail payments in Europe.

Direct Debits

Direct debits are frequently used by companies to pay insurance premiums and public utility charges. Generally, direct debits are preauthorized in South Korea.

Standing orders enable fixed payments on a regular basis.

The Electronic Bank Giro System direct debit permits a beneficiary's bank to seek the release of funds from a debtor's bank. An agreement must be signed by the debtor, creditor and financial institution, which allows the beneficiary to assume limited credit risk.

The CMS debit transfer allows companies to collect high-value payments, such as credit card charges or tuition fees from multiple payer accounts into one collection account.

Direct debits are processed through the Electronic Bank Giro System. Most payments are processed to be settled after three working days.

Payment Cards

The use of credit cards has increased over the past decade in South Korea, especially among retail consumers. However, at the end of 2015 there were approximately 93 million credit cards in circulation in South Korea, a decrease of 0.1% from the previous year. Of these 92% were held by individuals and the remaining were held by corporations.

Debit cards account for a negligible share of the total amount of payment card transactions. There were 159.2 million debit cards in circulation at the end of 2015, 3.4% more than in 2014. To promote the increased use of debit cards, the BOK, KFTC and banks in South Korea have developed IC cash cards, a form of debit card that are issued with new bank accounts. In recent years the value of payments carried out via IC cards has far outstripped that of traditional debit cards. In addition, there has been a rise in check cards, which can be used to make payments 24 hours a day in locations that accept credit cards. The BOK hopes increased use of debit cards in South Korea will reduce what it considers to be some of the negative effects of credit card use, such as over spending by consumers and high merchant fees.

There are approximately 35 domestic card companies in South Korea, as well as Visa and MasterCard. Each can choose a different method of settlement for credit card transactions as there is no dedicated interbank settlement system. Debit card transactions are cleared through EFTPOS.

Extended Korea Payment Network (ExK) is a cross-border ATM network arrangement project completed by Bank of Korea and the KFTC in December 2011, allowing South Korean payment card holders to withdraw cash from ATMs in the USA, Malaysia, Vietnam, Thailand and the Philippines, using domestically issued cards, without the need for partnerships with international credit card companies. Preparations are underway to extend this service other countries.

ATM/POS

There is an increasing availability of ATMs and POS terminals in South Korea.

Electronic Wallet

The use of electronic money schemes in South Korea was initially hampered by the availability of post payment and prepaid transportation cards, which competed with other e-money schemes. However, the use of e-money is now increasing rapidly in the form of mobile money. A Smartphone Payment and Settlement Service operates as a mobile wallet service in South Korea via the KFTC's Financial Information Network. The service combines the 'BankWallet', the electronic wallet service of banks, and the infrastructure of Daum Kakao Co., Ltd and allows customers to withdraw cash from any CD/ATM around the country, make online/offline payments and send and receive funds. The service is compatible with all banks, and a mobile cash card from the bank.

In 2016, KFTC and 16 domestic banks launched a cellphone number-based Bank Wallet Service that enables small value fund transfers to be made via mobiles using mobile phone numbers instead of bank information.

The other main forms of electronic money in South Korea are K-Cash, VisaCash and Mybi - offering 13 kinds of electronic prepayment instrument. K-Cash is a general purpose card that is used on public transport and at vending machines in government and academic buildings. K-Cards can be registered to a customer's checking/savings account, or it may stay unregistered. The maximum value allowed for a registered K-Cash card is KRW 500,000 and KRW 50,000 for an unregistered card. K-Cash is cleared through the corresponding K-Cash System.

At the end of 2015, there were 27.4 million cards with an e-money function in South Korea, up 4.4% on 2014.

Liquidity Management

Short-term Borrowing

The Korea Federation of Banks provides national credit information accessible to all financial institutions about all South Korean companies.

Overdrafts

Companies with a good credit rating have KRW overdraft facilities from commercial and merchant banks for between six months and a year. The overdraft limits may be exceeded temporarily.

Interest charges are higher than for short-term advances.

Bank Lines of Credit / Loans

Short-term advances denominated in KRW and foreign currency are available, typically for 90 days.

In order to provide advances, banks usually require compensating balances. Banks may charge different interest rates on advances, whether or not such balances are required. When offering advances, banks usually require collateral security. Borrowers usually offer real estate as security, although repos (bond repurchase agreements) can be used to obtain short term funds.

Trade Bills – Discounted

Banks and non-bank financial institutions (NBFIs) discount trade bills, which are extensively used between South Korean companies to facilitate deferred payments and provide working capital.

Technically, funding is not supposed to be available for more than 60 days. However, in some circumstances, extended funding can be arranged.

Factoring

Banks and NBFIs factor receivables by accepting trade bills (see above), which they often discount without recourse. Most factoring is disclosed to the suppliers' customers.

Commercial Paper

Companies are permitted issue commercial paper (CP) in South Korea, which can be arranged for terms between 30 to 360 days but is most commonly issued for three months. CP issuers require an investment grade credit rating.

Following the demise of South Korean conglomerates (*chaebols*) the level of outstanding CP has declined.

Bankers' Acceptances

Historically used as a technique to finance the import of raw materials, bankers' acceptances are rarely used now.

Supplier Credit

In South Korea companies usually sell on a cash payment basis with credit supplied through customer post-dated promissory notes (for between 30 and 90 days) which the supplier can discount.

Intercompany Borrowing, including Lagging Payments

The South Korean authorities do not approve of inter-company and intragroup company lending, particularly within *chaebols*.

Others

There is a “network loan program” offered by the Industrial Bank of Korea (IBK) and the Korea Credit Guarantee Fund (KODIT). The former agrees to provide a large company’s suppliers with short-term financing, which the KCGF guarantees. There are tax incentives for companies providing “network loans.”

Short-term Investments

Interest Payable on Bank Account Surplus Balances

Interest-bearing current, or checking, accounts are not available to resident or non-resident entities under BOK regulations.

Demand Deposits

Interest-bearing demand, or sight, deposit accounts are available in both domestic and foreign currencies.

Time Deposits

Time deposits are popular short-term investment instruments in South Korea. Banks offer them for terms from overnight to five years, though most mature within three years. Non-residents cannot invest in KRW-denominated time deposits with maturities less than one year. Institutional banking customers are not permitted to invest in foreign-currency denominated time deposits.

Certificates of Deposit

Certificates of deposit (CDs) must have a minimum maturity of at least 30 days and are available usually for maturities up to five years. Most CDs are issued for three months in amounts over KRW 10 million.

Treasury (Government) Bills

Treasury bills (T-bills) are issued by the South Korean government usually for private placement and are not a popular short-term investment instrument for companies. They are available with maturities ranging up to twenty years and have a minimum bid amount of KRW 10 billion.

The BOK also issues Monetary Stabilization Bonds (MSBs) with maturities between 14 days and two years. They are widely traded in the secondary market.

Commercial Paper

Commercial paper in the form of unsecured promissory notes is available in South Korea for terms of up to one year; however, it is not a popular short-term investment for companies. Banks and asset management companies are the main investors in commercial paper; they tend to only invest in blue-chip companies.

Money Market Funds

Money market funds have become both increasingly available to and popular with South Korean companies over the last ten years.

Repurchase Agreements

Repurchase agreements (repos) are available but the main investors tend to be individuals and not-for-profit organizations rather than companies in South Korea. They can be arranged for terms of one day up to a year.

Bankers' Acceptances

Bankers' acceptances (BAs) are not commonly used as short-term investment instruments with companies in South Korea.

Liquidity Management Techniques

Cash Concentration

Foreign exchange regulations which previously prohibited liquidity management techniques have been liberalized over the past ten years, allowing for the establishment of cash management practices. Of the available cash concentration techniques, zero-balancing is the most commonly used. Companies tend to hold multiple collection accounts across several local banks which allow customers to make internal transfers through their bank. The KFTC operates a Cash Management System (CMS) aiding the concentration of these balances into a nominated account.

South Korea allows for sweeping within a single entity and has recently permitted multilateral netting, although sweeping between separate legal entities is not possible.

Both resident and non-resident bank accounts can participate in a cash concentration structure located in South Korea. Through the help of international banks, South Korean conglomerates have begun to establish international cash pooling as a liquidity management technique. However, it is difficult for South Korean companies to participate in cross-currency cash concentration schemes based outside the country, as the KRW may only be traded within South Korea.

Notional Pooling

Notional pooling is not available in South Korea.

Trade Finance

General Rules for Importing/Exporting

Since June 1, 2007, almost all trade between South Korea and the member states of the Association of South-East Asian Nations (ASEAN) has been free from tariffs and other controls. ASEAN members include Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam.

In October 2009, South Korea signed a comprehensive free trade agreement (FTA) with the European Union, which came into force in July 2011. This removed most import duties between the two partners with the remaining duties to be eliminated from July 2016, except for a limited number of agricultural products. It also ratified an FTA with India, known as the Comprehensive Economic Partnership Agreement (CEPA), which came into force in January 2010. South Korea also signed a CEPA with the United Arab Emirates in December 2009.

South Korea signed an FTA with the USA in April 2007, which came into force from March 2012 and signed an FTA with Turkey in August 2012, which came into force from May 2013. Free trade negotiations with Australia were concluded in December 2013, with the deal signed in April 2014. In September 2014 an FTA was signed with Canada, which came into force from 2015. An FTA with China was reached in 2014 and came into force in June 2015. An FTA deal with Vietnam was signed in May 2015 and an FTA with New Zealand was agreed in 2015, with both deals ratified at the end of 2015. South Korea has also established bilateral agreements to some degree with EFTA, Singapore, Chile, Peru and Kyrgyzstan. South Korea is in discussions on starting formal negotiations for a FTA with Israel.

Imports

Documentation Required

Imports into South Korea normally need to be accompanied by a customs declaration, a bill of lading and a delivery order.

Import Licenses

Goods may be imported without a license. The Korea Trade Commission can recommend quotas to prevent dumping and for other imports that it considers unfair under international trade practice.

Import Taxes/Tariffs

South Korea applies the Harmonized System to all imports originating from outside South Korea. In general terms, South Korea applies higher levels of excise taxes on alcohol and cigarettes. Goods are charged an average customs duty of 13.3%. Higher tariffs may be waived for foreign investors. South Korea imposes anti-dumping duties on 12 products.

Financing Requirements

There are no particular financing requirements for imports.

Risk Mitigation

South Korea does not operate a national risk mitigation program for importers.

Prohibited Imports

South Korea prohibits or restricts imports for moral reasons, to protect the safety of plants and animals, and to protect national security and the economy.

Exports

Documentation Required

Exports from South Korea normally need to be accompanied by a customs declaration, a bill of lading and a packing list.

Proceeds

Export earnings greater than USD 500,000 should be repatriated within three years, unless they are held abroad for use in overseas transactions in accordance with foreign exchange regulations.

Financing Requirements

There are no particular financing requirements for exports.

Export Licenses

Most items for export do not require a license, with the exception of those placed on a negative list.

Export Taxes/Tariffs

South Korea does not levy taxes or tariffs on exports.

Risk Mitigation

The Korea Trade Insurance Corporation (K-sure) is a government-owned entity and is the country's official export credit insurance provider. K-sure is a member of the Berne Union.

Eximbank provides export credits and guarantees in accordance with the guidelines developed by the OECD, including the Arrangement of Officially Supported Export Credits (OECD Consensus).

Prohibited Exports

South Korea restricts exports for moral reasons, to protect the safety of plants and animals, and to protect national security and the economy.

Information Technology

Electronic Banking

Almost all South Korean companies have access to electronic banking services. Electronic banking is also known as firm banking in South Korea. No bank-neutral electronic banking system has been developed in South Korea. Instead, most banks offer their own proprietary packages. A full range of electronic banking services is available, from daily transaction and balance reporting, to large funds transfers. Individual internet banking customers in South Korea are limited to one-off transfers of KRW 100 million and daily transfer limits of KRW 500 million. Business internet banking customers are limited to one-off transfers of KRW 1 billion and daily transfer limits of KRW 5 billion.

Firm banking allows users to access their accounts on their bank's system, usually via a fixed line direct to their bank. Most banks also offer internet banking. In most cases, internet users have a similar range of electronic banking services to those offered through a physical workstation. South Korea is one of the global leaders in internet penetration (approximately 92.1% as of mid-2016). According to the BOK, there were 7.4 million business internet banking customers and 111.7 million individual internet banking customers as of mid-2016. This represents growth of 1.4% for business customers but a slight fall of 0.7 for individuals from the same point in 2015 (although the number of actual internet individual users increased over the same period). During 2015, there were 2.6 million internet banking transactions, worth a total value of KRW 146,913.4 billion, an increase of 11.4% in volume and 4.0% in value on 2014.

In order to provide security for online banking transactions, all customers must sign an electronic banking agreement before using internet or phone banking services. Internet transactions supported by a digital certificate are legally valid under the terms of the Digital Signature Act. The Basic Act on Electronic Financial Transactions of April 2006 has required banks offering internet banking to use two-factor authentication since January 2007.

External Financing

Long-term Funding

Domestic and foreign-owned companies have equal access to bank debt and local capital markets.

Bank Lines of Credit / Loans

Local (KRW) and foreign currency-denominated term loans are available. Short-term loans can be rolled over and renewed to effectively create long-term debt. Interest is charged at a margin over market rates.

Borrowers usually offer real estate as collateral, although plant and machinery can also be used. The Financial Services Commission sets loan-to-value ratios for property mortgages.

Large loans are syndicated or shared between banks as a club deal.

Leasing

Financial leasing is available for plant and machinery, computers, automobiles and aircraft.

Interest on KRW and foreign currency-denominated leases are arranged at margins over domestic and London interbank offered rate (Libor) reference rates respectively.

Bonds

Companies can issue straight guaranteed (by banks and the Korea Credit Guarantee Fund) or non-guaranteed, convertible and asset-backed bonds.

Interest can be fixed or floating rate.

Companies are permitted to issue bonds with a total value of up to five times their equity. To be listed, an issuer must have a net worth of at least KRW 500 million and the issue must have a minimum par value of KRW 300 million (KRW 50 million for small firms).

Foreign companies may issue KRW-denominated domestic bonds (Arirang). They are limited to a maximum KRW 1 billion total when borrowing in the South Korean capital markets.

In July 2011, South Korea introduced restrictions on local and foreign financial companies buying locally issued foreign-currency bonds for domestic use, if the issuer of the bond intended to swap the proceeds into KRW.

Private Placement

Domestic and foreign companies can privately place notes. Foreign companies are subject to a KRW 1 billion total borrowing limit.

Notes can be short, medium or long-term and must be secured by real estate or other collateral.

Asset Securitization / Structured Finance

Korean banks (and some companies) have been very active securitizing their problem loans and bad debts and selling them as asset-backed securities (ABS).

ABS can include consumer loans, mortgages, accounts receivable as well as corporate loans and bonds.

Most ABS have recourse to the originator or a guarantor. They can be KRW or foreign currency denominated and both domestic and cross-border issues.

Government (Agency) Investment Incentive Schemes / Special Programs or Structures

Private Finance Initiatives are encouraged for infrastructure projects with partial and full non-recourse funding.

In South Korea the Public and Private Infrastructure Investment Management Center (PIMAC) assesses projects' feasibility as well as enabling private involvement on infrastructure projects.

The Export-Import Bank of Korea provides South Korean companies with project financing for their overseas projects.

Useful Contacts

National Treasurers' Association

Korea Association for Chief Financial Officers — www.cfokorea.org

National Investment Promotion Agency

Invest Korea — www.investkorea.org

Central Bank

Bank of Korea — www.bok.or.kr

Supervisory Authority

Financial Services Commission — www.fsc.go.kr/eng/

Payment System Operator

Korea Financial Telecommunications and Clearings Institute — www.kftc.or.kr

ATM/POS Network Operator

NICE TCM — www.nicetcm.co.kr

Banks

Kookmin Bank — www.kbstar.com

Woori Bank — www.wooribank.com

Shinhan Bank — www.shinhan.com

Industrial Bank of Korea — www.ibk.co.kr

Stock Exchange

Korea Exchange — www.krx.co.kr

Ministry of Strategy and Finance

Ministry of Strategy and Finance — english.mosf.go.kr

Ministry of Commerce

Ministry of Trade, Industry and Energy — www.motie.go.kr

Chamber of Commerce

The Korea Chamber of Commerce and Industry — www.korcham.net

Bankers' Association

Korea Federation of Banks — www.kfb.or.kr