



Exchangeable Bonds under the Amended Korean Commercial Code and its Enforcement Decree

An Exchangeable Bond is a type of hybrid security consisting of a bond and an embedded option to exchange the bond for the stock of a company or other securities owned by the issuing company at some future date and under prescribed conditions.

Prior to recent amendments to the Korean Commercial Code (KCC) and its Enforcement Decree, the Financial Investment Services and Capital Market Act (FISCMA) provided for exchangeable bonds issued by listed companies only.

The newly amended KCC, which became effective from April 15, 2012, now expressly provides that unlisted companies, like listed companies, may issue “exchangeable bonds”. In addition, since the amended KCC does not limit the scope of securities subject to exchange to listed securities, the amended KCC allows a company more discretion than the FISCMA in determining the terms and conditions of its exchangeable bonds.

The Enforcement Decree (Article 22), which became effective from September 2 2012 and regulates the details of the exchangeable bonds, includes a bond with an option to exchange such bond for the issuer’s treasury stock, within the definition of an exchangeable bond. Moreover, the specific matters regarding issuances of exchangeable bonds may be decided by the board of directors of the issuing company without need for a resolution of its shareholders.

There were a total of 12 issuances of exchangeable bonds in 2011, and 3 in 2012, as of the end of September. However, no exchangeable bonds with an option to exchange the bonds for non-listed securities have yet been issued.

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