III

Characteristics of the Korean Bond Market

Global developments, such as the move toward sustainable finance, and a number of policy measures implemented or announced by the Government of the Republic of Korea have changed the Korean bond market significantly—and will continue to do so—since the publication of the *ASEAN+3 Bond Market Guide Republic of Korea* in May 2018.

These changes or additions to the Korean bond market's characteristics are described in this chapter in the context of the existing structure of the *ASEAN+3 Bond Market Guide Republic of Korea*. New features are added at the end of each original section and are indicated accordingly.

A. Definition of Securities

The rapid growth of sustainable finance instruments in the Korean market—referred to as SRI bonds, ESG bonds, or social contribution bonds—and the government's announcement to establish a framework for digital assets offer the opportunity to expand this section within the original structure of the bond market guide. It is anticipated that existing laws and regulations will continue to be amended and new laws formulated to define new debt securities and asset types that have characteristics of traditional debt securities but exist only in electronic or digital form, while also adding new features.

1. Conventional Debt Securities

The definition for conventional debt securities can be found in Article 4 (3) of the FSCMA:

> The term "debt securities" in this Act means state (government) bonds, local government bonds, special bonds (referring to bonds issued by a corporation established by direct operation of an Act; hereinafter the same shall apply), corporate bonds, corporate commercial papers (referring to promissory notes issued by a company for raising the funds required for its business, which shall meet the requirements prescribed by Presidential Decree; hereinafter the same shall apply), and other similar instruments, which bear the indication of a right to claim the payment.

2. Sustainable Finance Instruments

The range of bond types available in the Korean market has expanded considerably in recent years, particularly in line with the global development toward sustainable finance. The Korean market now also features a variety of sustainable finance instruments in the bond market, with substantial issuance in both the domestic and international markets, and in local and foreign currencies. The instrument types typically issued in the domestic bond market are further detailed here.

Green or sustainable finance instruments in the Korean bond market are alternatively referred to as SRI, ESG, thematic, or social contribution bonds. The use of terms may depend on the market institution or on market segment practice.

The key drivers of the new securities types were the establishment of the K-Taxonomy and the simultaneous publication of the K-Taxonomy Guidelines by the MOE in December 2021. The K-Taxonomy defined which economic activities were considered green or sustainable, while the K-Taxonomy Guidelines provided implementation guidance, particularly to avoid greenwashing and to address capital flows into green activities.[18]

In December 2020, the MOE and the FSC, with consultation from KRX and the Korea Environmental Industry & Technology Institute, published the Korean Green Bond Guideline, which are often referenced as "K-GBG" in the market, to fill the void of official market guidance and provide market participants with a clearer standard on what are true green economic activities. Establishing how green bonds are defined was necessary given the growth in issuance of green bonds in the Korean market since 2018.[19]

According to the K-GBG, green bonds are

> Bonds (i) the proceeds of which are used for "green projects" that meet six environmental objectives and (ii) which satisfy the four core components of the Green Bond Principles formulated by the International Capital Market Association, which consist of (a) use of proceeds, (b) process for project evaluation and selection, (c) management of proceeds, and (d) reporting.

In response to the initial green bond issuances in 2018, KRX published the Guidelines for Operation of Segment Dedicated to SRI Bonds (SRI Guidelines) in December 2019 to help define which instruments may be considered SRI bonds and which requirements are imposed on potential issuers to be able to list on the SBI bonds segment of KRX, such as eco-friendliness, use of proceeds, and generation of social benefits. For more information on the SRI Bonds website operated by KRX, please see Chapter IV.F.4.[20]

Brief descriptions of ESG and SRI bond types are provided in later subsections.

3. Digital or Virtual Assets

The Government of the Republic of Korea announced the formulation of a comprehensive legal and regulatory framework for digital assets in August 2022, with the aim of establishing a Digital Asset Basic Act as fundamental legislation, while amending existing laws and regulations to accommodate necessary definitions and characteristics of digital assets.

The Electronic Securities Act, 2019, which intended to enshrine the concept of dematerialization in the securities market, is considered a step in this direction and is expected to be further amended to this end.

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[18] The K-Taxonomy and the K-Taxonomy Guidelines are available in English from the website of the MOE at https://www.me.go.kr/skin/doc.html?fn=20230831172157.pdf&rs=/upload_private/preview/.

[19] Information in this section based on MOE press releases as well as legal commentary in the public domain and media reports on the K-Taxonomy and related publications. The K-GBG is variously referenced as the Korean Green Bond Guideline, Korean Green Bond Guidelines, or green bond issuance guidelines in official announcements and media reports.

[20] The SRI Guidelines are available for download in English from the KRX website at https://sribond.krx.co.kr/en/05/05040000/SRI05040000.jsp.

In Article 2 (Definitions), the Act on the Protection of Virtual Asset Users contains a definition of virtual assets:

> The term "virtual asset"" means electronic certificates (including all associated rights) that have economic value and that can be traded or transferred electronically […]

It also lists a number of exclusions that are not considered virtual assets, including

(i) tangible and intangible products obtained through the use of game products,
(ii) electronic prepayment means,
(iii) electronically registered stocks,
(iv) electronic bills, and
(v) digital currencies issued by the BOK.

The act also defines virtual asset service providers, including intermediaries, and is expected to become effective on 19 July 2024.

B. Types of Bonds and Notes

This section contains a brief summary of major instrument types, focusing on those instruments that have been recently introduced in the bond market. Individual features of these bonds are further explained in the next section. For ease of reference, the enumeration of sections follows the original *ASEAN+3 Bond Market Guide Republic of Korea*.

1. Bonds and Notes Categorized by Type of Issuer

a. Government Bonds

Korean government bonds, known as KTBs, continue to be issued with tenors of 3, 5, 10, 20, 30, and 50 years—with the government increasingly focused on a lengthening of maturities in response to market demand. All tenors represent fixed-interest bonds, while the 10-year KTB is also issued as an inflation-linked product that is referred to as a KTBi. Coupon rates of KTBs are set to multiples of 0.125% and interest is paid semi-annually.[21]

In addition, the Government of the Republic of Korea issues National Housing Bonds and Foreign Exchange Stabilization Fund Bonds.

The government also started issuing green and sustainability bonds in 2019 under the Foreign Exchange Equalization Fund Bond program.

c. Special (Purpose) Bonds

This type of bond comprises issuances by the BOK, government-owned and special purpose institutions, or other statutory entities in the Republic of Korea. More recently, these institutions have been driving public sector issuance of green, social, and other sustainable finance instruments.

[21] General information such as the issuance calendar as well as issuance segmentation statistics can be found on the MOEF website at https://ktb.moef.go.kr/eng/abtKtbs.do.

In fact, the Korea Development Bank issued the first green bond and the first social bond in the Korean domestic bond market, both in 2018. The same year, the first sustainability bond was issued by the Export–Import Bank of Korea in the domestic market; this institution had tapped the international bond market for green bonds as early as 2013. In terms of their characteristics, these bonds did not substantially differ from other sustainable finance instruments issued in the Republic of Korea (see also new section 8).

Falling into this category of regularly issued instruments are the MSBs issued by the BOK as part of its open market operation. In contrast to most money market instruments, MSBs typically have maturities longer than 1 year and up to 3 years, hence the designation as bonds. MSBs are issued at a discount and repaid at par. MSB issuance and bidding processes are subject to the BOK's Open Market Operations Regulations as well as related rules.[22]

d. Private Sector Bonds (Corporate Bonds)

In addition to conventional bonds, corporate issuers have been issuing green bonds or other thematic finance instruments in the Korean market since 2019 (see section 9).

8. Socially Responsible Investment Bonds (ESG or Thematic Bonds) [New]

This new categorization—in the Korean market also referred to as ESG, thematic, or social contribution bonds—was established following the issuance of green, social, and sustainability bonds by Korean institutions in the domestic market in 2018. These SRI bond categories also include sustainability-linked bonds as well as transition bonds.

The following year, the MOE published its K-Taxonomy, describing for the first time what would constitute green or sustainable economic activities in the context of the Korean economy. The K-Taxonomy was followed by the K-Taxonomy Guidelines, aimed at translating the designated sustainable economic activities into actionable activities in Korean financial markets.

Among the green financing mechanisms described in the K-Taxonomy Guidelines, green bond issuance is the most common way used by corporations and financial institutions in the Republic of Korea. To meet the prescriptions in the guidelines for green economic activities, potential issuers need to meet the K-Taxonomy requirements in categories such as activity, accreditation, exclusion, and protection. To offer further guidance to potential issuers and other market participants, the MOE and the FSC jointly issued the K-GBG, which were last revised in December 2022.

The following subsections offer basic definitions for SRI, or thematic, bonds; the definitions are adapted from the SRI Guideline issued by KRX.[23] While the basic characteristics of SRI bonds are the same as conventional bonds, the main difference—other than the declaration of use of proceeds and other relevant features under the aspired thematic bond category—typically lies in the certification process required to designate a bond an SRI bond. Similar to other markets, issuers must establish a green or sustainable bond framework (see also section H) to signal their intentions and readiness to the market, and declare how they will pursue green or sustainable economic activities. An external reviewer then certifies that the framework complies with established international standards and/or with the K-Taxonomy or K-GBG. Details of these requirements are provided under sections H and I in this chapter.

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[22] Details on MSB issuance and auction processes, issuance notices, and the underlying rules can be found on the following BOK website at https://www.bok.or.kr/eng/main/contents.do?menuNo=400402.

[23] For details, see https://sribond.krx.co.kr/en/05/05040000/SRI05040000.jsp.

In the Republic of Korea, bond frameworks do not have to follow the K-Taxonomy but instead are most often aligned to the Green Bond Principles or other thematic principles maintained by the International Capital Market Association (ICMA). At the same time, however, the K-Taxonomy is largely aligned with such international standards.[24]

a. Green Bonds

Green bonds are issued to raise funds for environmentally friendly projects and other social infrastructure.

b. Social Bonds

Social bonds are issued to raise funds for social value creation projects. In fact, social bonds represent the largest category of SRI, or thematic, bonds in the domestic Korean bond market.

c. Sustainability Bonds

Sustainability bonds are issued to raise funds for environmentally friendly and social value creation projects.

d. Sustainability-Linked Bonds

Sustainability-linked bonds are instruments in which the financial or structural characteristics can change depending on whether the issuer achieves the predetermined sustainability goals.

e. Transition Bonds

The K-Taxonomy includes definitions of the transition sector as well as transition activities. However, at the time of publication of this update note, a dedicated guideline for transition bonds had not been established and no transition bonds had been issued in the Republic of Korea's domestic bond market, nor had a transition bond classification been established on the SRI Bonds website of KRX.

SRI bonds in the Korean market are typically issued to the public and listed on KRX, which hosts a dedicated SRI bond segment (see also Chapter IV). The OTC bond market presently does not have a dedicated SRI or ESG bond section and, at the time of the publication of this update note, did not specifically track SRI or ESG bonds in the market.

As of the end of 2023, the MOE was conducting a pilot program to offer subsidies for the interest costs of green bonds. A group of 23 public and private companies were participating in the program for the subsidization of the difference in the interest for green bond issuance. They planned to issue green bonds worth around KRW3.9 trillion by the end of that year, at an estimated cost of approximately KRW5.1 billion.

Successful implementation of the projects supported by these bonds was expected to lead to significant environmental improvements, including a reduction of approximately 3.73 million tons of greenhouse gas emissions annually.

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[24] Details on the Green Bond Principles, Social Bond Principles, Sustainability Bond Guidelines, and Sustainability-Linked Bond Principles can be found on the ICMA website at https://www.icmagroup.org/sustainable-finance/.

E. Methods of Issuing Bonds and Notes (Primary Market)

While there have been no substantial changes in the issuance methods and practices in the Korean bond market since the publication of the *ASEAN+3 Bond Market Guide Republic of Korea*, a number of small corrections, changes, and one addition to the auction process for government bonds are mentioned in this section.

2. Issuance Methods by Issuer Type

This section contains a description of some corrections and changes to the auction process.

d. Government Securities

ii. Dutch or Single-Price Auction

Variously referred to as Dutch auction or single-price auction by the BOK and the MOEF, under this scheme all winning bidders pay the price of the lowest successful bid.

iii. Differential Auction

A differential auction is a mixture of the two main methods. In this method, the accepted bid yield is determined by categorizing all bid yields into groups at intervals of 3–4 basis points in ascending order and by selecting the highest bid yield in each group (**Table 3.5**).

Table 3.5: Examples of Determining the Successful Bidding Yield by Auction Type

Primary Dealer	Bidding Conditions	Cut-Off Yield by Auction Type		
		Dutch	Conventional	Differential-Price (example: 5 bps)
A	2.955%, KRW20 billion	All 3.055%	2.955%	2.995%
B	3.000%, KRW20 billion		3.000%	3.005%
C	3.005%, KRW20 billion		3.005%	
D	3.020%, KRW10 billion		3.020%	3.055%
E	3.055%, KRW10 billion		3.055%	
F	3.070%, KRW20 billion	Failed bid	Failed bid	Failed bid

bps = basis points, KRW = Korean won.
Note: A comparable table was included in the *ASEAN+3 Bond Market Guide Republic of Korea* as Figure 3.3.
Source: Adapted from p. 57 of Ministry of Economy and Finance. *Korea Treasury Bonds, 2022*. https://english.moef.go.kr/pm/KoreaTreasuryBondList.do.

Using the example in the table, under a differential price auction, for example, the highest cut-off yield is 3.055% (of Primary Dealer E), the bid yields are divided into groups of "3.055~3.010," "3.005~2.960%," and "2.955~2.910%." Each group's highest bid yield—3.055%, 3.005%, and 2.955%, respectively—becomes the successful bidding group.

iv. Non-Competitive Bidding

Three non-competitive bid options have existed for KTB auctions and were described in the *ASEAN+3 Bond Market Guide Republic of Korea*.

With effect from 2021, the MOEF introduced a fourth non-competitive bid option that allows primary dealers to exercise such option based on the results of the competitive auction bids. The MOEF sets aside up to 20% of the total size of a KTB issuance for this and the other non-competitive bid options.

The intention for this so-called “non-competitive bid option IV” is to minimize the volatility that might arise from a large issuance and, at the same time, help the MOEF to achieve its issuance target. This bid option is conducted on the third Friday of the issuance month, with the actual target issuance amount announced on the second Thursday of the issuance month. The likely KTB types are shorter-tenored issuances, such as 2-year to 5-year issues, but the MOEF may also offer longer-tenored issues if it so deems necessary.[25]

G. Language of Documentation and Disclosure Items

The information provided here on the language of documentation and disclosure items in the Korean market supplements or adjusts previous statements in the same section in the *ASEAN+3 Bond Market Guide Republic of Korea*, particularly in recognition of the increase in interest in the use of the English language in ASEAN+3 professional bond markets.

Beginning in 2024, corporations whose stocks are listed on KRX—on its KOSPI main market—will be required to provide disclosure in the English language in addition to Korean; the issuer’s asset size matters and a phased approach applies. This measure is part of the strategy by policymakers to improve the accessibility of the Korean market for nonresident investors. The accompanying FSC press release noted that, in 2022, only about 13.8% of Korean disclosure for listed companies had also been made available in English.[26]

This disclosure obligation applies to both equities and bonds (see section 4 below), in fact all issued securities from an issuer, if that issuer has its stock listed on KRX. If the issuer is stock-listed on KRX, this includes bonds that are registered in the OTC market (i.e., on the KOFIA platform). However, the disclosure relates to information about the company, not the bonds. The English language disclosure will need to be made within 3 days from when a disclosure was made in Korean. The disclosure obligations itself follow the listing requirements or other existing prescriptions in the markets, with a particular emphasis on financial statements, continuous disclosure of material events, and the suspension or resumption of trading.

For a more detailed description of these disclosure obligations and how they apply to different types of issuers, please see Chapter II.G.

[25] Text adopted from MOEF. 2023. *Korea Treasury Bonds, 2022*. https://english.moef.go.kr/pm/KoreaTreasuryBondList.do.

[26] FSC. 2023. Item IV: Expand the Availability of English Disclosures in Phases. Press Release. 25 January. https://www.fsc.go.kr/eng/pr010101/79346.

4. Bonds Listed on Korea Exchange

Issuers that have listed bonds on KRX previously had the option to provide disclosure information on these bonds in English within 1 week of the disclosure in Korean. The introduction of the new English disclosure obligations in 2024 does not automatically change this—corporates who only have listed bonds on KRX are not affected by the new measure.

For issuers whose stock is listed on KRX, disclosure in English may no longer be optional, depending on the company size and other factors (see details above). If these companies also have bonds listed on KRX (e.g., the KOSPI or SRI Bonds segments), information on the issuer in bond disclosures is also to be made in English. Items to be disclosed in English follow the KRX listing and disclosure rules in their respective latest version. Particular emphasis is put on disclosures relating to material events in the management of the company, including the making of important decisions, and to financial statements and any suspension or resumption of trading of the company stock.[27]

KRX provides an English language disclosure information portal, with corporate disclosure items, market alerts, as well as information on new listings.[28]

5. Bonds Issued and Traded in the Over-the-Counter Market [New]

This section has been added to clarify that bonds issued and traded in the OTC market are not subject to the new English disclosure obligations described above, unless the issuer also has its stock listed on the KOSPI market.

H. Registration of Debt Securities

In contrast to previous market practice, the term "registration" in the context of securities, and specifically debt securities, is now also used for debt securities listed on KRX, both for bonds that qualify as SRI bonds and also pursuant to the introduction of the electronic securities system under the Electronic Securities Act, 2019.

3. Registration of Debt Securities at Korea Exchange [New]

Two forms of registrations are now associated with debt securities listed on KRX, in addition to the act of listing itself (see section I), as explained below. These registrations typically occur in parallel to the listing process.

a. Registration for Socially Responsible Investment Bonds Segment

KRX requires a registration of debt securities that are eligible for and intended to be included in its dedicated SRI Bonds segment.

SRI bonds that meet the registration requirements as per the SRI guidelines issued by KRX are registered in the SRI Bonds segment upon application from the issuer. The registration requirements are as follows:

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[27] KRX listing and disclosure rules may be found at https://global.krx.co.kr/contents/GLB/06/0601/0601000000/GLB0601000000.jsp.

[28] For details, see https://engkind.krx.co.kr/main.do?method=loadInitPage&scrnmode=1#.

(i) The bond must be listed or scheduled to be listed on the exchange's bond market and comply with the principles and guidelines.
(ii) A bond management framework needs to have been established.
(iii) An evaluation report from an external reviewer needs to be submitted, stating that the bond management framework complies with the relevant principles such as the ICMA Green Bond Principles, other relevant principles, or the K-GBG.
(iv) As additional documents, green, social, and sustainability bonds require the submission of use-of-proceeds documents, while sustainability-linked bonds require the submission of an investment prospectus.

The bond management framework for green, social, and sustainability bonds needs to detail four key elements: (i) the use of proceeds, (ii) the process for project evaluation and selection, (iii) the management of proceeds, and (iv) reporting. It typically also references the principles to which the sustainable character of the bond is aligned. In the case of sustainability-linked bonds, the framework needs to contain the following five key elements: (i) key performance indicators, (ii) sustainability performance targets set by the issuer, (iii) bond characteristics, (iv) reporting, and (v) verification.

Among the ongoing registration requirements—and not unlike the actual listing requirements—are the obligations for the issuer to provide regular post-issuance reporting through the submission of a (i) use-of-proceeds report and impact report for green, social, and sustainability bonds; or (ii) a performance report and external evaluation report for sustainability-linked bonds.

A revocation of a registration occurs upon redemption of the bond and may occur if the issuer applies for voluntary cancellation, or for any of the following reasons:

(i) noncompliance with principles,
(ii) noncompliance with post-issuance reporting obligations, and
(iii) other necessary cases brought by investors.

b. Registration under the Electronic Securities Act, 2019

Pursuant to the Electronic Securities Act, 2019 securities issued to the public that are to be listed on a KRX market will need to also be registered with KRX, in addition to registration with KSD.

The act prescribes that investors are able to acquire and transfer title, and subsequently exercise any rights stemming from the securities electronically. Consequently, most securities, except those that have effect only in written form (e.g., commercial paper), are subject to mandatory electronic registration. Once registered electronically, securities issued in physical form shall not be in effect any longer.

For details on the Electronic Securities Act, 2019, please refer to Chapter II.C.1.

I. Listing of Debt Securities

While the listing of debt securities on KRX has not materially changed since 2018, KRX now features a large segment for sustainable finance instruments under the Korean term for "SRI bonds." However, KRX is considering changing the term "SRI bonds" to "ESG bonds," in line with international best practice.

6. Listing of Socially Responsible Investment Bonds on Korea Exchange [New]

To make the classification and listing process more transparent, and the issuance process easier, KRX issued its SRI Guidelines in 2019. Under the guidelines, SRI bond issuers submit the relevant documents—such as a report on the use of proceeds, impact report, performance report, and external review report—according to the type of bonds. Especially regarding the external review report, SRI bond issuers must establish a bond management framework to be reviewed by an external professional institution to determine whether they comply with established international principles, including those established by the ICMA and the Climate Bonds Initiative.

The listing process itself is not different from the one detailed in the *ASEAN+3 Bond Market Guide Republic of Korea.* At the same time, the KOSPI Market Listing Regulation and the KOSPI Market Disclosure Regulation (i.e., the listing and disclosure rules of KRX) have been updated as recently as March 2024 to allow for a differentiation between conventional and SRI bonds. For information on these changes to the listing and disclosure rules, please refer to Chapter II.J.

By listing SRI bonds as such in the dedicated segment, issuers are exempted from listing fees and annual dues for a period of up to 3 years, in an effort to reduce their funding costs (see Chapter VI.B for details). Investors in turn can quickly establish which bonds are recognized as SRI bonds and access standardized information on the SRI Bonds website of KRX.