



ASSOCIATION FOR
FINANCIAL
PROFESSIONALS

Underwritten by



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.

The banking sector consists of six 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 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.

© November 2018, AFP Country Profiles.

The material provided by PNC Bank, National Association (PNC), the Association for Financial Professionals (AFP) and AFP's contracted information supplier is not intended to be advice on any particular matter. No reader should act on the basis of any matter provided by PNC and AFP and AFP's contracted information supplier and third party suppliers in this document without considering appropriate professional advice. PNC, AFP and AFP's contracted information supplier expressly disclaim all and any liability to any person in respect of anything and of the consequences of anything done or omitted to be done by any such person in reliance upon the contents of this document.

The information provided is frequently subject to change without notice. The data and software are provided "AS IS" without any express or implied warranty of any kind including, without limitation, warranties of non-infringement, merchantability, or fitness for any particular purpose. PNC, AFP, and AFP's contracted information provider do not represent or warrant the information contained in this printed report, on this web site or on referred sites or sites accessible via hypertext links is complete or free from error and expressly disclaim and do not assume any liability to any person for any loss or damage whatsoever caused by errors or omissions in the data or software, whether such errors or omissions result from negligence, accident, quality, performance of the software, or any other cause.

All rights reserved. No part of the material provided by PNC, AFP and AFP's contracted information supplier and third-party suppliers may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior written permission of AFP and its contracted supplier.

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

Economic Updates

Receive regular Economic Updates from our senior economist by going to pnc.com/economicreports.

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

PNC and PINACLE are registered marks of The PNC Financial Services Group, Inc. ("PNC").

Bank deposit and treasury management products and services are provided by PNC Bank, National Association, a wholly-owned subsidiary of PNC and **Member FDIC**. Lending products and services, as well as certain other banking products and services, may require credit approval.

In Canada, bank deposit, treasury management, equipment financing, leasing and lending products and services are provided by PNC Bank Canada Branch. PNC Bank Canada Branch is the Canadian branch of PNC Bank, National Association. Deposits with PNC Bank Canada Branch are **not** insured by the Canada Deposit Insurance Corporation.

Foreign exchange and derivative products are obligations of PNC Bank, National Association. Foreign exchange and derivative products are **not** bank deposits and are **not FDIC insured**, nor are they insured or guaranteed by PNC or any of its subsidiaries or affiliates.

This AFP Country Report is being provided for general information purposes only and is not intended as specific legal, tax or investment advice or a recommendation to engage in any other transactions and does not purport to be comprehensive. Under no circumstances should any information contained herein be used or considered as an offer or a solicitation of an offer to participate in any particular transaction or strategy. Any reliance upon this information is solely and exclusively your own risk.

©2018 The PNC Financial Services Group, Inc. All rights reserved.

Contents

Executive Summary	2
PNC's International Services	4
Financial Environment	10
Country Information	10
Geographical Information	10
Business Information	10
Country Credit Rating	11
Economic Statistics	12
Economics Table	12
Sectoral Contribution as a % of GDP	13
Major Export Markets	13
Major Import Sources	13
Political and Economic Background	14
Economics	14
Interest Rate Management Policy	14
Major Economic Issues	14
Politics	15
Government Structure	15
Major Political Issues	16
Taxation	17
Resident/Non-resident	17
Tax Authority	17
Tax Year/Filing	17
Corporate Taxation	17
Advance Ruling Availability	18
Withholding Tax (Subject to Tax Treaties)	18
Application for Reduced Tax Rate	19
Tax Treaties / Tax Information Exchange Agreements (TIEAs)	19
Transfer Pricing	19
Thin Capitalization	20
Cash Pooling	20
Real Estate Taxes	20
Controlled Foreign Companies	20
Acquisition Tax	20
Registration Tax	21
Securities Transaction Tax	21
Sales Taxes / VAT	21
Stamp Duty	21
Capital Gains Tax	21
Payroll and Social Security Taxes	22

Cash Management	23
Banking System	23
Banking Regulation	23
Banking Supervision	23
Central Bank Reporting	23
Exchange Controls	24
Bank Account Rules	25
Anti-money Laundering and Counter-terrorist Financing	25
Banking Sector Structure	27
Major Domestic Banks	27
Overall Trend	27
Payment Systems	28
Overview	28
High-value	29
Low-value	30
Payment and Collection Instruments	39
Overview and Trends	39
Statistics of Instrument Usage and Value	39
Paper-based	39
Checks	39
Bills	40
Electronic	40
Credit Transfers	40
Direct Debits	41
Payment Cards	41
ATM/POS	42
Electronic Wallet	42
Liquidity Management	43
Short-term Borrowing	43
Overdrafts	43
Bank Lines of Credit / Loans	43
Trade Bills – Discounted	43
Factoring	43
Commercial Paper	43
Bankers’ Acceptances	43
Supplier Credit	44
Intercompany Borrowing, including Lagging Payments	44
Others	44
Short-term Investments	44
Interest Payable on Bank Account Surplus Balances	44
Demand Deposits	44
Time Deposits	44
Certificates of Deposit	44

Treasury (Government) Bills	44
Commercial Paper	45
Money Market Funds	45
Repurchase Agreements	45
Bankers' Acceptances	45
Liquidity Management Techniques	45
Cash Concentration.....	45
Notional Pooling.....	46
Trade Finance	47
General Rules for Importing/Exporting	47
Imports	48
Documentation Required	48
Import Licenses	48
Import Taxes/Tariffs	48
Financing Requirements.....	48
Risk Mitigation.....	48
Prohibited Imports.....	48
Exports	49
Documentation Required	49
Proceeds	49
Financing Requirements.....	49
Export Licenses	49
Export Taxes/Tariffs	49
Risk Mitigation.....	49
Prohibited Exports.....	49
Information Technology	50
Electronic Banking	50
External Financing	51
Long-term Funding	51
Bank Lines of Credit / Loans	51
Leasing	51
Bonds	51
Private Placement	52
Asset Securitization / Structured Finance	52
Government Investment Incentive Schemes / Special Programs or Structures	52
Useful Contacts	53
National Treasurers' Association.....	53
National Investment Promotion Agency	53
Central Bank.....	53
Supervisory Authority	53
Payment System Operator.....	53
ATM/POS Network Operator	53
Banks.....	53

Stock Exchange53
Ministry of Strategy and Finance53
Ministry of Commerce53
Chamber of Commerce.....53
Bankers' Association..... 54

Financial Environment

Country Information

Geographical Information

Capital	Seoul
Area	99,720 km ²
Population	51.23 million
Official language	Korean
Political leaders	Head of State — President Moon Jae-in (since May 10, 2017) Head of Government — Prime Minister Lee Nak-Yon (since May 31, 2017)

Business Information

Currency (+ SWIFT code)	South Korean won (KRW)
Business/banking hours	08:30/09:00-17:30/18:00 (Mon-Fri)
Bank holidays	2018 - 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 2020 - January 1, 24-27, March 1, April 15, 30, May 1, 5, June 6, August 15, September 30, October 1-3, 9, December 25 Source: www.goodbusinessday.com .
International dialing code	+ 82

Country Credit Rating

FitchRatings last rated South Korea on June 21, 2018 for issuer default as:-

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

Source: www.fitchratings.com, November 2018.

Economic Statistics

Economics Table

		2012	2013	2014	2015	2016
GDP per capita	(USD)	24,648	26,190	28,186	27,398	27,661
GDP	(WAN trillion)	1,377	1,429	1,486	1,559	1,637
GDP	(USD billion)	1,223	1,306	1,411	1,378	1,411
GDP volume growth*	(%)	+ 2.3	+ 2.9	+ 3.3	+ 2.6	+ 2.9
BoP (goods, services & income) as % GDP		+ 4.6	+ 6.5	+ 6.3	+ 8.0	+ 7.4
Consumer inflation*	(%)	+ 2.2	+ 1.3	+ 1.3	+ 0.7	+ 1.0
Population	(million)	50	50	50	50	51
Unemployment	(%)	3.2	3.1	3.5	3.6	3.7
Interest rate (local currency MMR)[†] (%)		3.1	2.6	2.3	1.7	1.3
Exchange rate[‡]	(WAN per USD)[†]	1,126.5	1,094.9	1,053.0	1,131.2	1,160.4

		2017		2018		
		Q4	Year	Q1	Q2	Q3
GDP per capita	(USD)	-	NA	-	-	-
GDP	(WAN trillion)	-	NA	-	-	-
GDP	(USD billion)	-	NA	-	-	-
GDP volume growth*	(%)	+ 3.0	+ 3.1	+ 2.9	+ 2.8	NA
BoP (goods, services & income) as % GDP		-	NA	-	-	-
Consumer inflation*	(%)	+ 1.5	+ 2.0	+ 1.3	+ 1.5	+ 1.6
Population	(million)	-	51	-	-	-
Unemployment	(%)	3.2	3.7	4.3	3.9	NA
Interest rate (local currency MMR)[†] (%)		1.3	1.3	1.5	1.5	NA
Exchange rate[‡]	(WAN per USD)[†]	1,106.1	1,130.4	1,072.8	1,080.4	1,121.7

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

Sources: *International Financial Statistics*, IMF, November 2018 and 2018 Yearbook.

Sectoral Contribution as a % of GDP

Agriculture - 2.2 %

Industry - 39.3%

Services - 58.3% (2017 estimate)

Major Export Markets

China (25.1%), USA (12.2%), Vietnam (8.2%), Hong Kong (6.9%), Japan (4.7%)

Major Import Sources

China (20.5%), Japan (11.5%), USA (10.5%), Germany (4.2%), Saudi Arabia (4.1%)

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. In November 2017, the BOK raised its benchmark interest rate to 1.5%, from a record low of 1.25%, the first rate rise for six years. The BOK held its 1.5% in July 2018.

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. As a result, South Korea lifted the GDP per head to that of an advanced nation and became the fourth largest exporting country in Asia, all in a period of 40 years.

GDP expansion slowed in Q3 2018, a year-on-year rise of 2.0% compared to 2.8% in Q2, partly due to a slowdown in growth in private consumption (expanded 0.6%). Export growth increased 3.9% in the period July to September on the back of strong sales of memory chips. The central bank has revised its growth forecast for 2018 down to 2.7% from 2.9%, citing sluggish investment (down 4.7% from the Q2) and job creation and the risks posed by the current US and China trade wars on trade on its export-driven economy.

South Korea's rapidly aging population and shrinking workforce is a key area of concern for the government. Government figures show there are more economically active people over 60 in South Korea than those in their twenties. Youth unemployment is high, 9.0% in September 2018, and job growth is falling - the number of jobs created in Q3 fell to 17,000, down from 101,000 three months earlier. The government has announced an extra USD 3.7 billion to create upwards of 50,000 jobs for the young and to help workers in the country's southern region (in October, the government announced that 60,000 temporary jobs would be created for young and elderly people). These funds are in addition to a KRW3.9 trillion government bill to support firms that employ young workers.

To improve economic growth, and further increase investment in job creation, the government is proposing that the nation's top 129 companies pay 25% of corporate income tax from 2018 (up from 22%). Other measures include raising the minimum wage by 16% in order to boost household income and reduce inequality; it is anticipated that small and medium-sized companies anticipate will have to reduce headcount as a result.

The government has announced that its budget for next year will focus on job creation, income inequality and boosting innovative growth. A total of KRW 5 trillion won (USD 4.4 billion) has been earmarked for eight sectors, including autonomous driving and smart factories, with focus placed on blockchain, big data and artificial intelligence. In October, USD 13 billion of financial support for small and mid-sized enterprises was announced to kick start the country's stalling economy, in addition to a temporary 15% cut in fuel tax from November 6.

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 Moon Jae-in, who was elected after the impeachment of his predecessor, Park Geun-Hye. The President, of the liberal center-left Democratic Party of Korea, won the snap election held on May 9, 2017. The main opposition parties are the conservative Liberty Korea Party (formerly known as the Saenuri Party), the centrist People's Party, and the conservative Bareun Party.

Legislature

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

The 300-member National Assembly (or Kukhoe) is elected every four years. Members are elected either via simple majority voting (246 members) or via proportional representation (54 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 election of Moon Jae-in, of the liberal center-left Democratic Party of Korea, ended nine years of conservative rule in the country. President Moon has promised to reform South Korea's powerful family-run conglomerates and to address pressing domestic problems such as rising inequality and youth unemployment. However, it will not be easy to implement sweeping policy changes in the divided National Assembly, where President Moon's Democratic Party holds only 40% of the seats.

The future development of relations with North Korea remains a key domestic issue for South Korea. In the latest summit between the two countries, North and South Korea has agreed to reestablish infrastructure ties between the two countries, resume stalled economic cooperation projects and to launch a joint Olympics bid. The issue of North Korea's nuclear capability and its willingness to give up its nuclear weapons remains a key issue for South Korea, and President Moon Jae-in's reconciliation deals have been criticised by opposition figures for their potential to undermine national security, although his approval ratings have risen.

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 came into force March 2012. The two countries are in the process of renegotiating the trade agreement; the USA believes changes to the deal will cut its trade gap with the country. The US goods trade deficit with South Korea has doubled since the 2012. Korea, the seventh-largest trading partner of the US, maintains there is no clear link between the FTA and the US trade deficit.

In October 2017, South Korea and China agreed to reestablish economic ties; China has implemented an unofficial economic blockade against South Korea companies after South Korea announced plans to deploy a US anti-missile system. In September 2018, exports to China increased 7.8% from a year earlier.

Taxation

Resident/Non-resident

A resident company has its headquarters or a place of effective management in South Korea.

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 30 billion	25% (27.5%)
KRW 20 billion–KRW 30 billion	22% (24.2%)
KRW 200 million–KRW 20 billion	20% (22%)
KRW 200 million or below	10% (11%)

A local surtax of 1% of the corporate income tax due applies on the first KRW 200 million of taxable income, 2% on taxable income above KRW 200 million up to KRW 20 billion, 2.2% of taxable income above KRW 20 billion to KRW 300 billion and 2.5% on taxable income above KRW 300 billion.

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, 2018, companies other than small and medium-sized enterprises (SMEs) may utilize their tax loss carryforwards to set off only 70% 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	None	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.

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 90 countries. When domestic tax law conflicts with a tax treaty, the tax treaty overrides domestic law.

South Korea has exchange of information relationships with 107 jurisdictions through 96 double tax treaties and 11 TIEAs (www.eoi-tax.org, August 2018).

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.

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.

The Korean tax law requires country-by-country reporting (CbC) as from fiscal years commencing on or after January 1, 2016. The CbC report must be submitted within 12 months of year-end.

Thin Capitalization

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 200% (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.

A related FSC includes the head office, a sister company or a foreign entity directly or indirectly owning 50% or more of the shares in a Korean company; or a foreign entity that substantially controls a Korean company.

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.

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.

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 2018 (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 for outward direct investment, as long as a company notifies the relevant foreign exchange bank. 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

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.

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.

The central bank must be notified for all lending by residents to non-residents.

Royalties and other fees

There are no restrictions.

Profit remittance

The repatriation requirement on proceeds from invisible transactions above USD 500,000 was abolished.

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 and exclusive KRW accounts for investment (which is for settlement of investments in shares, bonds, or money-market instruments). Transfers are blocked between non-resident KRW accounts and non-resident free won accounts, between non-resident KRW accounts and exclusive KRW accounts for investment, and between non-resident free won accounts.

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 using biometric authentication.

Anti-money Laundering and Counter-terrorist Financing

- South Korea has implemented anti-money and counter-terrorist financing laundering legislation, 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 November 2018.

Banking Sector Structure

Major Domestic Banks

Bank	Total assets (USD million) December 31, 2017
Kookmin Bank	308,955
Shinhan Bank	303,846
Woori Bank	296,334
KEB Hana Bank	257,609*
Industrial Bank of Korea	256,773
Nonghyup Bank	250,462
Korea Development Bank	247,163
The Export-Import Bank of Korea	79,124
Standard Chartered First Bank Korea	56,823
Busan Bank	42,812*

* Data as of December 31, 2016.

Source: www.accuity.com.

Overall Trend

There are eight nationwide commercial banks, six regional banks, five specialized banks, seven bank holding companies and two non-bank holding companies operating in South Korea. In addition there are 79 savings banks. There is a significant foreign banking presence in South Korea – 38 foreign banks have established 47 branches in the country.

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. In 2017, the government completed its privatization of Woori Bank, selling 29.7% of its shares.

K-bank, South Korea's first internet-only bank, launched operations in April 2017. Kakao Bank, another internet-only bank, began operations in July 2017. The two banks have a combined user base of about seven million. In September, a decree was approved allowing a non-banking entity to own up to 34% of shares in a banking entity that operates without physical branches. Previously, they were allowed to own more than 4% of common shares. It is expected that the number of internet banks in South Korea will rise.

In February 2018, the FSC announced more banking licenses would be granted to reinvigorate the lending sector. New entrants will be required to focus on certain customers such as corporate clients.

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, including the following:

- Checks Clearing Service
- Giro/Internet Giro
- IFT Network
- HOFINET (Firm Banking)
- CD Network
- EFTPOS
- CMS
- BANKPAY (for online or smartphone initiated credit transfers)
- BANKLINE and
- K-Cash.

The KFTC also provides two e-commerce payment services. A B2C service facilitates customer payments to merchants via an account transfer in real time. It has 15 participants. 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. It has 15 participants.

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	132 participants, of which 59 are banks and 73 non-banks.
Access to system	Using international SWIFT standards
Future developments	BOK is planning on extending the operating hours of BOK-Wire+ by 2019. A new generation of BOK-Wire+ is to begin operations in 2020. The net settlement cycle will be reduced from 30 minutes to 5 minutes.

Low-value

Name of system	Checks Clearing Service
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). All checks and bills in South Korea are truncated through the cashier's checks truncation system (CTS).
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	27 direct participants.
Access to system	All checks and bills will be processed by CTS.
Future developments	NA

Name of system	Giro/Internet 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 (IFT Network)
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+ = 11:00.
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 (CD Network) 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 6 million per funds transfer transaction.
Operating hours	24 hours, seven days a week.
System holidays	NA
Cut-off times	Final settlement of net obligations through BOK-Wire+ = 11:00.
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 and the Korea Federation of Savings Banks. 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	EFTPOS
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+ = 11:00.
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	15 bank participants and 11 asset management companies.
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	09:00 to 16:00 local time, Monday to Friday.
System holidays	Closed on all national public holidays
Cut-off times	Final settlement of net obligations through BOK-Wire+ = 11:00.
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+ = 11:00.
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. The central bank is aiming for the country to be cashless by 2020.

Statistics of Instrument Usage and Value

	Transactions (million)		% change 2017/ 2016	Traffic (value) (KRW billion)		% change 2017/ 2016
	2016	2017		2016	2017	
Checks and bills	200.7	159.8	- 20.4	5,336,238	5,031,372	- 5.7
Debit cards	0.1	0.1	- 26.1	5.2	3.7	- 28.8
Credit cards	10,663.7	11,965.5	12.2	675,762	702,970	4.0
Check cards	6,395.6	7,346.2	14.9	155,112	170,183	9.7
IC cards	4.0	5.9	47.5	329	405	23.1
Credit transfers	4,245.2	4,591.2	8.1	92,175,142	97,575,683	5.9
Debit transfer	1,771.5	1,710.5	- 3.4	187,552	189,804	1.2
Direct debits	929.3	837.7	- 9.9	98,388	95,052	- 3.4
E-money	3.5	2.3	- 34.0	6.0	4.0	- 33.3
Total	24,213.4	26,619.3	9.9	98,628,534.2	103,765,476.7	5.2

Source : ECOS Economic Statistics System, August 2018.

Paper-based

Checks

In 2017, the daily average volume and value of checks and bills cleared fell by 19.4% and 4.6% year on year, respectively, in line with the declining use of promissory notes and KRW 100,000-denominated cashier's checks.

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 Clearing System. Final settlement takes place via BOK-Wire+ at 11:00 the following business day.

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.

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 Bank Giro System is used for low-value direct debit transactions. 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 Bank Giro System, with final settlement via BOK-Wire+. 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. During 2017, the daily average volume and value of payments made using credit cards increased by 12.5% and 4.3% year on year. At the end of Q2 2018, there were approximately 93.6 million credit cards held by individuals and 8.6 million credit cards held by corporations.

in 2017, payments made via check cards (which have similar functionality to debit cards) increased in their daily average volume and value by 15.2% and 10.0%, from the previous year, due to the effects of the expansion of tax deduction benefits for the use of check cards.

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. 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.

In 2017, the daily average volume and value of payments made using payment cards was 52.99 million transactions valued at KRW 2.4 trillion, showing increases of 13.5% and 5.4%, respectively, from 2016.

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 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. There are an estimated 120,306 ATMs.

Electronic Wallet

The use of e-money is now increasing rapidly in the form of mobile money. A Smartphone Payment and Settlement Service (BankWallet) operates as a mobile wallet service in South Korea via the KFTC's Financial Information Network. The customer can use the app to make a payment at on/offline member stores and transfer small sum of money via mobile phone numbers without knowing the receiver's account numbers. According to a survey conducted by BOK, a quarter of all South Koreans use their phone to make mobile payments. Samsung Pay, for example, has seven million users. The government has announced it is launching its own mobile wallet S-Pay, primarily for making government payments. In addition, the central bank plans to create a new infrastructure for mobile wallets which will enable payments to be settled without intermediaries to be launched in the first half of 2019. The BOK plans to develop a set of technology standards for the service, also known as a third-party online payment service, by September 2018.

Other forms of electronic money in South Korea are K-Cash, VisaCash and Mybi – offering 13 kinds of electronic prepayment instrument. K-Cash is a multi-purpose card that can be used on public transport, as a cash/credit/debit card, for mobile banking and for purchasing goods. 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 Q2 2018, there were 17.1 million cards with an e-money function in South Korea.

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. Companies that seek to obtain short-term financing by issuing unsecured debentures or notes are required to undergo credit assessments for their CP.

Bankers' Acceptances

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

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 intercompany 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. 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 Ministry of Strategy and Finance. They are available with maturities ranging up to twenty years and have a minimum bid amount of KRW 1 billion. For retail investors, the minimum bid is KRW 100,000 and the maximum is KRW 1 billion.

The BOK also issues Monetary Stabilization Bonds (MSBs) with maturities ranging from 14 days to 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

Korea's money market includes the call market as well as markets for monetary stabilization bonds (MSBs), negotiable certificates of deposit (CDs), repurchase agreements (repos), commercial paper (CP), and cover bills (CB).

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 and commonly used. 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 available in South Korea.

Trade Finance

General Rules for Importing/Exporting

South Korea has 15 free trade agreements with 52 countries, including with the EU and ASEAN. It is in the process of negotiating eight further FTAs.

In October 2017, South Korea agreed to FTA amendment negotiations with the USA.

Imports

Documentation Required

Imports into South Korea normally need to be accompanied by a customs declaration, commercial invoice, certificate of origin, 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 14 products.

South Korea has eight operational free economic zones: Incheon, ChungBuk, East Coast, Busan-Jinhae, Gwangyang Bay Area, Yellow Sea, Daegu-Gyeongbuk and Saemangeum Gunsan.

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, commercial invoice, certificate of origin, a bill of lading and a packing list.

Proceeds

Effective July 18, 2017, the repatriation requirement on export proceeds exceeding USD 500,000 was abolished.

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. 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 99%). There are 16 internet and mobile banking service providers in the country, including commercial banks. There were 140.7 million internet and mobile banking users at the end of June 2018, up 1.8% on Q1 (131.8 million of these were individuals). Subscribers to smartphone banking totaled 90.89 million at the end of 2017; 67.3% of internet banking subscribers subscribed to smartphone banking.

The volume and value of account transfers routed through the Electronic Banking System in 2017 rose by 12.3% and 2.9%, respectively, as a consequence of the growing use of internet, mobile, and firm banking services. The average number of daily transactions processed via computers, smartphones and other mobile devices in Q2 numbered 116.64 million, up 7.5% on Q1.

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.

Loans taken out by Korean companies from non-resident lenders are subject to Korean withholding tax in relation to the interest payments, and the foreign exchange reporting requirements.

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), non-guaranteed, convertible and asset-backed bonds. Asset-backed securities issued by financial institutions and non-financial private companies include securities backed by credit card receivables, future trade receivables, and various types of leases and loans. Corporate issuers must be rated by at least two credit rating agencies. Interest can be fixed or floating rate.

Domestic 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 in the case of secured bonds or mortgage bonds).

Foreign companies may issue KRW-denominated domestic bonds (Arirang). The shareholders' equity of the issuer must be at least KRW 10 billion. Total value of bonds issued must be KRW 300 million or more (KRW50 million or more for guaranteed corporate bonds and secured corporate bonds).

Private Placement

Domestic and foreign companies can privately place notes. 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 —

<http://english.korcham.net/nChamEng/Service/About/appl/Chairman.asp>

Bankers' Association

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