

Guidelines for the 3rd Party Foreign Exchange Transactions

1. RFI Checklist

1) The RFI verifies the identity (i.e. residency), account information and fund allocation information of the customer who requested foreign exchange transactions pursuant to Article 10 (1) of the Foreign Exchange Transactions Act.

(1) Check whether the customer is a non-resident under the Foreign Exchange Transactions Act through the investor identification number (IRC) or LEI information.

(2) Check which foreign exchange banks in Korea (Local Custodian Bank) the customer has opened “Investment Exclusive KRW account” with, including the account numbers, and whether the name of each account matches the customer’s name (IRC or LEI).

* For example, the customer (i.e. foreign investors) requests evidential documents from the domestic account opening bank (i.e. local custodians) and submits them to the RFI.

- Also, the RFI should inform the customer that they need to notify the RFI if there are any changes to their account, such as a new opening, closure, or other modifications during the subsequent course of transactions.

* The initial verification of account information is sufficient, and additional verifications are unnecessary unless there are changes to the information.

(3) Receive fund allocation information by fund (i.e. IRC) from the customer

2) The RFI provides the fund-by-fund (by IRC) allocation information to the bank where the customer’s investment Exclusive KRW account is held (Local Custodian Bank) via its substitutional institution (B).

* If you go through a substitutional institution (SI), you need to provide fund allocation information to the SI prior to the settlement date.

If all or part of the global custodian bank, RFI, SI, and Local custodian bank are affiliated with the same group or have been consulted in advance between the institutions, the verification procedure may be omitted or modified under the principle of self-responsibility.

3) The RFI must confirm that the sending and receiving of both KRW funds and foreign currency funds are conducted with customers, global custodian banks, local custodian banks, SIs, interbank counterparties, etc. in accordance with the terms of the transaction.

* It is also allowed to entrust the obligations of the RFI to a substitutional institution through mutual agreement(contract).

4) If the RFI receives a settlement failure notification from the SI, the RFI should recheck whether the information received from the customer is correct.

2. Substitutional Institution Checklist

1) The SI sends the information (B) received from the RFI to the local custodian bank in advance.

If agreed upon between the RFI and local custodian bank, the RFI may send the fund allocation information directly to the local custodian bank.

2-1) If the customer purchases KRW in exchange for foreign currency, the SI transfers the KRW funds to the customer's investment exclusive KRW account in accordance with the RFI payment instructions.

It is also permissible for the SI to remit the entire amount of the foreign exchange transactions to the local custodian bank's business purpose KRW account or the reserve account opened at the Bank of Korea.

2-2) The SI receives the KRW funds remitted by the local custodian bank to the RFI's business KRW account when the customer purchases foreign currency in exchange for KRW.

The SI may also receive the foreign exchange transaction amount from the local custodian bank's business purposes KRW account or the reserve account opened at the Bank of Korea.

3) The SI can send and receive funds to and from the local custodian bank only if it has received both fund allocation information (B) and payment instruction information from the RFI.

The SI is not obligated to verify that the allocation information (B) and the total amount of the payment instruction are consistent, other than requesting the RFI to forward* the payment instruction and allocation information (B), unless otherwise agreed between the parties.

* Except when the RFI has directly provided the fund allocation information to the local custodian bank.

4) If the RFI receives a payment failure notification from the local custodian bank, the SI needs to notify the RFI of this fact.

5) The SI may lend KRW to the RFI in the event that the RFI fails to fulfill the customer's payment instructions due to settlement errors, temporary KRW liquidity issues.

3. Global Custodian Bank Checklist

1) The global custodian bank receives transaction and fund allocation information from the customer and forwards it to the local custodian (A).

2) Upon receipt of (A) \neq (B) from the local custodian bank, the global custodian bank double-checks the information received from the customer to ensure that it is correct.

4. Local Custodian Bank Checklist

1) The local custodian bank allocates the funds received from the RFI's substitutional institution to the customer's account or remits it to the RFI's business account according to the information (A) received from the global custodian bank, but confirms the accuracy of the information through the RFI and the SI.

If (A) and (B) are identical, the local custodian bank finalizes the settlement and notifies the SI of its completion through phone, email, and other means.

If (a) and (b) do not match, the local custodian bank double-checks the distribution of customer funds by each fund and the total transaction amount through the global custodian bank.

2) The local custodian bank may provide customers with overdrafts if there is a risk of failure* to settle funds related to securities trading (Article 2-6, Paragraph 3 of the Regulation).

* It refers to failure of securities settlement (buying) when purchasing securities and failure to settle foreign exchange transactions when selling securities.

The relevance of securities trading is judged based on “whether there is a record of actual funding activity*”, and overdrafts without a related transaction are not allowed.

* For example, if there is a record of relevant foreign exchange transactions between the RFI and the customer, and if the proceeds from the sale of domestic securities are expected to be deposited on the same day that the purchase of new securities is set to be settled.

Even if the total amount remitted by the SI to the local custodian bank does not match the total amount or composition of settlement by fund (by IRC), settlement of some partially matched funds (by IRC) is allowed.

5. Investor Checklist

1) Investors must provide the RFI and the global custodian bank with the same payment total and fund allocation information to ensure that (A) equals (B) prior to the settlement date.

2) Investors should discuss with their global custodian bank to ensure that they have a back-up plan in case the settlement for the foreign exchange transaction through the RFI fails, as an overdraft can be made through the local custodian bank (The decision to initiate discussion with the global custodian bank is optional).

3) Investors need to reconfirm the accuracy of the information provided when the global custodian bank and the RFI notify the failure of the payment.