

**REGULATIONS  
ON  
MANAGEMENT AND SANCTIONS  
OF  
SELF-REGULATION COMMITTEE**

*Formulated on December 30, 2008*

*Amended on February 26, 2009*

*Amended on March 24, 2009*

*Amended on May 29, 2009*

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## **CHAPTER I**

### **COMPOSITION AND OPERATION OF SELF-REGULATION COMMITTEE**

#### **§1. Purpose**

The purpose of these Regulations is to prescribe the matters concerning the management of the Self-Regulation Committee (hereinafter referred to as “the Committee”) and sanctions on members and their executives or employees, which is established under [§41] of the Articles of Association (hereinafter referred to as the “Articles”) of the Korea Financial Investment Association (hereinafter referred to as the “Association”).

#### **§2. Composition of Committee**

The Committee shall receive recommendations from the Nominating Committee consisting of individuals who are not major shareholders or executives or employees (in the case of Item 2 of Sub-Item d, a CEO of a regular member who is not a director of such member) and shall appoint the following positions by a vote at the general meeting:

1. One person as the Chairman of the Self-Regulation Committee (hereinafter referred to as the “Chairman”); and
2. Six persons as the members of the Self-Regulation Committee (hereinafter referred to as the “Members”)
  - a. Three financial experts;
  - b. One legal expert;
  - c. One accounting or financial expert; and
  - d. One CEO of a regular member who is not a director of such member.

#### **§3. Chairman**

(1) The Chairman represents the Committee, and presides over the meetings and supervises the duties of the Committee.

(2) In the case where the Chairman cannot perform the duties due to the occurrence of any event of *force majeure*, a member of Sub-Item a of Item 2 of [§2] shall replace the duty of the Chairman in a prearranged order designated by the Chairman; and in the case where the member of Sub-Item a of Item 2 of [§2] cannot perform the duties on the occurrence of any event of *force majeure*, a member of Sub-Items b and c of Item 2 of [§2] shall replace the duty of the Chairman in that respective order.

#### **§4. Opening of Meeting**

(1) The meeting shall be convened if there is a request made from more than three (3) members or if it is recognized to be necessary by the Chairman.

(2) When convening the meeting, each member shall be notified of the notice and the agenda, including the date and time, venue and purpose of the meeting, three (3) days before the day of the meeting. However, this provision shall not apply in the case where it is inappropriate to send a written notice or an agenda, or the Chairman recognizes that it is necessary to urgently convene a meeting.

#### **§5. Resolutions of Committee**

(1) The Committee shall resolve on matters that fall under any of the following:

1. Matters related to the enactment, amendment and abolishment of the business regulations related to the self-regulation of the members;
2. Matters related to the enactment, amendment and abolishment of the regulations of dispute resolution for self-regulation adjustment;
3. Matters related to the investigation and sanctions of members and the recommendation of sanctions for an executive or employee of the member;
4. Matters related to the business designated by the general meeting; and
5. Matters recognized to be necessary by the Committee, including other duties of self-regulation to maintain sound business practices among the members and protect the investors.

(2) The business regulations related to the self-regulation of Item 1 of Paragraph 1 are as following:

1. Chapter 1 (Investment Recommendation), Chapter 2 (Preparation and Disclosure of Research and Analysis Materials), Chapter 3 (Investment Advertising), Chapter 5 (Provision and Receipt of Property Interests), Chapter 6 (Recruit and Service Principles), Chapter 7 (Protection of New Products) of Volume II, and Chapter 2 (Credit Granting) and Chapter 4 (Similar Foreign Currency Futures Trading) of Volume III of the “Regulations on Business Conduct and Services of Financial Services Companies” (Amended on May 29, 2009, March 26, 2010);
2. “Regulations on Financial Investment Professionals and Qualifying Examinations” (Amended on February 26, 2009);
3. “Regulations on the Management and Sanctions of the Self-Regulation Committee”;
4. “Regulations on Dispute Resolution”;
5. “Regulations on the Operating Agreement of Financial Investment Companies”; and
6. “Regulations on Securities Underwriting Business”.

## **§6. Resolution Method of Committee**

(1) Decision-making at the Committee shall be effective by a majority of those in attendance, which is established with the presence of half of the registered members.

(2) Members may attend the meeting through means of communication that can transmit and receive video clips and voices simultaneously without being directly present at the meeting so as to make decisions. In such cases, the member concerned shall be regarded as having been directly present at the Committee.

(3) In the case where the Chairman recognizes that there is an occurrence of any event of *force majeure*, the agenda shall be resolved through written form. In such

cases, the reasons shall be notified to each member.

(4) The member who has been excluded, evaded or avoided in accordance to [§7] shall not be included in the number of members present as provided in Paragraph 1.

#### **§7. Exclusion, Evasion and Avoidance of Members**

(1) The member who falls under any of the following Items shall be excluded from the deliberation and resolution:

1. In the case where the matter has a direct interest with the member; and
2. In the case where the matter has a direct interest with the blood relatives of spouses and cousins and the family relations of grandchildren, grandparents and siblings or the corporation of the member concerned.

(2) In the case where it is difficult to expect a fair deliberation and resolution from a member, the person directly concerned may apply for evasion. In such cases, the Chairman shall decide on the application for evasion with his/her own authority.

(3) In the case of reasons of Paragraph 1 or Paragraph 2, the member may avoid on his/her own by getting the approval of the Chairman. However, in the case of the Chairman wishing to avoid, there should be approval from the Committee.

#### **§8. Listen to Opinions, etc.**

(1) In the case where it is recognized that it is necessary to have the deliberation of the Committee, the opinions of the Association and the executives or employees of members or other relevant experts shall be listened to.

(2) The Chairman may make the executives or employees of the Association explain about the agenda or respond to the questions.

#### **§8-2 Establishment and Composition of Self-Regulation Advisory Committee**

(1) The Committee may have a Self-Regulation Advisory Committee.

(2) The Self-Regulation Advisory Committee shall consist of less than 18 persons and shall include the CEOs of regular members and financial/legal experts. [Amended on April 30, 2010 and July 8, 2011]

(3) The members of the Self-Regulation Advisory Committee (hereinafter referred to as the “Advisory Committee”) shall appoint the Chairman.

(4) The Chairman of the Advisory Committee (hereinafter referred to as the “Advisory Chairman”) shall be a person appointed from the member of the Advisory Committee, and the person shall represent the Advisory Committee and be in charge of the meetings.

(5) The term of the member of the Advisory Committee shall be for one (1) year and they may serve successive terms.

(6) In the case where a member of the Advisory Committee is not able to fulfill his/her role as a member of the Advisory Committee due to losing his/her position as the CEO of a regular member or the occurrence of any event of *force majeure*, the Chairman shall newly appoint a member of the Advisory Committee and the successor shall fulfill the remaining term of the former member.

[Formulated on March 24, 2009]

### **§8-3 Management of Self-Regulation Advisory Committee**

(1) In the cases the Self-Regulation Advisory Committee deems it is necessary, it may submit an opinion to the Committee or the Chairman on matter that falls under any of the following cases:

1. Matters related to the relevant statutes and system improvement of self-regulation;
2. Matters related to the enactment, amendment and abolishment of regulations of the Association regarding self-regulation;
3. Matters related to the business plan and other businesses related to self-regulation;

4. Matters related to the issues of self-regulation; and
5. Other matters designated by the Association.

(2) The Chairman of the Advisory Committee shall convene the Advisory Committee in the case that it falls under any of the following cases:

1. In the case where there is a request from the Committee or the Chairman;
2. In the case where it is recognized that it is necessary by the Chairman of the Advisory Committee; or
3. In the case where the majority of the members of the Advisory Committee request the summoning of the meeting.

(3) The secretary of the Advisory Committee shall be responsible for the self-regulation duties as the executing executive, and the secretary shall be in charge of the business of the Advisory Committee in accordance to the order of the Chairman of the Advisory Committee.

[Formulated on March 24, 2009]

## **CHAPTER II**

### **SANCTIONS ON THE MEMBERS AND ITS EXECUTIVES OR EMPLOYEES**

#### **§9. Reasons of Sanctions**

In the case where a member or the executive or employee of a member engages in practices that fall under any of the following Items (hereinafter referred to as the “illegal and unfair practices”), the Committee shall impose sanctions or recommend sanctions in accordance with [§10]:

1. Cases where the relevant statutes of finance in accordance with the Act or [§24] of the Act (in the case of local branch offices and other offices of a foreign financial investment company, the relevant statutes of finance for the country concerned are included) has been violated or neglected;
2. Cases where the regulations, orders or punishments of the supervisory



authorities, including the Ministry of Strategy and Finance, the Finance Services Commission, the Financial Supervisory Service, etc. has been violated, or cases where the supervisory authorities impose measures, including the cancellation of approval/registration and the suspension of business for financial service business and the request for the dismissal of an executive or employee, etc.

3. Cases where the relevant regulations of the Association, including the Articles or duties, etc. have been violated or neglected;
4. Cases where matters of resolution for the general meeting, the Board or the Committee have not been abided; and
5. Other cases that fall under any of Item 1 through 4 where the unfair or unsound business practices has disturbed the fair trading order of the securities markets, or go against the interests of the investors.

#### **§10. Types of Sanctions**

(1) The types of sanctions that can be imposed on the members by the Committee are any of the following Items, and the sanction of Item 4 may be imposed with other sanctions when deemed necessary:

1. Request for the member to be barred from the general meeting;
2. Suspension of the qualification of the member;
3. Suspension of the whole or part of the duties provided to the member by the Committee [Amended on March 26, 2010];
4. Imposing sanctions;
5. Warning; or
6. Caution.

(2) The types of sanctions that can be recommended on the executives of the member by the Committee are any of the following Items:

1. Dismissal (including the recommendation for suspension of business practice until the decision of whether or not to dismiss the executive concerned at the shareholder's meeting);
2. Suspension of business practices for less than 6 months;
3. Warning; or
4. Caution.

(3) The types of sanctions that can be recommended on the employees of the member by the Committee are any of the following Items:

1. Disciplinary dismissal;
2. Suspension;
3. Salary reduction;
4. Reprimand; or
5. Caution.

(4) The criteria for sanctions on members and executives or employees of members in accordance with Paragraph 1 through Paragraph 3 are as shown in the Annexed Table 1.

(5) The effect of the sanctions on employees in accordance with Paragraph 3 is as shown in the Annexed Table 2.

#### **§10-2. Official Announcement of Sanctions**

(1) The Chairman shall, in cases where the Committee imposes sanctions pursuant to [§10(1)] or recommends sanctions on an executive or employee of a member pursuant to Paragraphs (2) and (3) of the same article, officially announce the following matters. However, it may not make the official announcement in cases where the announcement may cause undeserved damage to a third party or harm

the stability of the market:

1. Date of resolution;
2. The member subject to the sanctions. In this case, the executive or employee of the member subject to the recommendation of sanctions shall be excluded;
3. Major details of the violation; and
4. Type and details of the sanctions.

(2) The Chairman shall, in cases where the sanctions are canceled or changed as a result of the reexamination pursuant to [§22] or [§23], officially announce the contents thereof.

(3) Notwithstanding Paragraphs (1) and (2), the Chairman may not, in cases where the type of the sanction against the member is a caution, officially announce the real name of the member.

(4) Notwithstanding the latter part of Item 2 of Paragraph (1) and Paragraph (2), the Chairman may, in cases where the illegal/unfair practice of the member severely disturbed the fair trading order of the capital market or incurred significant property losses for a member or an investor, officially announce the real name of the executive or the employee of the member concerned.

[This Article was established on January 26, 2011]

#### **§11. Requests of Improvement, etc.**

(1) In the case where the illegal and unfair practices of the member is due to a lack of internal regulations or internal control or it deemed necessary to restore them to normal, the Committee may request the improvement or adjustment of the member concerned, and if necessary, the Committee may request for the submission of a confirmation letter on its fulfillment.

(2) The criteria for the improvement request, adjustment request and the submission of a confirmation letter on fulfillment in accordance with Paragraph 1 are as shown in the Annexed Table 3.

## **§12. Stricter or Weaker Disciplinary Actions on Members**

(1) The Committee may, in cases where it imposes sanctions pursuant to [§10], determine whether to impose a sanction on a member for his/her illegal/unfair practice and the type and details of the sanctions in view of the following matters: [Amended on September 17, 2010]

1. Effect of preventing the reoccurrence of illegal and unfair practices and the establishment of fair trading order;
2. Effect of enhancing the protection of investors;
3. Effect on the continuity of the business of the member; and
4. Self-audit to prevent the same or similar illegal and unfair practices or whether or not the internal control system is in place.

(2) The Committee may, in cases where it imposes sanctions pursuant to Paragraph (1), make the sanctions stricter or weaker in view of the following matters: [This Paragraph was established on September 17, 2010.]

1. Whether the member has received a sanction twice or more for the same or similar practice in the recent three (3) years;
2. Whether the same or similar illegal/unfair practice has been repeated or entailed intentionality/gross negligence;
3. Whether the member has received a considerable sanction from the Financial Services Commission for such illegal/unfair practice;
4. Whether there are extenuating circumstances in view of whether the illegal/unfair practice is minor or followed by rectification/compensation; and
5. Whether the practice was inevitable due to internal or external circumstances.

## **§13. Stricter or Weaker Disciplinary Actions on Executives and Employees**

(1) In the case where an executive or an employee of a member has committed illegal and unfair practices, the Committee shall impose stage one of the sanctions that fall under any of the following cases:

1. Cases where the executive or employee concerned has received disciplinary actions as the performer, instructor, conspirer or other active participant within the recent two (2) years or less (hereinafter referred to as the “major performer”) and has been imposed with sanctions again as the major performer for such same or similar illegal and unfair practices;
2. Cases where the executive or employee concerned is related to multiple incidents of illegal and unfair practices; and
3. Other cases that the Committee recognizes stricter punishments are necessary.

(2) The Committee may reduce the sanctions imposed on the executive or employee of a member who conducted illegal and unfair practices if it falls under any of the following cases:

1. Cases where a medal or reward was awarded in accordance with the Awards and Decorations Act;
2. Cases where the commendation above the Minister’s Commendation was awarded in accordance with the Government Commendation Regulation;
3. Cases where the commendation of the Financial Services Commission, the Financial Supervisory Service and the Association was awarded;
4. Cases where illegal and unfair practices were reported voluntarily or cured on its own before the supervisory authorities, the Association and the financial investment company concerned could recognize such practices;
5. Cases where there was a loss to the financial investment company due to a simple mistake, but the entire amount of the loss has been compensated;
6. Cases where the member concerned accepted the agreed recommendation or the mediation by the Association regarding the case, and applied for

- dispute resolution at the Association; and
7. Other cases where the Committee recognizes the reduction of punishment is necessary.

#### **§14. Calculation of Sanction Amount**

(1) The Committee shall calculate the amount imposed in accordance with the Annexed Table 4 in the case of imposing a sanction amount on the member.

(2) The Committee may increase the amount imposed as a sanction within the range of 50/100 in cases where the member falls under any of the following Items:

1. Cases where the member has been imposed with sanctions more than twice for the same or similar actions during the past three (3) years;
2. Cases where the member has submitted false documents or refused to submit the relevant documents to conceal or downsize the illegal and unfair practices; and
3. Other cases where the Committee recognizes stricter punishments are necessary.

(3) The Committee may reduce amount imposed as sanction amount within the range of 50/100 in cases where the member falls under any of the following Items:

1. Cases where the member has voluntarily reported or personally adjusted the illegal and unfair practices;
2. Cases where it is acknowledged that the member has taken considerable caution and supervision through self-audit to continuously uncover the same or similar misconducts;
3. Cases where the member has compensated for the loss of the investor; and
4. Other cases that the Committee recognizes the reduction of punishment is necessary.

(4) The sanction amount cannot exceed the maximum of 1 billion Korean won.

#### **§15. Payment of Sanction Amount**

(1) The member who received the notice of the imposition of sanction amount must pay the sanction amount concerned in one (1) month or less from the date of receiving the notice.

(2) The period that falls under any of the following Items despite Paragraph 2 shall be excluded from the payment period in accordance with Paragraph 1:

1. Cases where there is the occurrence is due to any event of *force majeure*, including natural disasters, the period until such occurrences has been resolved; and
2. Cases where there is a request for formal objection, the period until the deliberation and decision of the Committee from the date of receiving such objections.

#### **§16. Late Fees**

In cases where the member has not paid the sanction amount within the payment period, the Committee shall levy an increased amount, which is calculated by applying the late fee rate per annum of 9/100 for the imposed sanction amount from the day after the payment period to the day of payment.

#### **§17. Refund**

In cases where the sanction amount is refunded due to the cancellation or change of the measures taken on the sanction amount, the Committee shall pay an additional amount, which is calculated by applying the interest rate per annum of 5/100 for the imposed sanction amount paid from the day of paying the sanction amount to the day of refund.

#### **§18. Procedure and Use of Sanction Amount**

(1) In cases where the Committee wishes to use the fund created from the sanction amount, it shall go through the resolution of the Board of Directors.

(2) The fund created with the sanction amount may be used only in the cases where it falls under any of the following cases:

1. Supporting the research project for the development of the capital market;
2. Training for the improvement of the competency of executives and employees of the member; and
3. Other cases which are acknowledged by the Association as falling under public interest for the development of the capital market.

(3) The Association shall report to the Board of Directors and the Committee about the outcome of using the sanction amount.

#### **§19. Separate Accounting, etc.**

(1) The Association shall maintain separate accounting to differentiate the sanction amount and the interest arising from the sanction amount with the property of the Association.

(2) The fund created with the sanction amount shall be deposited and invested in a financial product that guarantees the principal or the collective investment securities of short-term financial collective investment scheme.

#### **§20. Prior Notice**

(1) Before the deliberation and resolution of sanctions on a member or the executives and employees of a member, the Committee shall notify the member concerned or the relevant executives and employees of the content of the illegal and unfair practices and the basis for such sanctions and provide an opportunity to state one's opinion verbally or in writing.

(2) In the case where there is a request for sanctions on a member or the executives or employees of a member, the Committee shall notify the member concerned or its executives or employees in writing the method and period of applying for an objection to.



## **§21. Statement of Opinion**

(1) In the case where the Committee makes a resolution on the sanctions, it shall provide the party applied with the sanction or its representative (In the case of sanctions on the relevant executive or employee, its executive or employees or representatives are included. Hereinafter the same shall apply) an opportunity to give a statement of opinion by participating at the Committee. If deemed necessary, the related experts can be present to testify a statement of opinion.

(2) In the case where the person directly concerned from Paragraph 1 or its representative clearly expresses the intention to give up the opportunity to make a statement of opinion or doesn't make a statement of opinion without a legitimate reason, it is regarded to have no opinion.

## **§22. Application of Objection**

(1) In the case where it is believed that a member or the executives or employees of a member who have received a request for sanction from the Committee have been treated unfairly, it is possible to make an objection at the Committee within 30 days from the day of receiving the request of sanctions from the Committee.

(2) The member and the executives or employees that applied for an objection in accordance with Paragraph 1 shall submit an application of objection, with the application of objection clearly stating the purpose and reasons, and with documents of evidence attached.

(3) In the case of an application of objection, the content of the sanction is not finalized from the day of receiving the submission until a decision on the application of objection has been made.

(4) In the case where the Committee receives the application of objection in accordance with Paragraph 1, the Committee shall go through deliberation and resolution, unless there is any special reason, in less than 30 days from the day of receiving the application and notify the person who applied for the application of objection with the outcome. However, in cases where it cannot be decided within the period due to the occurrence of any event of *force majeure*, the period can be extended within the scope of 30 days, and in such cases, the reason for extension and the expected period for handling shall be notified in writing.

(5) The member or the executives or employees of the member cannot apply for an objection again on the deliberation and resolution made on the application of objection by the Committee.

### **§23. Reexamination by an Authority**

The Committee may cancel or change the sanction by reexamining with an authority in the case where it falls under any of the following:

1. Cases where it is acknowledged that the sanction was inappropriate or it is necessary to change the type of sanction after reviewing the factual relation and the legal judgment, which were the cause of the sanction, by considering the final ruling of the court; and
2. Cases where it is acknowledged that the sanction was inappropriate or it is necessary to change the type of sanction due to an error or omission of evidential documents, or new evidence has been found that goes against the facts justified the sanction.

## **CHAPTER III SUPPLEMENTARY RULES**

### **§24. Minute Book**

The Committee shall draw up a minute book with records of the progress and results of the proceedings and it shall publish and retain it after confirmation from the members present by receiving their affixed seals or signatures.

### **§25. Secretary**

The Secretary of the Committee shall be the executing executive of the Committee responsible for the self-regulation business, and the Secretary shall handle the affairs of the meeting at the Committee in accordance with the orders of the Chairman.

### **§26. Allowance, etc.**

(1) The Committee may provide an allowance and other necessary expenses for

the members of Item 2 of [§2] in conformity with the instructions of the Committee.

(2) Paragraph 1 shall apply to the relevant experts and the executives or employees of a member who makes a statement of opinion by being present at the Committee in accordance with [§6] and [§21(1)] and the advisory member who are present at the Self-Regulation Advisory Committee in accordance with [§8-2(1)].

[Amended on March 24, 2009]

## **§27. Delegation of Authority**

(1) The enactment, amendment and abolishment of the regulations and the enactment and amendment of forms regarding the resolution of the Committee shall be delegated to the Chairman in accordance with the enactment, amendment and abolishment of the relevant laws and regulations.

(2) regarding matters that are not specified in the Articles of Association and these Regulations regarding sanctions on members and their executives and employees, and the management of the Committee, such matters shall be decided separately by the Chairman.

## **ADDENDA (December 30, 2008)**

### **§1. Effective Date**

These Regulations shall become effective on February 4, 2009.

### **§2. Abolishment of Previous Regulations**

The “Regulations on the Self-Regulation Committee” and the “Criteria on the Imposition and Management of Fines” of the Korea Securities Dealers Association and the “Regulations on the Self-Regulation Committee” of the Asset Management Association of Korea, and the “Regulations on the Securities and Futures Commission” and the “Regulations on the Self-Regulation Committee” of the Futures Association before the enforcement of these Regulations shall be abolished.

### **§3. Interim Measures**

(1) The sanctions imposed on the members and its executives and employees by the Korea Securities Dealers Association, the Asset Management Association of Korea, and the Futures Association before the enforcement of these Regulations shall be seen as a sanction taken by the Korean Financial Investment Association in accordance with these Regulations.

(2) The commendations awarded by the Korea Securities Dealers Association, the Asset Management Association of Korea, and the Futures Association before the enforcement of these Regulations shall be seen as a commendation awarded by the Korea Financial Investment Association in accordance with these regulations.

(3) The fines imposed on the securities companies by the Korea Securities Dealers Association shall be seen as a sanction resulting from [§10(1)4] of these Regulations.

#### **ADDENDUM (February 26, 2009)**

These Regulations shall become effective on February 26, 2009.

#### **ADDENDUM (March 24, 2009)**

These Regulations shall become effective on March 24, 2009.

#### **ADDENDUM (May 29, 2009)**

These Regulations shall become effective on June 10, 2009.

#### **ADDENDUM (March 26, 2010)**

These Regulations shall become effective on May 3, 2010.

#### **ADDENDUM (April 30, 2010)**

These Regulations shall become effective on May 6, 2010.

**ADDENDUM (September 17, 2010)**

These Regulations shall become effective on September 20, 2010.

**ADDENDUM (January 26, 2011)**

These Regulations shall become effective on February 1, 2011.

**ADDENDUM (July 8, 2011)**

These Regulations shall become effective on July 11, 2011.

## **Criteria for Sanctions on Members and Executives or Employees of Members**

### **1. Sanctions on members**

Type of Sanction	Criteria for sanctions
Request for the expulsion of the member to the general meeting	<ul style="list-style-type: none"> <li>- Cases where the illegal and unfair practice seriously disturbed the fair trading order of the capital market, or there has been a serious property loss on the member concerned or the investors.</li> <li>- Cases where the business concerned continues even after receiving suspension of qualification or partial suspension on the business provided to the member by KOFIA (hereinafter referred to as the “partial suspension of business”) or the same or similar illegal and unfair practice has been repeated.</li> <li>- Cases where the approval and registration has been cancelled by the Financial Services Commission due to illegal and unfair practices.</li> </ul>
Suspension of the member qualification	<ul style="list-style-type: none"> <li>- Cases where the illegal and unfair practice of the member falls under the reason for expulsion, but the extenuating circumstances were taken into consideration.</li> <li>- Cases where there was an action of suspension of the entire business from the Financial Supervisory Commission due to illegal and unfair practices.</li> </ul>
Suspension of the whole or part of the business provided to the member	<ul style="list-style-type: none"> <li>- Cases where the illegal and unfair practice seriously disturbed the fair trading order of the capital market, or there has been a serious property loss on the member concerned or the investors.</li> <li>- Cases where the same or similar illegal and unfair practice has been repeated even after receiving the warning.</li> <li>- Cases where there has been partial suspension of the business concerned from the Financial Services Commission regarding the business provided to the member by KOFIA.</li> </ul>

Type of Sanction	Criteria for sanctions
Warning	<ul style="list-style-type: none"> <li>- Cases where the illegal and unfair practice of the member applies to the reason for the partial suspension of the business of the member, but the extenuating circumstances were taken into consideration, or the level of illegal and unfair practices were minor.</li> <li>- Cases where the same or similar illegal and unfair practices are repeated even after receiving the measure of caution.</li> </ul>
Imposition of sanction amount	<ul style="list-style-type: none"> <li>- Cases where the illegal and unfair practices of the member applies to the suspension of qualification, partial suspension of the business. of the member, and the reason for warning, while it is also acknowledged that it is necessary to apply sanctions on the property.</li> </ul>
Caution	<ul style="list-style-type: none"> <li>- Cases where the illegal and unfair practice of the member applies to the reason of warning, but the level of illegal and unfair practice is minor.</li> </ul>

## 2. Sanctions on executives or employees

Type of Sanction	Criteria for sanctions
Disciplinary dismissal (In the case of executives, dismissal)	<ul style="list-style-type: none"> <li>- Cases where the illegal and unfair practice seriously disturbed the fair trading order of the capital market, or there has been a serious property loss on the member concerned or the investors.</li> <li>- Cases where there was a serious disturbance on the business of the member due to intentionally and seriously neglecting the obligation to supervise at work.</li> <li>- Cases where the same or similar illegal and unfair practices were repeated even after receiving the measure of suspension (suspension of business practice for executives).</li> </ul>

Type of Sanction	Criteria for sanctions
Suspension (In the case of executives, suspension of business execution)	<ul style="list-style-type: none"> <li>- Cases where the illegal and unfair practice applies to the disciplinary dismissal (discharge for executives), but the extenuating circumstances were taken into consideration, or the level of illegal and unfair practice is relatively minor.</li> <li>- Cases where the same or similar illegal and unfair practice has been repeated even after receiving the measure of salary reduction (warning for executives).</li> </ul>
Salary reduction (In the case of executives, caution)	<ul style="list-style-type: none"> <li>- Cases where the illegal and unfair practices have seriously disturbed the fair trading order of the capital market or there has been a serious property loss for the member concerned or the investors.</li> <li>- Cases where the business of the member has been disturbed or the fair trading order of the capital market has become disorderly due to the negligence of the duty to supervise at work.</li> <li>- Cases where the document submitted to the Committee has been falsely drawn up or the submission has been neglected due to intentional or serious mistake.</li> <li>- Cases where the investigation affairs of the Committee has been refused, disturbed or avoided.</li> <li>- Cases where the same or similar illegal and unfair practices were repeated even after receiving the measure of reprimand (caution for executives).</li> </ul>
Reprimand (Employee)	<ul style="list-style-type: none"> <li>- Cases where the illegal and unfair practices apply to the action of salary reduction but the extenuating circumstances were taken into consideration, or the level of illegal and unfair practices are relatively minor.</li> <li>- Cases where the same or similar illegal and unfair practices has been repeated even after receiving the measure of caution.</li> </ul>
Caution (Executive or Employee)	<ul style="list-style-type: none"> <li>- Cases where the illegal and unfair practices apply to the reasons of reprimand (warning for executives), but the level of illegal and unfair practices are minor.</li> </ul>



<Annexed Table 2>

### Effect of Sanctions

Classification of type	Dismissal	Suspension	Salary reduction	Reprimand
Measures taken on position	Discharged  —	Suspension period + Promotion and advancement not allowed for 18 months	Salary reduction period + Promotion and advancement not allowed for 12 months	Promotion and advancement not allowed for 6 months
Seniority		Included	Included	Included

\* The period where promotion and advancement are not allowed is also applied to the contract extension or contract renewal after the end of the labor and employment contract (included in the case where the contract-based employee is reemployed as a status of an executive).

<Annexed Table 3>

**Criteria for a Request to Take Actions on Members**

Type of the request to take actions	Criteria for a request to take actions
Request for improvement	Case where there is a request for improvement on the internal control system of the member because the business practice of the member or the executive or employee of the member is illegal, unfair or unreasonable.
Request for adjustment	Cases where it is recognized that it is necessary for the business handled illegally or unfairly by the member and its executives or employees to be restored normally or normalized afterwards.
Provision of a confirmation letter on fulfillment	Cases where it is recognized that it is necessary to guarantee the fulfillment beforehand on the sanctions of the Committee in accordance with [§9(1)].

### **Criteria for the Imposition of Sanction Amount**

#### **1. Factors for deciding the motives and results of illegal and unfair practices**

##### **a. Motive of action**

- Intentional: Cases where the illegal and unfair practices are conducted while recognizing that it violates the laws and regulations or its possibility;
- Gross negligence: Cases where the action concerned seriously lacks the cautionary obligation needed;
- Negligence: Cases where the normal caution has been neglected or the duty of care as a manager in good faith has been overlooked; and
- Simple mistake: Cases where the illegal and unfair practice is a mistake, an overlooking fact, a misunderstanding, etc.

##### **b. Result of action**

The actions are divided into four stages according to its gravity by considering the effect on the capital market, the level of disturbance on the fair trading order of financial investment products, the effect on the overall society and economy, the level of violation on the protection of investors, and the level of violation on the relevant laws and regulations, etc.

- Cause social problems;
- Serious;
- Minor; or
- Simple discretionary actions.

## 2. Criteria for deciding the imposition amount

Motive Result	Intentional	Gross negligence	Negligence	Simple mistake
Cause social problems	Less than KRW 1 billion	Less than KRW 700 million	Less than KRW 400 million	Less than KRW 100 million
Serious	Less than KRW 700 million	Less than KRW 400 million	Less than KRW 100 million	Less than KRW 50 million
Minor	Less than KRW 400 million	Less than KRW 100 million	Less than KRW 50 million	-
Simple discretionary actions	Less than KRW 100 million	Less than KRW 50 million	-	-

※ Impose the heavier results in cases where the results are repeated.