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## **The South Korean Government Announces “Venture Complementary Measures for Korea to Become One of the Top 4 Global Venture Powerhouses”**

- The South Korean Government announces **“Venture Complementary Measures for Korea to Become One of the Top 4 Global Venture Powerhouses”** and **12 core tasks** to firmly support the Second Venture Boom by providing political support to ensure sufficient “talented individuals and funds” in the Korean venture ecosystem
- **Measures to improve the global competitiveness of Korean venture companies include:** ① Stock option reform; ② Abolishment of sunset provision and a complete reform of the Act on Special Measures for the Promotion of Venture Businesses; ③ Increasing the maximum technology guarantee to 20 billion won; ④ Bringing in one trillion won for global venture funds; ⑤ Introducing a new climate response surety worth 500 billion won and investing in ESG venture companies, etc.
- **Measures to expand the venture investment market include:** ⑥ New incentives for private investors of baby funds of the Fund of Funds and allow investment in kind for IP for venture funds; ⑦ Implementing a Silicon Valley-type venture fund governance; ⑧ Bringing in one trillion won for the early-stage start-up funds; ⑨ Exemption of surtax for accelerators, etc.

- **Measures to invigorate the exit market include:** ⑩ New technology innovation M&A surety and greater M&A venture funds; ⑪ Greater tax benefits for M&As; ⑫ Interim exit fund worth 100 billion won, etc.

The Ministry of SMEs and Startups (Minister Kwon Chil-seung, hereafter referred to as “MSS”) announced the “Venture Complementary Measures for Korea to Become One of the Top 4 Global Venture Powerhouses” on Thursday, August 26.

Despite the recent COVID-19 pandemic, Korea has experienced the Second Venture Boom with numbers related to start-ups and venture investment continuously reaching record-highs. Korea's start-up and venture ecosystem is also receiving praises from the foreign media. Without a doubt, Korean start-ups and venture companies are now becoming new growth engines for the Korean economy while also creating jobs.

\* Number of new companies in 2020 (123K), amount of venture investment (4.3 trillion won), and venture funds (6.6 trillion won) all reached record highs;

Unicorn Companies: (2017) 3 → (July 2021) 15 / Number of jobs from venture companies at the end of June 2021 increased by 67K compared to the same period last year, etc.

Special Technology-based IPO: (2013-2016) 28 → (2017-2020) 77 (Increased by 2.8 times), 25 IPOs in 2020 (record high)

\*\* “Korea has more unicorn companies than Japan, with an increase in the number of global-oriented start-ups (The Nikkei, June 2021)

“Big Tech Startups Spring Up in South Korea, expected to bring changes in the chaebol-dependent economic structure” (WSJ, July 2021)

“Four out of the seven richest people are entrepreneurs, bringing a shift from a chaebol-dominated economy to one that is led by venture companies” (Bloomberg, August 2021)

However, for Korea to strongly secure its position as one of the Top 4 Global Venture Powerhouse nations, there must be institutional support to continuously attract talented individuals and capital into the venture ecosystem.

Many from the private sector also claimed that there must be political reform in order for the Second Venture Boom to securely position itself in history. In particular, there were strong claims for: ①Support for venture companies to attract talented individuals and enter the foreign market; ②Creating a private-led venture investment market and providing stronger investment for early-stage start-ups; ③Greater variety for exit market strategies.

**Opinion**

- Although measures to foster venture companies, including the Act on Special Measures for the Promotion of Venture Businesses were an innovative approach during the First Venture Boom, tax and other benefits are currently ineffective. Moreover, there are even instances where fewer benefits are provided such as those for stock options
- There are many instances where it is difficult to form funds despite financial support from the government as capital is not matched to that of an appropriate private financing body. In order for the venture capital industry to grow, there must be more capital from the private sector
- Although there is a continuous flow of money into the venture investment market, there is a bottleneck at the exit stage. As there are no active secondary offerings or M&As, companies are left with no option but IPOs

As a response, the Korean government has announced “Venture Complementary Measures” that improve the existing policies related to the three major parts of the venture ecosystem, which are venture companies, venture investment, and the exit market.

The measures include 31 detailed tasks within three major strategies of: △Improving the global competitiveness of venture companies; △Expansion of the venture investment market based on public-private cooperation; △Invigoration of the exit market including M&As. The details are as follows.

## ① Strategy No. 1: Improve Global Competitiveness of Venture Companies

First, the global competitiveness of venture companies will be improved by providing support measures for the four areas of securing talented individuals, growth strategies, globalization, and ESG\*.

\* ESG: Non-financial performance indicators considering environmental, social, and governance information of companies

**(Stock Option Reform)** In particular, there will be significant changes to the Stock Option system, which is one of the most common and best methods for venture companies to attract talented individuals.

There will be a review on easing the criteria for issuing stocks including who will be subject to stock options. In addition, in order to decrease the tax burden, the tax-free limit will be increased from 30 million won to 50 million won. This will provide special provisions on taxation even for benefits that come from stock options issued under the market price.

**(Create a Growth Foundation for Venture Companies)** In addition, to ensure stable growth for venture companies, the government will go through a complete amendment of the Act on Special Measures for the Promotion of Venture Businesses. This will include the abolishment of the sunset provision of the Act (ceasing 2027) to provide strong institutional support. The technology guarantee limit will also be increased from 10 billion won to 20 billion won to support promising scale-up venture companies with excellent technology. The government will also consider conducting a trial of “Marketing and Advertising Venture Fund,” a Korean-type M4E\* that provides advertising space as investment for venture companies with insufficient capital to provide a sales route.

\* **Example from foreign countries (Media for Equity):** A shared-growth model where companies provide the media with shares, and the media provides advertising space for companies. The model was first introduced in Sweden, and was rolled out to other countries in Europe including Germany and France

**(Support for Globalization)** There will be greater support for attracting foreign investment for venture companies and more opportunities for them to enter the foreign market. There will be a new “Global Venture Fund” worth one trillion won later in the year, and more opportunities to meet with foreign venture investors with events such as “Global IR.”

**(Foster ESG-leading Venture Companies)** In line with the global trend of ESG, it will become necessary to enhance the ESG competitiveness of the venture industry. There will be a new carbon value assessment-based climate response surety worth 500 billion won, as well as new ESG assessment criteria for Fund of Funds. A new ESG venture fund will also be introduced.

## **② Strategy No. 2: Expansion of the Venture Investment Market Based on Public-Private Cooperation**

In terms of venture investment, regulations will be improved to encourage active venture investment from the private sector, whereas the government will be responsible for strongly supporting early-stage start-ups.

**(Encourage Private Investors)** To ensure that private investors will receive greater earnings and experience less loss than the government, there will be more ways for private investors to participate in the venture investment market. Examples include much greater incentives for private investors of baby funds of Fund of Funds<sup>\*</sup>, and allowing investment in kind for IP of venture funds. There will also be changes to providing additional shared growth scores<sup>\*\*</sup> to encourage large- and medium-sized companies to invest in venture companies and venture funds.

\* △Preferred Loss Amendment incentive will be available for all baby funds of Fund of Funds; △A maximum of 30% of excess profit from Fund of Funds may be transferred; △Call option for purchasing investment shares of Fund of Funds, etc.

\*\* (Example) Change the index “Support and Investment for Start-up and Venture Companies” to “Investment in Venture Companies” and increase the maximum rate of increase (maximum 10% → 15%), add detailed classifications to venture fund investments and provide additional scores (maximum 0.5 points → 1 point)

**(Implement a Silicon Valley-type Venture Fund Governance)** To encourage venture capital from foreign countries and enhance responsibility for fund management, a Silicon Valley-type venture fund governance that is commonly found in the U.S.A. will be implemented. The Venture Investment Act will be amended to allow start-up investment companies to establish fund management subsidiaries, and allow venture fund investors without a corporate entity to become a limited partnership company or an incorporated company with corporate entities.

**(Increase Venture Investment for Early-Stage Start-ups)** To encourage investment in the early-stage start-ups that receive relatively less attention, a new early-stage start-up fund worth one trillion won will be introduced. Moreover, there will be greater incentives when management companies of baby funds of Fund of Funds invest in early-stage start-up companies\*. To encourage more accelerators who mostly invest in early-stage start-ups, a surtax for the management and maintenance of venture funds for accelerators will be exempt, and the criteria for venture funds will be eased (2 billion won→1 billion won) as well.

\* △Differentiation of additional carried interest; △Consider the 3-year history of investing in early-stage start-ups during the evaluation of investment in Fund of Funds; △Increase the maintenance cost for funds worth five billion won and under by 0.5%p (2.5% → 3.0%), etc.

### **③ Strategy No. 3: Diversification of Exit Market Strategies including M&As and Secondary Offerings**

As exit strategies were heavily focused on IPOs, new exit strategies including M&As and secondary offerings are introduced.

**(Provide M&A Liquidity)** To provide support for acquisition funds for companies, a new surety for technology innovation M&As worth up to 20 billion won will be introduced and M&A venture funds will be increased twofold (100 billion won in 2021 → 200 billion won in 2022). In particular, investment limitations for listed corporations (20%) will be lifted for M&A venture funds\*, and there will be an exception for investments from major shareholders of the acquired company when establishing special-purpose companies (SPC)\*\*. There will also be a greater range of exceptions for report obligations in the case of venture company M&As from start-up investment companies and venture funds.

\* **(Before)** 20% or less per fund of listed companies

→ **(After)** No limitations in investments in listed companies for M&A venture funds

\*\* **(Before)** 100% from venture funds (Revised Venture Investment Act)

→ **(After)** Major shareholders of the acquiring company, etc.

**(M&A Tax Benefits)** There will be continued tax benefits for M&As. As announced on the 2021 Tax Bill Amendment (July 26, 2021), the sunset deadline for tax benefits for strategic partnerships of stock exchange venture companies and technology innovation M&As will be extended to 2023 and 2024, respectively. In addition, regulations for tax benefits of technology innovation M&As have been relaxed\*.

\* **(Before)** Acquisition of more than 50% in a single transaction → **(After)** Acquisition of more than 50% within the same fiscal year

In addition, to ensure that more start-up companies that lack acquisition funds will enter into stock exchange partnerships, a new

criterion of “Excellent technology company within three years of establishment” has been added to the criteria for tax benefits for strategic partnerships.

\* **(Before)** Unlisted venture companies, SMEs with more than 5% of revenue allocated to R&D, etc  
→ **(After)** Excellent technology companies within three years of establishment added

**(Secondary Offering)** A new interim exit fund will be introduced to provide companies that received investments from venture funds with sufficient time to grow. There will be two types of interim exit funds. These are “LP Share Liquidation Funds,” where the shares of investors of funds that are about to expire are acquired, and “Venture Rebound Secondary Funds” where subprime shares of the funds are acquired.

**(Encourage various means of IPO)** There will be changes for special purpose acquisition companies (SPAC) which companies commonly consider for the initial public offering (IPO) and financing. There will be improvements on the current process that causes inconveniences when predecessor corporations are extinguished during an M&A with special purpose acquisition companies\*. There will also be a new rollover relief for mergers with extinguished companies\*\*.

\* **(Before)** SPAC must continue to exist, whereas predecessor companies are extinguished →  
**(After)** SPACs can be extinguished, and predecessor companies may continue to exist

\*\* **(Before)** Rollover relief is available when the SPAC continues to exist after mergers →  
**(After)** Rollover relief is also possible for mergers that involve extinguishing SPACs

In the second half of 2021, there will be additional measures including more preliminary consultations for unicorn companies and the implementation of the “Cornerstone Investor”\* system to ensure that future-growth-oriented companies, such as venture companies, can have better access to the stock market such as KOSDAQ.

\* Investment agreement made before the IPO where institutional investors promise to keep the stocks at the initial public offering price for a long period of time and receive newly listed stocks as an exchange



SMEs and Startups Minister Kwon Chil-seung stated, “The ambitious spirit and efforts of the past venture entrepreneurs have established the foundation of the First Venture Boom in Korea, based on which the joint efforts of the government and the private sector created the Second Venture Boom. This has allowed Korean startups and venture companies to create jobs and become a national growth engine.”

He added, “With the ‘Venture Complementary Measures for Korea to Become One of the Top 4 Global Venture Powerhouses,’ the Ministry of SMEs and Startups will play its part to bring in talented individuals and funds to Korea’s venture ecosystem, to ensure that Korean venture companies will grow to become the global companies of the future.”