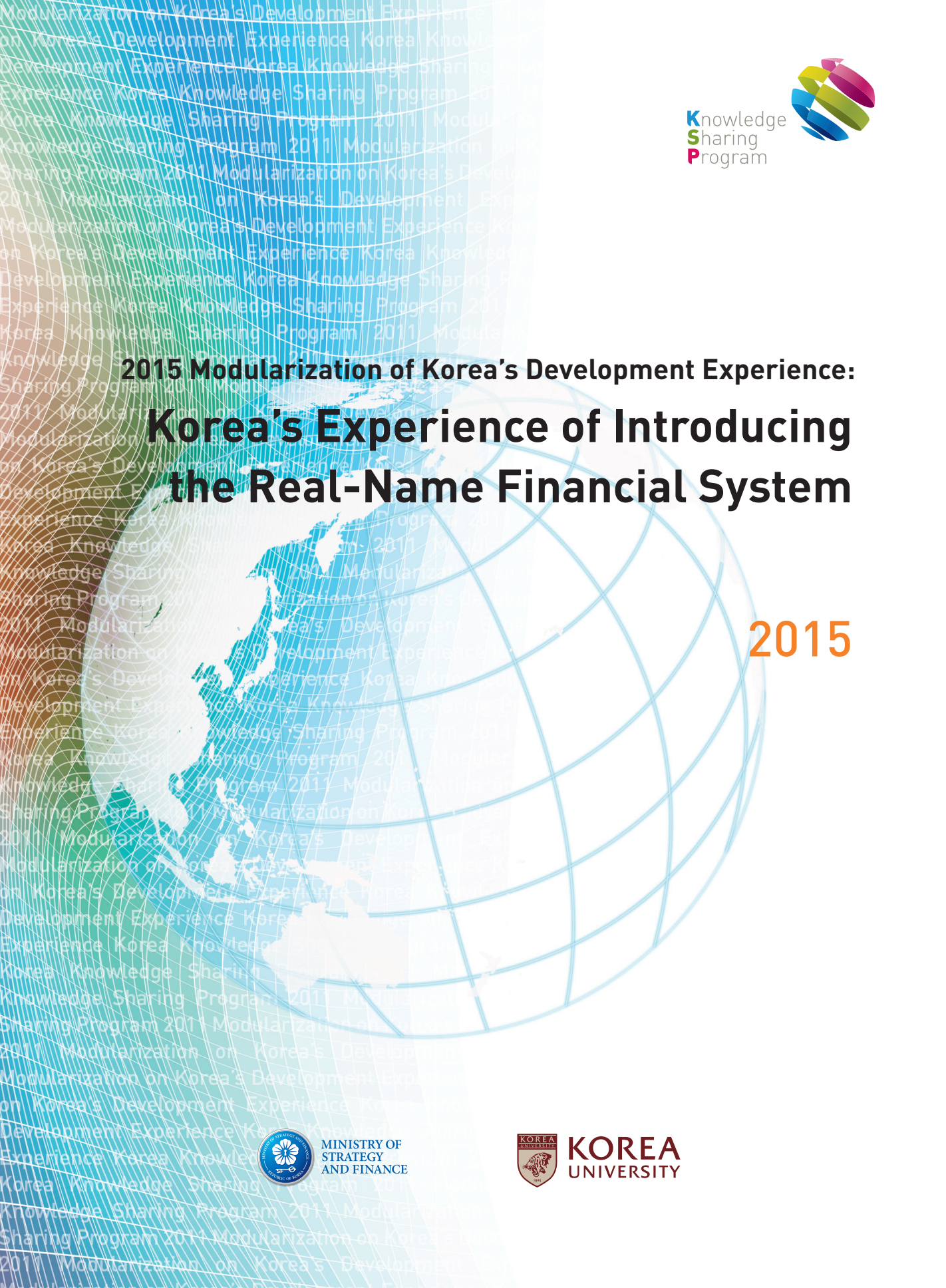

2015 Modularization of Korea's Development Experience:

Korea's Experience of Introducing the Real-Name Financial System

2015

MINISTRY OF STRATEGY AND FINANCE

KOREA UNIVERSITY

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2015 Modularization of Korea's Development Experience

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Preface

The study of Korea's economic and social transformation offers a unique window of opportunity to better understand the factors that drive development. Within approximately a single generation, Korea transformed itself from an aid-recipient basket-case to a donor country with fast-paced yet sustained economic growth. What makes Korea's experience even more remarkable is that the fruits of Korea's rapid growth were relatively widely shared.

In 2004, the Korean Ministry of Strategy and Finance (MOSF) and the Korea Development Institute (KDI) launched the Knowledge Sharing Program (KSP) to assist partner countries in the developing world by sharing Korea's development experience. To provide a rigorous foundation for knowledge exchange engagements, KDI School has accumulated case studies through the KSP Modularization Program since 2010. During the first five years, the Modularization Program has amassed 138 case studies, carefully documenting noteworthy innovations in policy and implementation in a wide range of areas including economic policy, admistration·ICT, agricultural policy, health and medicine, industrial development, human resources, land development, and environment. Individually, the case studies convey practical knowhow and insights in an easily accessible format; collectively, they illustrate how Korea was able to kick-start and sustain economic growth for shared prosperity.

Building on the success during the past five years, we are pleased to present an additional installment of six new case studies and two e-content topics completed through the 2015 Modularization Program. The six reports employ a wide range of examples to better illustrate the continued efforts to improve the effectiveness of managing the incumbent policy and management. The new case studies continue the tradition in the Modularization Program by illustrating how different agents in the Korean society including the government and civil society organizations worked together to find creative solutions to challenges for shared prosperity.

More specifically, these efforts include strengthening social communication between government and the people for sustainable growth through economic education; as well as open-door policies and measures to ensure fiscal stability while achieving sustainable growth in today's globalized world; and painstaking efforts to reform the financial industry

using the real-name financial system for fairness and equity; the informatization of personal information to increase effectiveness of public services; building up a national early warning system for fiscal stability and soundness.

Further contributing to knowledge sharing, the e-contents section features videos delving into Korea's export-oriented growth, often cited as a key government strategy that facilitated Korea's period of rapid development; and the gaming industry, a key success story in the sector for cultural contents. We also proudly note that the World Bank Group's Open Learning Campus (OLC), which will be launching in January 2016, has confirmed that it will feature the fourteen e-content programs built by the modularization program thus far.

I would like to express my gratitude to all those involved in the project this year. First and foremost, I would like to thank the Ministry of Strategy and Finance for the continued support for the Modularization Program. Heartfelt appreciation is due to the contributing researchers and their institutions for their dedication in research, to the former public officials and senior practitioners for their keen insight and wisdom they so graciously shared as advisors and reviewers, and also to the KSP Executive Committee for their expert oversight over the program. Last but not least, I am thankful to each and every member of the Development Research Team for their sincere efforts to bring the research to successful fruition, and to Professor Taejong Kim for his supervision.

As always, the views and opinions expressed by the authors in the body of work presented here do not necessarily represent those of KDI School of Public Policy and Management.

December 2015

Joon-Kyung Kim

President

KDI School of Public Policy and Management

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Chapter 4

Summary

Real-name financial system (RNFS) is a set of regulations or practices that mandates financial asset owners to hold and transact financial assets only under their own real name. By enhancing the transparency of a country's financial system, it helps to achieve a number of policy objectives, such as promoting equitable distribution of tax burden, increasing tax revenue, curbing corruption, legalizing underground economy, and providing information infrastructure necessary for other reform measures. The mode of adoption, however, may vary across countries. In some, it is mandated by law while in others, it is adopted voluntarily by market participants. Whatsoever the mode, its adoption can be considered as an indispensable step necessary to level up a country's economic system, to foster national unity, and to make economic development more sustainable.

When it comes to the adoption of the real-name financial system, Korea went through a number of twists and turns. Its first attempt to adopt the system dates back to 1982 when the Chun Doo-hwan Administration succeeded in legislating the Real-Name Financial Transactions Act against the backdrop of a major financial scandal. Its implementation, however, was postponed to a later date that was to be determined by the President any time after 1986. Eventually, this date was never set by the President. In 1989, the Roh Tae-woo Administration pushed for the introduction of real-name financial system again. But, its adoption was indefinitely postponed in the midst of worsening economic conditions. It was not until 1993, the first year of the Kim Young-sam Administration, that the real-name financial system was finally introduced. However, this was feasible only by adopting it in an exceptional manner through the issuance of a Presidential Emergency Order. From 1996, the Administration also started to tax financial income on a consolidated basis with other incomes. This was different from the previous system in which Korea taxed financial income

at a flat rate separately from other types of income. Amidst the crisis in 1997, however, the National Assembly replaced the Presidential Order with an Act that considerably weakened the system. It allowed the issuance of bonds that could be held anonymously and ceased to tax financial income on a consolidated basis, which was restored only three years later. Since the late 1990s, Korea also witnessed a series of corporate scandals that involved slush funds typically held under a borrowed name. No doubt, such scandals called for the prohibition of borrowed-name financial transactions. In an effort to prohibit such transactions, the National Assembly amended the Real-Name Financial Transactions Act and Confidentiality in 2014.

From this 30-year experience with the real-name financial system, one can draw a number of policy implications, which can be grouped into three areas: (i) political economy, (ii) adoption strategy/legislative procedure, and (iii) technical matters. First, on political economy, it is very important to have a conducive political environment and a head of state with a strong will to fight for its adoption. In spite of many interest groups who may oppose the introduction of the real-name financial system, politicians are the only group of people that have the power to block it. As members of the legislative body, they are the ones that have the authority to approve or disprove bills. Nevertheless, there may be an exception to this. For example, Korea issued a Presidential Emergency Oder that had an effect of immediately implementing the system without prior approval from the National Assembly. Excluding such cases, long and difficult negotiation with politicians is an inevitable yet crucial step. In this regard, one should pursue the introduction of real-name financial system only when assured that one can successfully persuade the politicians. The attempt made by the Chun Doo-hwan Administration failed because it came short of overcoming the oppositions from the ruling party (Democratic Justice Party), the senior secretaries at the Presidential Office, and cabinet members. The attempt made by the Roh Tae-woo Administration failed for a similar reason. It could not overcome the oppositions coming from the incumbent party, the size of which significantly grew following the three-party merger in January 1990. The retreat of the real-name financial system in 1997 resulting from the replacement of Presidential Emergency Order with the Act on Real-Name Financial Transactions and Confidentiality is also a good example. President Kim Young-sam, who was stigmatized as a failed president after the crisis, did not have the political power nor was in the position to resist such retreat.

It is also very important that the head of state have a strong will to fight for its adoption. In case of President Roh, not only did he lack the will but he also did not have much to gain from the real-name financial system. The lack of President Roh's will is partly based on the

fact that ruling party politicians, including President Roh himself, were interested in keeping the confidentiality of their slush funds. Accordingly, he quickly leaned toward postponing its adoption when economic conditions weakened. As a result, with his decision to postpone, Korea lost the chance of adopting the real-name financial system through a normal procedure. Contrary to President Roh, his successor, President Kim had a strong will for the adoption of real-name financial system. In contrast to the first and the second attempts to introduce the system during previous administrations that were led either by a cabinet member (Kang Kyung-shik, Minister of Finance) or by a senior secretary at the Presidential Office (Moon Hee-kap, Senior Secretary for Economic Affairs), the third attempt was practically led by the president himself. President Young-sam Kim kept his plan as a secret even from his own Senior Secretary for Economic Affairs, who was against its introduction. When drafting the Presidential Emergency Order, he always opted for the strictest and the most comprehensive approach. Such strong will was based on his strong interest in learning about the financial status of his political rivals both in the ruling party and opposition. By making it difficult for his political opponents to raise funds through anonymous or false-name accounts, he was expecting to see his position strengthen in the ruling party. Without a doubt, he had much to gain from its introduction.

Second, one can draw a number of implications on adoption strategy and legislative procedure. As mentioned earlier, the real-name financial system can be introduced in two ways: through a rule voluntarily agreed upon among financial market participants (e.g., U.S., or U.K.) or through legislation (e.g., Germany). However in case of Korea, the system was adopted by issuing a Presidential Emergency Order in preference to the two. This unusual approach was taken after its bitter experience of two consecutive failures in adopting the system by legislation. Even so, this does not mean that Korea had no other choices. It could have tried again with the standard approach of getting National Assembly's approval before the implementation of real-name financial system. It is also true that not all the countries allow their presidents to issue emergency orders. Moreover, the 2014 reform to ban borrowed-name financial transactions was accomplished through a regular legislative process, not extraordinary measures. Given such considerations, the path taken by Korea in 1993 may not be an appropriate path for other countries that are contemplating to introduce the system. Nevertheless, Korea's approach has a number of benefits, especially in a country with strong political resistance.

Most importantly, one can circumvent the whole process of persuasion and negotiation with politicians who are often the strongest opponents to the real-name financial system. Since all the provisions in the Emergency Order go into effect immediately after its

proclamation, there is no time for politicians to raise their voice against its introduction. That being so, this approach is especially helpful in times of poor economic conditions as they are often used as excuses for opposition. For the same reason, issuing a presidential emergency order also has the benefit of blocking sudden withdrawal of deposits. A major benefit is prohibiting withdrawals from anonymous or false-name accounts that have not yet been converted into real-name accounts. Another is mandating bankers to notify the National Tax Service of large cash withdrawals. By minimizing the possibility of sudden withdrawals, these provisions made it possible to adopt a stricter version of the system. To the contrary, when the Roh Tae-woo Administration took a gradual approach of going through the whole legislation process with prior notice, special exceptions were inevitable. To be specific, there was a fear that the imminent introduction of the system might trigger a massive withdrawal from anonymous or false-name financial accounts if special exceptions were not allowed. For example, any law violation uncovered in the process of conversion into a real-name financial account had to be pardoned. Also, financial accounts newly converted to be under a real name had to be exempt from investigation by the tax office on its funding source regardless of the account holder's age. However, the stance taken by the Kim Young-sam Administration, was starkly different. In principle, every financial account that went through a real name conversion was subject to investigation by the tax office for its funding source. Furthermore, if not converted under a real name within a certain period, government had to authority to levy penalty on the principal amount and to tax any interest or dividend income from such assets at a rate of 90 percent.

Third, one can draw a number of implications on technical matters. This includes the factors that determine the extent of side effect at the time of introduction, the influence of general economic conditions or the level of government preparation on the likelihood of introduction, and the extent of its effect that gets amplified as it interacts with other reform measures. On the extent of side effect at the time of introduction, it is influenced by a number of factors including the magnitude of financial assets not under a real-name before the introduction, the approach taken by the government to introduce the system, the scope of financial institutions and assets subject to the real-name system, the incentives given to induce real-name conversion, and the existence of countervailing measures taken by the government. If the scope of financial institutions and assets subject to the real-name system is not comprehensive enough, it is inevitable to experience a sudden shift of funds from sectors subject to the system to sectors that are not. This will also happen, if investigation by the tax office on funding source is strictly applied without any exception, or if tax rate on financial income is too high. With the introduction of the real-name financial

system, it is not hard to foresee that small-and medium-sized enterprises that are heavily dependent upon private loans would greatly suffer. One can also expect that there could be speculation over real assets such as real estate, overseas capital flights, and cash hoardings that can lower the amount of money in circulation. Countervailing measures taken by the government can minimize such side effects. In 1982 when Chun Doo-hwan Administration tried to introduce the real-name financial system, the amount of financial assets under non-real name accounts, as a fraction of total financial assets, was over 50 percent. This made many critics express concern over possible side-effects as such high fraction of financial assets in anonymous or false-name accounts also meant that government had to double its effort to countervail side-effects.

A country's economic condition can be a reason or an excuse for postponing the introduction of the real-name financial system. Examples abound. During the Roh Tae-woo Administration, its introduction was postponed with the 4.4 Measure that was basically an economic stimulation package announced in the midst of worsening economic conditions. A similar decision took place in 1997 when Korea was struck with a major economic crisis. Back in 1996, the real-name financial system was already blamed for low savings rate, conspicuous consumption, and companies' financial distress by those that were disadvantaged by it. It was, however, immediately after the crisis that the National Assembly replaced the Presidential Emergency Order with an Act that considerably weakened the system. This Act allowed the issuance of bonds that could be held anonymously, expanded the scope of financial account holders that were exempt from funding source investigation by the tax office and ceased to tax financial income on a consolidated basis, which was restored only three years later. These examples are in contrast to what happened in 1993 when the Presidential Emergency Oder was issued despite the poor economic conditions at the time of its issuance.

A successful introduction of the real-name financial system requires considerable amount of time and effort on its preparation by the government. It also needs to have a certain level of computerization in the government sector and in the financial sector. In this respect, the first attempt in 1982 by the Chun Doo-hwan Administration lacked such preparations. The 7.3 Measure that outlined the government's plan to introduce the real-name financial system was prepared in less than a week. No doubt, the government was unprepared for any side effect. Needless to say, financial markets were in turmoil upon the announcement of the 7.3 Measure. To make matters worse, the government did not seriously consider how the National Tax Service and the financial sector were prepared in terms of computerization. Such unpreparedness was an open invitation to the disadvantaged politicians to oppose

the real-name financial system. This led the Roh Taewoo Administration to take a very different approach when it prepared for the introduction of the real-name financial system in 1989. The government set up the Preparation Team for the Implementation of Real-Name Financial System that studied various aspects of introducing the system over a sufficiently long period of time.

Lastly, one must not place overconfidence over the effect of the real-name financial system on its intended policy objectives. In some cases, it may have only a minimal effect or an effect inferior to other measures. A good example of the latter includes series of policy measures introduced to promote the usage of credit cards during the Kim Dae-joong Administration. When it comes to legalizing the underground economy by discouraging undocumented commercial transactions, this policy measure is considered to have been more effective than the introduction of the real-name financial system. In other cases, the real-name financial system can have a meaningful effect only when combined with other policy measures. As an illustration, in 1993, the Public Service Ethics Act was amended to expand the scope of public officials subject to property registration and to disclose the registered properties of high-ranking officials in public. To ensure that the complete list of properties be registered, it was crucial for such properties be held under one's real name. Also, if it were not for this amendment to the Public Service Ethics Act, the real-name financial system alone could not have achieved its policy goal of reducing corruption and the conflict between public and private interests faced by public officials. Other similar examples include the Public Official Election Act, the Political Funds Act, the Act on Reporting and Using Specified Financial Transaction Information, and the Act on the Regulation and Punishment of Criminal Proceeds Concealment. In sum, real-name financial system is a basic reform measure that may not sufficiently achieve its intended policy goals alone, but serves as a necessary condition for other policy measures to effectively achieve such goals.

2015 Modularization of Korea's Development Experience
Korea's Experience of Introducing
the Real-Name Financial System

Chapter 1

Introduction

Introduction

This report documents Korea's experience of introducing the real-name financial system in detail, with the objective of serving a number of functions.[1] First, it aims to help preserve our own institutional memory on the experience. Second, it aims to serve as a reference material for policy makers in other countries that have not yet introduced the real-name financial system. Third, it aims to serve as a reference when giving advice to such countries, as a part of our policy advisory business. Lastly, it aims to serve as a teaching material when running training programs for public officials coming from such countries that still need to introduce the real-name financial system.

By enhancing the transparency of a country's financial system, the real-name financial system helps to achieve a number of policy objectives, such as promoting equitable distribution of tax burden, increasing tax revenue, curbing corruption, legalizing underground economy, and providing information infrastructure necessary for other reform measures. As such, sharing our experience on real-name financial system with other countries can be considered as a meaningful endeavor to contribute to a more transparent world with less corruption.

Furthermore, Korea's experience of introducing the real-name financial system went through a number of twists and turns, which provides a rich setting to draw many valuable policy implications. To begin with, its first attempt to adopt the system dates back to 1982 when, the Chun Doo-hwan Administration succeeded in legislating the Real-Name Financial Transactions Act against the back drop of a major financial scandal. Its implementation,

1. 'Real-name financial transactions system,' not 'real-name financial system' has been the customary English translation. However, in this report, the latter is used since it is shorter and a better translation of the original Korean name.

however, was postponed to a later date that was to be determined by the President any time after 1986. Even so, this never happened. In 1989, the Roh Tae-woo Administration pushed for the introduction of the real-name financial system again. But, its adoption was indefinitely postponed in the midst of worsening economic conditions. It was not until 1993, the first year of Kim Young-sam Administration, that the real-name financial system was finally introduced. It was adopted, however, in an exceptional manner through the issuance of the Presidential Emergency Order. From 1996, the Administration also started to tax financial income on a consolidated basis with other types of incomes, unlike the previous system in which Korea taxed financial income at a flat rate separately from other income. Yet, this was replaced with an Act by the National Assembly amidst the crisis in 1997. As a result, the system was considerably weakened as it temporarily allowed the issuance of bonds that could be held anonymously and ceased to tax financial income on a consolidated basis, which was restored only three years later. Since the late 90s, Korea experienced series of corporate scandals that involved slush funds typically held in borrowed name accounts. Naturally, such scandals called for the prohibition of borrowed-name financial transactions. It was not until 2014, however, that the National Assembly amended the Act on Real-Name Financial Transactions and Confidentiality to prohibit borrowed-name financial transactions.

This report starts with an overview of real-name financial system in Chapter 2. To begin with, the real-name financial system, the motives behind the behavior of financial asset owners that hide their real name, and the policy objectives the system intends to bring about are elaborated. Then, I discuss the political economy of the real-name financial system by going through various parties that may oppose its introduction. I also explain why real-name financial systems should be introduced with the assurance of confidentiality. Lastly, I stress that one must not place overconfidence over the effect of real-name financial system on its intended policy objectives. This is due to the fact that in some cases, it may have only a minimal effect or an effect inferior to other measures, whereas in other cases, the real-name financial system can have a meaningful effect only when combined with other policy measures.

Chapter 3 gives detailed accounts of the first two attempts made prior to 1993 to introduce the real-name financial system. I go over their background, the approaches they have taken, and the detailed proposals they have made. I also give my own evaluation on their attempts and discuss some implications for policy makers in countries that have not yet introduced the system. In particular, in case of the attempt made during the Chun Doo-hwan Administration, I discuss the Act on the Confidentiality Assurance of Deposits and

Savings that was introduced in 1961 and series of events that took place in 1982, including the promissory note fraud of Lee Chul-hee and Jang Young-Ja, the 7.3 Measure, and the legislation of Real-Name Financial Transactions Act. In case of the attempt made during the Roh Tae-woo Administration, I discuss the announcement made in 1988 that outlined the Administration's plan to introduce the real-name financial system, the activities of the Preparation Team for the Implementation of Real-Name Financial System, and the 4.4 Measure that indefinitely postponed its introduction.

Chapter 4 gives detailed accounts of the third attempt made in 1993 by the Kim Young-sam Administration in 1993. I go over its background, the approaches taken, and the detailed provisions in the Presidential Emergency Order. I also give my own evaluation of this historical event and draw some policy implications for developing country policy makers. In particular, I discuss the activities of a joint working group, composed of fellows from Korea Development Institute (KDI) and government officials from the Ministry of Finance (MoF). Their activities had to be kept strictly confidential throughout the period of preparing for the Presidential Emergency Oder. Subsequently, I also discuss the activities of the Real-Name Financial System Implementation Team, the follow-up measures taken by the government, the introduction of a consolidate income tax system, and the legislation of an Act that replaced the Presidential Emergency Oder that temporarily weakened the real-name financial system.

Chapter 5 discusses the issue of borrowed-name financial transactions that was permitted under the 1993 Presidential Emergency Oder and the measures taken to prohibit them. I start with the limitations of the 1993 Presidential Emergency Oder, the series of scandals involving corporate slush funds held under borrowed-name accounts, the Act on the Registration of Real Estate under Actual Titleholder's Name, the Supreme Court's ruling in 2009 that acknowledged the account holder as the sole legal owner, and finally the amendment made to the Act on Real-Name Financial Transactions and Confidentiality in 2014 to prohibit borrowed-name financial transactions related to certain illegal activities.

Chapter 2

An Overview of Real-Name Financial System

1. Its Meaning and Objectives
2. Political Economy and Side Effects of Real-Name Financial System
3. Assurance of Confidentiality and the Limits of RNFS

An Overview of Real-Name Financial System

1. Its Meaning and Objectives

1.1. The Meaning

Real-name financial system is a system where financial asset owners must hold and transact financial assets under their own real name. This system can be introduced in two different ways: through a rule voluntarily agreed upon among financial market participants (e.g., U.S., U.K., and France) or through legislation (e.g., Germany and Korea). This difference can arise from a number of factors, including cultural differences regarding how one perceives the importance of transparency and difference in the tradition on how new rules are introduced (written law versus case law).

The real-name financial system can be classified into a perfunctory system and a genuine system. A perfunctory system requires financial assets to be held by a real person, but not necessarily the real owner. That being so, under this system, anonymous accounts or accounts under false name are illegal, whereas accounts under borrowed-name or stolen-name are perfectly legal. A genuine system, on the other hand, requires financial assets to be held by the real owner. Therefore, under this system, accounts under borrowed-name or stolen-name are also illegal.

Even if the intention of having a real-name financial system is to have a genuine one, it may easily turn into a perfunctory one as it is common to verify the financial asset owner simply by checking identification cards (the residence registration card in case of individuals, and the business registration card in case of corporations). Moreover, the employees of financial institutions normally do not have the legal authority to investigate their customers

to verify the real asset owner. For these reasons, to have a genuine system, a country needs to implement some additional policy measures. For example, a country can introduce a rule that accepts the account holder as the sole legal owner, thereby making it risky for a person to create an account under other person's name. A country may also have a system, where financial income statements are periodically reported to the account holder, so as to reduce the risk of someone's name being stolen.

1.2. Motives to Hide Real Name

There are a variety of reasons why a person may want to hide his or her real name when holding or transacting financial assets. First, one may want to do so to reduce the amount of tax one must pay. If a person inherits financial assets or receives them as a gift, one must accordingly pay inheritance tax or gift tax. But, if financial assets are in anonymous accounts or in false-name accounts, one can easily evade tax payments, as it is impossible for the tax office to track down this person. Further, financial accounts held under a borrowed-name can help one to save tax. This is so when the name-borrower is subject to a higher level of income on a consolidated basis than the name-lender, and therefore subject to a higher marginal tax rate. By shifting some financial assets to a borrowed-name account, this person may be able to lower the tax rate he or she is subject to and this will happen as long as the amount of tax saving the name-borrower benefits is greater than the amount of additional tax burden the name-lender suffers from.

Second, one may wish to conceal his or her real name to secretly receive illegal funds. Such funds could be bribes public officials take, illegal political funds politicians accept, slush funds corporate managers create, smuggled money criminal organizations receive, and funds wholesale and retail dealers accumulated through undocumented commercial transactions. If such transactions take place anonymously or through false-name accounts, outsiders will have no idea who the actual traders are. Accordingly under such situation, financial account tracing, which is an indispensable tool in criminal investigation, is simply impossible. No doubt, illegal funds can be delivered outside the financial institutions in the form of cash. This, however, comes with a cost: First, there is a cost of physically moving cash from one location to another and second, one cannot earn interest from cash.

Third, one may wish not to use his or her real name to circumvent regulation. Suppose there is a savings account that gives a prime rate, but limits the amount a person can deposit into. By borrowing another person's name, however, one can easily circumvent this regulation. Alternatively, there can be a savings account with strict eligibility requirements. An illegible person can still deposit in this savings account by borrowing the name of a

person that is eligible. That is, a block holder wishing to circumvent the 5% disclosure requirement may try to hold a part of his block under another person's name, so as to lower each of his holdings below the 5% threshold. Needless to say, similar evasions can take place to regulations with upper shareholding limits.

Fourth, some may prefer that others do not know about his or her wealth. The wealthier a public official is, the more likely he would be suspected by others. This is so, even if he accumulated his wealth legitimately. Under such circumstances, it is quite natural for this person to come up with ways to hide his wealth and an anonymous account or accounts under a false-name can be a useful tool. A wealthy businessman could be in a similar situation and have a similar incentive.

Lastly, there are cases where borrowed-name financial accounts are well-intentioned or inevitable. For example, the head of a private organization, such as alumni associations, societies, or clubs, usually holds the organization's assets under his or her own name. Also, a mother may hold her child's financial assets under her name.

1.3. The Objectives

The real-name financial system aims to achieve economic justice and thereby develop a sound economy by making it difficult for a person to evade tax, receive illegal funds, and circumvent regulation through the use of accounts other than the one under his own real name. Hereafter, I go through each policy objectives in a greater detail.

First, the real-name financial system can promote equitable distribution of tax burden and contribute to increasing tax revenue. For example, it makes it possible for the tax office to detect evasion through account tracing. This is especially important when levying inheritance tax or gift tax. The real-name financial system also makes it possible to tax financial income on a consolidated basis with other types of income. This promotes equitable tax burden between financial income and other types of income, such as labor and business income. Such increase in tax base will increase tax revenue as well.

Second, the real-name financial system can contribute to curbing corruption and bringing out businesses from the underground economy. For example, it can reduce corruption in the government sector by restraining officials from taking bribes, it can reduce the amount of spending in election campaigns by prohibiting politicians from taking illegal funds, and it can weaken collusive relationship between the government and the business by making it difficult for firms to create slush funds. Moreover, it can make firms be less dependent on private loans that are typically in non-real name accounts and bring about businesses from

the underground economy by discouraging wholesale and retail dealers from engaging in undocumented commercial transactions.

Third, the real-name financial system serves as an information infrastructure that provides a necessary condition for other reform measures to have a meaningful effect. For example, it can make the property registration system for public officials more trustworthy. It can also prevent subscriptions into prime rate deposits above its subscription limit or subscription by illegible individuals individuals, and stop shareholders from breaking up their initial block holdings in smaller blocks to circumvent insider trading regulations or ownership limits.

2. Political Economy and Side Effects of Real-Name Financial System

2.1. The Political Economy

Real-name financial system obviously has its opponents. The ones that have been evading tax, receiving illegal funds, circumventing regulation through accounts not under his real name would be at a disadvantages. As such, the adoption of the real-name financial system may not be an easy task for the government. In that event, the government needs to either wait for the moment of least resistance or make efforts to minimize it. Hereafter, I go through each interested parties who may be disadvantaged by the introduction of the real-name financial system.

First, politicians would oppose if they have been accepting illegal funds through false-name accounts. As a way of minimizing their resistance, the government should try to provide alternative ways of raising political funds. Examples include the promotion of supporter associations and the increase of government subsidy to alleviate election campaign expenses. One important thing to note is that politicians are different from other interested parties in that they form the legislative body and have the legal authority to block the passage of the bill. No doubt, some politicians may welcome the introduction of real-name financial system. These include politicians that have not been accepting illegal funds through a false-name account, politicians that wish to be recognized as a reformist by supporting the real-name financial system, and politicians that aim to strengthen his position in the party by making it difficult for his opponents to raise funds through anonymous or false-name accounts.

Second, businessmen would oppose if they have been misappropriating corporate wealth to create slush funds using false-name accounts. This tendency would be stronger for firms that have close ties with the government, as bribes to government officials typically come from such slush funds. Businessmen that have been disguising his stock ownership through false accounts would also oppose. Furthermore, businessmen that have been relying heavily on private loans would oppose for fear that they may face financial difficulties. Some businessmen may oppose because of its negative effect on the economy, which would reduce their corporate revenue. To minimize such concerns, the government should simultaneously expand its assistance to small- and medium-sized enterprises when introducing the real-name financial system and take every possible countervailing measure to minimize the side effects. No doubt, some businessmen may even welcome the real-name financial system. This is especially so when there is a frequent change in power that makes the return on political contributions considerably uncertain. Under such circumstances, provisions of illegal political contributions or bribes are nothing but costs. In this respect, the introduction of the real-name financial system may even have an effect of lowering *de facto* corporate income tax rate.

Third, wealthy individuals would oppose if they have been evading tax, or if they were acting as private loan sharks. Tax evasion can take many forms. They can be evading inheritance tax or gift tax, where financial assets are passed on to the next generation in false-name accounts. They can also be evading consolidated personal income tax, where one's financial assets are held in borrowed-name accounts. To minimize their resistance, the government should consider lowering the income tax rate and giving exemptions to funding source investigation by the tax office for accounts that went through a real-name conversion.

Fourth, wholesale dealers and retailers may oppose if they have been evading tax in the form of undocumented transactions. In Korea, many wholesale dealers or retailers opt to be subject to estimated taxation. That is, instead of keeping a book and getting taxed based on actual revenues or earnings, firms opt to pay tax (e.g., corporate income tax, value-added tax) that is estimated by the tax office. For fear that the tax office may detect their actual revenues or earnings that may result in a higher tax burden, they engage in undocumented transactions – transactions that do not exchange receipts – and deposit at financial institutions using a false-name (Nam, 2003). To minimize their resistance, the government should reduce their tax burden.

The following table summarizes the results of a survey that asked to check the two interested parties that would oppose the real-name financial system the most. The results

show that private loan sharks were selected to oppose the most (63.9%), followed by politicians (50.3%). It also show that businessmen in large enterprises would oppose more than those in small-and medium-sized enterprises.

Table 2-1 | Who Would Oppose Real-Name Financial System the Most?

(Unit: person, %)

	No. of Cases	Large	SME	Politicians	High-Ranked Public Officials	Private Loan Sharks	Salary Workers	Retailers	Ordinary Citizens
Businessmen	661	31.5	20.9	33.7	27.0	60.9	1.9	18.0	6.5
Fin. Ins. Employees	621	27.4	11.6	59.4	25.3	63.3	0.5	8.5	2.1
Fin. Ins. Users	664	23.8	17.2	58.9	18.4	66.9	1.1	10.7	1.5
Total	1946	27.8	16.4	50.3	23.0	63.9	1.1	12.4	3.1

Source: Ahn (1994).

2.2. Side Effects

The extent of side effect at the time of its introduction is a function of many factors. These include the magnitude of financial assets under non-real name accounts before the introduction, the approach taken by the government to introduce the system, the scope of financial institutions and assets subject to the real-name system, the incentives given to introduce the real-name conversion, and the existence of countervailing measures taken by the government.

First, if the magnitude of financial assets under non-real name accounts before the introduction is large, the magnitude of assets that could be withdrawn from financial institutions would also be large, resulting in lower savings, more conspicuous consumption, lower investments, and economic contraction.

Second, if government takes an approach of giving prior notice to the public that it would introduce the real-name financial system, and then negotiate with politicians to pass the bill, it would give sufficient time for depositors to withdraw their funds out of financial institutions. To minimize the amount of deposits that can be withdrawn from financial institutions, the government can implement the real-name financial system, say by issuing a Presidential Emergency Order without prior notice and then ask for ex post ratification from the legislative body.

Third, if the scope of financial institutions and assets subject to the real-name system is not comprehensive enough, it is inevitable to experience sudden shift of funds from sectors subject to the system to sectors that are not. Fourth, if investigation by the tax office on funding source is strictly applied without any exception, or if the tax rate on financial income is set too high, the country would experience a greater shift in funds from sectors subject to the system to sectors that are not.

Fifth, with the introduction of the real-name financial system, it is not hard to foresee that small-and medium-sized enterprises that are heavily dependent upon private loans would greatly suffer. One can expect that there could be speculation over real assets such as real estate, overseas capital flights, and cash hoardings that can lower the amount of money in circulation. Such side effects can be minimized by countervailing measures taken by the government. These measures include greater financial assistance to small-and medium-sized enterprises, policies controlling real estate speculation, notification of foreign exchange remittance records to the tax office, heightened security checks at departure gates, and central bank's flexible monetary policy.

3. Assurance of Confidentiality and the Limits of RNFS

3.1. The Importance of Confidentiality

With the introduction of the real-name financial system, financial institutions would be compiling a rich data base of financial account information at an individual customer level. Undoubtedly, employees of financial institutions and government agencies would be tempted to get access to this data base, and perhaps use it for illegitimate purposes. Such possibility, can deter customers from depositing at financial institutions. Thus, ensuring strict confidentiality of customer's financial account information is considered as an essential factor for a successful introduction of the real-name financial system. The court, the prosecutor's office, the tax office, the financial authority, and other government agencies should have access to financial account information only in circumstances that are acknowledged by law, and only through a pre-determined procedure. It is also important that they have access to only the ones that are directly related to the pursuance of their investigation. In the interim, employees of financial institutions should have the obligation to refuse any unlawful information requests.

3.2. Real-Name Financial System is No Panacea

The real-name financial system helps to achieve a number of policy objectives by enhancing the transparency of a country's financial system. This includes promoting equitable distribution of tax burden, increasing tax revenue, curbing corruption, bringing out businesses from the underground economy, and providing information infrastructure necessary for other reform measures. One must not, however, place overconfidence over the effect of the real-name financial system on its intended policy objectives. In some cases, it may have only a minimal effect only or an effect inferior to other measures, whereas in other cases, it can have a meaningful effect only when combined with other policy measures. In other words, the real-name financial system is a basic reform measure that services not as a sufficient condition to achieve its intended policy goals, but as a necessary condition for other policy measures to effectively achieve such goals.

First, a good example of the real-name financial system having only a minimal effect is in regards to collecting inheritance tax or gift tax. By mandating financial asset owners to hold their assets under their real name, the real-name financial system definitely makes it easier for the tax office to collect inheritance or gift tax. However, this is not enough because it is almost impossible to discern whether the financial assets in a son's bank account are from his father's or from the son's own earnings. Moreover, even if the financial assets in the son's bank account are wired from his father's, the son may not be levied with any tax. This is due to the fact that inheritance or gifts taxes are typically paid on a voluntary basis, and the son may likely choose not to do so. With the exception of few family members that are wealthy enough to draw the tax office's attention, the real-name financial system itself is not enough to bring about greater collection of inheritance or gift tax revenue.

Second, as previously mentioned, the real-name financial system can help bring out businesses from the underground economy by discouraging wholesale dealers or retailers from engaging in undocumented commercial transactions. By mandating financial asset owners to hold and trade their assets using their real names, it would be easier for the tax office to detect the actual size of revenues and earnings that may result into a higher tax burden. When it comes to discouraging undocumented commercial transactions, however, it is well known in Korea that series of policy measures introduced to promote the usage of credit cards, during the Kim Dae-joong Administration, had been more effective than the introduction of real-name financial system (Kim and Hong, 2012). In September 1999, the Korean government introduced a policy that made credit card payments income deductible. In other words, it introduced a scheme that aims to encourage taxpayers to actively use credit cards, and thereby

allow the tax office to get access to the actual transaction history. As a result of this policy, the fraction of credit card payments (excluding corporate procurements and cash services) in total private consumption increased from 14.7% in 1990 to 57.0% in 2010. Accordingly, the tax base increased as it exposed greater amount of retail income to the tax office. Subsequently, the revenues from consolidated income tax and value-added tax increased.

3.3. Interaction with Other Reform Measures

The real-name financial system can have a meaningful effect only when combined with other policy measures. A good example is the Public Service Ethics Act that was legislated in 1981 and that underwent a number of revisions thereafter. In 1993, which is the same year when the real-name financial system was introduced, the Public Service Ethics Act was amended to expand the scope of public officials subject to property registration and to disclose the registered properties of high-ranking officials in public. To ensure its effectiveness, it was also amended to levy penalty on false registration. In 1994, the Public Service Ethics Act was amended again. This time, the Public Service Ethics Committee, if deemed necessary to examine the details of registered properties, was given the authority to request detailed financial transaction information from financial institutions. In other words, the real-name financial system and the Public Service Ethics Act are complements to each other to achieve the common goal of preventing illegitimate wealth accumulation in the public officials and ensuring fair execution of public service.

Another good example is the Public Official Election Act (formerly known as the Act on the Election of Public Officials and the Prevention of Election Malpractices) that was first legislated in 1994. To ease the financial burden of election expenses (limited to presidential election and elections for the proportional representative members either at the National Assembly or at local councils) regarding campaign posters, joint speech meetings, and many others are borne by the State and the local governments for candidates that obtained at least a certain level of votes. Also a cap was imposed on the total amount of election expense, the violation of which can result in an imprisonment sentence of the accountant in charge, and an invalidation of the election. Moreover, any receipt or disbursement of political funds must go through the deposit account registered at the election commission, and the accounting books concerning the revenue and the expenditure of political funds must be disclosed through the election commission (this and related provisions moved to the Political Funds Act in 2005). In other words, the real-name financial system and the Public Official Election Act are complements to each other to achieve the common goal of realizing elections that are clean and less financially burdensome.

The relationship between the real-name financial system and the Political Funds Act are similar in that according to this Act, political parties, supporter associations, and their equivalents must appoint an accountant who would be in charge of the accounting of political funds. They must also file the name of this accountant with the election commission. The Political Funds Act also has provisions on party membership fees, supporters' associations, entrustment of political funds, government subsidies, and political contributions.

In 2001, to regulate money laundering and the financing of terrorism, Korea adopted the Act on Reporting and Using Specified Financial Transaction Information. Again, the real-name financial system and this Act are complements to each other to achieve the common goal of preventing crime and promoting transparency in financial transactions. According to this Act, financial institutions must immediately report to the Commissioner of the Korea Financial Intelligence Unit if reasonable grounds exist in suspecting that an asset given or received in relation to any financial transaction is illegal or the other party to a financial transaction engages in money laundering or financing of terrorism. Also, financial institutions must report to the Commissioner of the Korea Financial Intelligence Unit within 30 days if it has paid to, or received from the other party to a financial transaction, cash (excluding foreign currencies) or other cash-equivalents greater than the amount (within 50 million won) prescribed by the Presidential Decree. If deemed necessary for further investigation, the Commissioner of the Korea Financial Intelligence Unit can provide relevant information to the Public Prosecutor General, the Commissioner of the National Tax Service, the Commissioner of the Korea Customs Service, the National Election Commission or the Financial Services Commission.

For the purpose of regulating activities that disguise the acquisition of criminal proceeds, Korea adopted the Act on the Regulation and Punishment of Criminal Proceeds Concealment on the same year. Again, the real-name financial system and this Act are complements to each other to achieve the common goal of preventing crime and promoting transparency in financial transactions. According to this Act, a person who disguises the acquisition or disposition of criminal proceeds, a person who disguises the origin of criminal proceeds, a person who conceals criminal proceeds for the purpose of encouraging specific crimes or disguising criminal proceeds as legitimately acquired, are punished by imprisonment for less than five years or by a fine that does not exceed 30 million won. A person who knowingly accepts the criminal proceeds is also punished by imprisonment for less than three years or a fine less than 20 million won. Also, an employee of a financial company must report to the competent law enforcement authorities without delay when he or she becomes aware of the fact that properties he or she accepts with respect to the financial

transactions are criminal proceeds. When the concerned counter-party of the transaction commits an act that falls under the crimes prescribed in this Act, this fact must also be reported. No person employed by a financial company can disclose the details of the report to the concerned counter-party of the transaction or anyone related to the above party. In case of violation, the employee must be punished by imprisonment for less than two years or by a fine less than ten million won. Proceeds of crime or any other property derived from criminal proceeds, and so on can be confiscated by the government.

Chapter 3

Attempts Made Prior to 1993

Attempts Made Prior to 1993

1. Attempt by the Chun Doo-hwan Administration

1.1. Background

1.1.1. The Act on the Confidentiality Assurance of Deposits and Savings

On July 29, 1961, the military government of Park Chung-hee adopted the Act on the Confidentiality Assurance of Deposits and Savings, which goal was to increase savings that was needed to finance economic development. The government's assessment was that unconstrained access to the details of financial transactions by government agencies was to be blamed for low savings rate (Chin, 2015).

This Act is composed of only five that includes the following: It prohibits financial institution employees from supplying or leaking financial account information to a third party (Article 3); it also stipulates that no one can request financial account information of others from financial institution employees (Article 4); and it also has a provision on penalties that can be levied when violating Articles 3 and 4 (Article 5). The Act, however, lists exceptions when government agencies can request financial account information. These include cases when following the procedures prescribed in the Civil Procedure Act, the Criminal Procedure Act, the National Tax Collection Act, and the Inheritance Tax Act.

In January 1971, Korea strengthened this Act and added Article 4 Paragraph 2, which states that if government agencies request financial account information, it must be limited to the necessary minimum. It also added Article 5, which states that financial institution employees have the legal obligation to refuse unlawful requests. It was assessed that the

scope of information government agencies were requesting was too comprehensive and therefore refuting the very reason of having this Act (The Compilation Committee on Economic Miracle Interviews, 2013). Eventually, this Act was absorbed into the Real-Name Financial Transactions Act in 1982.

Researchers have divergent viewpoints on whether this Act actually brought about higher savings rate. On the one hand, some takes the view that it increased financial savings, and therefore contributed to funding economic development (Nam, 2003). On the other hand, some assess that it had only a limited effect (Lim, 2000). The latter view is based on the belief that the level of national savings rate is more or less determined by the level of economic growth rate and the structure of demography. Related to real-name financial system, however, many believe that it had an effect of protecting anonymous or false-name financial accounts, and thereby making it difficult to tax financial income, contributing to greater corruption, and strengthening the collusive ties between the government and the business (Lim, 2003; Kang, 2010).

1.1.2. The Promissory Note Fraud of Lee Chul-hee and Jang Young-ja

The introduction of the real-name financial system was deliberated a number of times in the past. But, it was not until the promissory note fraud scandal of Lee Chul-hee and Jang Young-ja, which broke up in May 1982 did the government seriously consider the introduction of the real-name financial system. According to the prosecutor's office, Lee Chul-hee (the husband) and Jang Young-ja (the wife) approached a number of financially distressed firms between February 1981 and April 1982, and suggested to offer funds in favorable terms (22 percent interest per annum, a two-year grace period, and a three-year installed payment). In return, the couple received a promissory note the amount of which was many times larger than the original borrowing. Initially, there was an agreement between the two that the couple would not sell this promissory note in the private loan market. However, the couple did not keep their word. Instead, they immediately sold the promissory note and raised an amount much larger than the amount they originally lent, and swindled away the difference between the two as a profit. Later, when the promissory note's expiration date approached, the issuing firms asked the couple to redeem it on their behalf. The request, however, was taken only when firms issued another promissory note, the face value of which was even greater than the original. In this way, the size of promissory notes that were issued by these ailing firms to the couple eventually soared and reached 711 billion won. The amount of money raised by selling these promissory notes in the private loan market also reached 640 billion won. This is a staggering amount given that the amount of total money supply in 1982 was approximately 4 trillion won (Kang, 2005). In fact, the

couple was even bold enough to instruct commercial banks to give out loans to these firms. This was possible because the couple used swindled money to become one of their largest depositors. What is more, they used the swindled money to invest in the stock market, which greatly inflated share prices.

This fraud, however, ended when one of the deceived firms sent a petition to the prosecutor's office. Nevertheless, its impact on the economy and its political ramification, lasted for some time as the firms that were directly involved went bankrupt and the entire private loan market was frozen. This which in turn had a spillover effect in other firms in a similar situation and led to massive layoffs. The stock market also crashed as the couple no longer was able to inflate the share price. Thereupon, retail investors who were simply chasing the market trend inevitably suffered. In response, the prosecutor's office arrested the couple and the bank presidents who harmed the bank in the course of lending out loans. Against the backdrop of worsening public sentiment, President Chun reshuffled party executives and the cabinet.

Figure 3-1 | The Lee and Jang Promissory Note Fraud Scandal

The promissory note fraud scandal of Lee Chul-hee and Jang Young-ja that broke up in May 1982 led the Chun Doo-hwan Administration to push for the introduction of the real-name financial system.

Source: JoongAng Daily

This mega-fraud led the Chun Doo-hwan Administration to push ahead with the real-name financial system for three reasons. First, the promissory notes, which are at the core of this fraud, were traded anonymously. Therefore, it was impossible to trace who were actually

involved in the transaction. The absence of real-name financial system was mentioned as one of the underlying factors of this fraud. Second, the real-name financial system was an indispensable measure in restoring the President's tarnished reputation (Kang,. 2005). Lee Chul-hee was the former deputy head of Korea's Central Intelligence Agency (CIA) and Jang Young-ja was a relative to the First Lady (i.e., sister-in-law of the First Lady's uncle). Moreover, Kwon Jung-dal, the secretary general of the ruling Democratic Justice Party, was rumored to be a close acquaintance of Byun Kangwoo, who was the CEO of the company that issued the very first promissory note. Third, for reform-minded bureaucrats, this scandal was considered the golden opportunity to push for the real-name financial system (Kang, 2010).[2] Accordingly, they persuaded Nah Woong-bae, the Deputy Prime Minister and Minister of Economic Planning Board, to abolish the Act on the Confidentiality Assurance of Deposits and Savings. This plan was initially in the report drafted for the Finance and Economy Committee at the National Assembly, but was withdrawn in the last minute when public opinion was perceived to be unfavorable (Kang, 2010). Instead, the report included a plan to levy a higher tax rate by 10% on financial assets in anonymous accounts (Lee, 2008).

1.2. The Key Players

The movement to introduce real-name financial system gained considerable moment when Kang Kyung-shik was promoted to be the Minister of Finance in June 24, 1982. Previously, he was leading the movement as the Ministry's Vice Minister and soon after his promotion, he obtained President Chun's approval. This was not a hard task because the real-name financial system was also in the interest of President Chun in that he wanted to be regarded as a president who is dispelling the underground economy and realizing social justice (Lee, 2008). As mentioned earlier, the introduction of the real-name financial system was the exact measure to restore the president's tarnished reputation from the general public. Wholehearted support by Kim Jae-Ik, the Senior Secretary to the President on Economic Affairs, was also crucial in obtaining President Chun's approval. In short, Minister Kang led the movement to introduce the real-name financial system, and President Chun and Senior Secretary Kim supported him.[3]

2. When preparing for the 4th 5-year economic development plan (1977~1981), the bureaucrats at the Economic Planning Board (EPB) had serious discussions on the merits and demerits of anonymous financial transactions, and came to the conclusion that they should prohibit such transactions if opportunity comes (Kang, 2010).

3. According to Lee (2008), the 6.28 economic stimulus package to lower interest rate and cut corporate income tax was led by Senior Secretary Kim, whereas the 7.3 Measure to introduce the real-name financial system was led by Minister Kang.

The Ministry of Finance (MoF) was the government agency responsible for preparing the real-name financial system. However, the officials originally from the Ministry of Finance were not in charge. Instead the officials who were originally from the Economic Planning Board (EPB), but took over senior positions at the Ministry of Finance immediately after the Lee and Jang fraud scandal, were in charge.[4] Division Three at the Financial Policy Bureau, staffed with officials originally from the Ministry of Finance, supported senior officials from EPB.

According to Kang (2005), officials from both ministries - EPB and MoF – agreed to introduce the real-name financial system, but disagreed with the approach that were needed to be taken. That is, MoF officials preferred a gradual approach, where in the first phase, higher income tax rates against financial assets in anonymous or false-name accounts were applied so as to make it a general practice to use only real-name financial accounts. In the second phase, all accounts were legally mandated to be converted under a real-name. They were concerned that immediate adoption of a full-scale real-name financial system would have series of side effects, such as contraction of savings that lowers domestically available capital, real estate speculation, and oversees capital flight. Such view, however, was not accepted by Minister Kang.

1.3. From the 7.3 Measure to Legislation

1.3.1. The 7.3 Measure

On July 3, 1982, which was less than a week after his appointment, Minister Kang announced the plan to introduce the real-name financial system and the consolidated income tax system, which were both scheduled to be adopted by July 1983. This announcement was aggressive and shocking to many, which made the media to label it as the 7.3 Measure (Kang 2010).

According to the 7.3 Measure, all financial transactions (regardless of the date of maturity expiration) with banks, short-term investment finance companies, and securities firms had to be carried out using a real-name (verified by resident registration card in case of individuals and business registration card in case of corporations), from July 1st 1983.

4. Minister Kang Kyung-sik, Vice Minister Kim Heung-kee, Assistant Minister of Financial Affairs Lee Hyung-goo, Director General of Financial Policy Bureau Kang Hyun-wook were all former EBP officials. According to Kang (2005), this seizure of MoF by EBP officials is a result of Senior Secretary Kim's distrust against MoF officials. He saw that they were too conservative to carry out the liberalizations policies he was pushing for. It is well known that Senior Secretary Kim received wholehearted support from President Chun.

Also, from the same day (July 1st 1983), all types of financial income, which have been taxed separately at the single rate of 15 percent, will be taxed on a consolidated basis with other sources of income. This feature of the plan is more aggressive than the one adopted by the Presidential Emergency Order in 1993, which scheduled the consolidated income tax system to come some years after the adoption of real-name financial system.[5]

The 7.3 Measure was accompanied by a number of other measures to alleviate resistance. For example, to ease tax burden with the introduction of the consolidated income tax system, it planned to cut the highest marginal tax rate of 76.5 percent (including defense and residence taxes) down to 50 percent. Also, for those who convert into real-name accounts by June 1983, it planned to exempt tax office's funding source investigation up to 30 million won per person. As a way to penalize those who do not convert into real-name accounts by the June 1983 deadline, the 7.3 Measure had a plan to levy a 5 percent penalty, for three years, from July 1983 to June 1986. From July 1st 1986, it also had a plan to levy a 50 percent income tax against anonymous or false-name accounts (Kang, 2005).

Initially, the press welcomed the Measure. It seemed as if it succeeded in soothing the public sentiment that turned sour with the Lee and Jang promissory note scandal. Its impact on the market, however, was quite disturbing (Kang, 2005). That is, on July 6 (Tuesday), just three days after the announcement, 35 stocks hit the lower price limit and 202 firms experienced a share price drop (in 1982, there were 334 firms listed on the stock exchange). Also, in a single day, 40 billion won was withdrawn from short-term investment finance companies, where most of the accounts were held anonymously. Not to mention, the private loan market was completely frozen. On the day of announcement, Korean won also depreciated by 35 won in the black market to 830 won per dollar. Precious metal market, the prices of which were rising since the 6.28 economic stimulus package, started to flourish with the 7.4 Measure.[6] Banks were also losing deposits in their saving accounts. In 1982, the fraction of anonymous bank accounts reached around 50 percent in case of commercial banks. In contrast, special-purpose banks, such as Citizens National Bank, Korea Housing Bank, and Industrial Bank of Korea, did not suffer from withdrawals as 90 percent of their deposits were in real-name accounts.

5. Insurance companies, which were not subject to the real-name financial system in 1982, became subject to it in 1993.

6. The 6.28 economic stimulus package was in response to the Lee and Jang scandal that was contracting the economy.

1.3.2. Political Resistance, the Revision, and the Postponement

With market turmoil, the opponents to real-name financial system started to voice their criticism. The most aggressive opposition came from the presidential office and the ruling party (Kang, 2010). Specifically, from the presidential office, Senior Secretary on Political Affairs Hur Hwa-pyung, Senior Secretary on Audit and Inspection Hur Sam-soo, Senior Secretary on Administrative Affairs Kim Tae-ho were in opposition. From the ruling Democratic Justice Party, Secretary General Kwon Ik-hyun, Party Chairman Lee Jae-hyung, Floor Leader Lee Jong-chan, Policy Committee Chairman Chin Eui-jong, and National Assemblyman Kim Jong-In were also in opposition. As a matter of fact, Secretary General Kwon Ik-hyun even stated that Koreans consider it was a virtue not to disclose one's wealth. The business sector did not remain silent either. Chairman of Hyosung Group Cho Suk-rae stated the real-name financial system is going against the intrinsic nature of capital that wishes to stay away from sun light. Initially a proponent, the Deputy Prime Minister and the Minister of Economic Planning Board Kim Joon-sung, also changed his position, which was a shock to Minister Kang. The Minister of Home Affairs Roh Tae-woo, who would later pledge to introduce real-name financial system in the 1987 presidential election, also opposed.

Amidst this strong opposition, the Ministry of Finance entered a series of meetings with the ruling party and eventually came up with a revised plan that was considerably weaker than its original on August 17 (Kang, 2005). First, as for savings account whose maturity did not end by June 1983, they extended the deadline to convert into a real-name account until their respective expiration dates. Second, they gave up the original plan to levy a 5 percent penalty for three years, from July 1983 to June 1986, on accounts not converted by June 1983. Third, instead of the original plan to exempt tax office's funding source investigation only if the converted amount is less than 30 million won per person, they decided to exempt investigation regardless of the amount that has been converted. Lastly, instead of introducing the consolidated income tax system by July 1983, they decided to postpone it until the date all necessary preparations for its introduction were complete.

The press saw the revised plan as a significant retreat. They criticized it was no better than not have the real-name financial system. Minister Kang, however, saw it differently. To him, passing the much weakened bill was still meaningful because it would still levy higher income tax rates against anonymous or false-name accounts: 30 percent from July 1983 to June 1986, 50 percent from July 1986 to June 1989, and 100 percent from July 1989. With this differential tax scheme, he predicted that, anonymous or false-name accounts would

be extinct by 1989, which would pave the way for adopting the consolidated income tax system.

Despite this agreement between the government and the party, the ruling Democratic Justice Party pressured Minister Kang again. This time, they asked to give up the real-name financial system entirely. According to Kang (2010), these politicians were greatly concerned that they would not be able to receive political funds as much as before. They were also concerned that firms would not be able to easily create slush funds, from which most of the political funds come from (Kang, 2010). The press, which was initially favorable to the real-name financial system suddenly changed their position, and started to raise concerns. Kang (2010) suspects that the senior secretaries to the president are responsible to this this sudden change.

In October, it was almost certain that the plan to introduce real-name financial system would be completely withdrawn. Minister Kang, however, succeeded in persuading President Chun in the last minute to legislate the Act on Real-Name Financial Transactions, but postpone the date when the provision that mandates the conversion to real-name accounts would take effect. It was agreed that the effective date would be set by the Presidential Decree any time after January 1st 1986 taking economic conditions and the state of administrative preparedness, such as the progress made in computerization into consideration.

1.3.3. The Real-Name Financial Transactions Act

The Real-Name Financial Transactions Act passed the National Assembly in December 1982. However, the only meaningful change was the plan to levy higher income tax rates on anonymous or false-name accounts starting from July 1983. The effective date when the conversion to real-name accounts become mandatory was left to be decided any time after January 1st 1986 by the Presidential Decree taking economic conditions and the state of administrative preparedness into consideration. The Act is composed to eleven articles and four supplementary provisions, which I hereby summarize below.

First, Article 1 (Purpose) states that the purpose of the Act is to encourage real-name financial transactions that contributes to the normalization of financial transactions and the development of the national economy. Article 2 (Definitions) lists the scope of financial institutions, the financial assets, and the financial transactions, to which the Act applies. They are set to be quite comprehensive. It also states that real-names be verified by resident registration cards in case of individuals and business registration cards in case

of corporations. Article 3 (Real-Name Transactions) is the key article which mandates the financial institutions to engage only in real-name transactions. Article 4 (Real-Name Transaction Inducement Measures) Paragraph 1 instructs the government to continue on its preparation work, such as computerization, for the introduction of real-name financial transaction. Paragraph 2 stipulates income tax rates against financial assets in anonymous or false-name accounts. A surtax of 50 percent was to be added between July 1983 to December 1984, and a surtax of 100 percent was to be added from January 1985. The level of these surtaxes were lower than the level that was originally considered.

Articles 5 and 6 absorbed the key provisions from the Act on the Confidentiality Assurance of Deposits and Savings that was abolished with the introduction of this Act. Specifically, Article 5 prohibits financial institution employees from supplying or leaking financial account information to a third party. Article 6 is about penalties that can be levied when violating Article 5. Articles 7 and 8 go over the penalties that can be levied when violation Article 3 (Real-Name Transactions). Specifically, Article 7 states that the government can levy a fine of no more than 1 million won against the officers and the employees of a financial institution that violated Article 3. Article 8 states that fines can be levied not only against the officer or the employee, but also against the financial institution they work at (dual liability clause).

Article 9 states that, any interest payment, repayment, or refund need not be done using one's real name as for financial transactions that entered before the effective date of Article 3. Article 10 states that, upon real-name conversion, funding source investigation will be exempt as long as a minor does not convert more than 7 million won. Article 11 sets the grace period, during which anonymous or false-name account holders must convert them into real-name accounts, to be six months. This article also stipulates that penalties can be levied against the assets that remain under anonymous or false-name accounts after the grace period. Supplementary Provision 1 is about the effective date of Article 3 that mandates financial institutions to engage only in real-name transaction. As mentioned earlier, it is left to be decided by the Presidential Decree any time after January 1st 1986 taking economic conditions and the state of administrative preparedness, such as the progress made in computerization, into consideration. Supplementary Provision 2 abolishes the Act on the Confidentiality Assurance of Deposits and Savings.

1.4. Evaluation

In 1982, there were a number of favorable conditions conducive to the introduction of real-name financial system. President Chun had the will and the incentive to introduce the system. It took place in the beginning of his tenure and the general election was to held only three years later. Also, the Senior Secretary to the President on Economic Affairs, who was in favor of the system, received whole-hearted support from the president. The attempt to introduce the system, however, met strong opposition from politicians and eventually its introduction had to be postponed indefinitely. Given the widely-spread practice of raising political funds through anonymous and false-name accounts back in the early 1980s, it was impossible for them to accept the introduction of real-name financial system.

To circumvent the opposition of politicians, one may think of pursuing the approach similar to that taken in 1993.[7] That is, implementing the real-name financial system with the issuance of Presidential Emergency Order without any prior notice. Yet, given the situation in 1982, however, it is not clear whether this approach would have been successful as in 1993. Immediately after the announcement of the 7.3 Measure, there was a turmoil in the stock market, the foreign currency market, and the real estate market. There was also a wave of sudden deposit withdrawals from financial institutions. One can easily infer that the size of financial assets in anonymous or false-name accounts was quite large, and the economy was not quite ready for a dramatic change. No doubt, such side effects can be limited by resorting to the approach of issuing a Presidential Emergency Order, as it can be accompanied by other supplementary measures that can also prohibit withdrawals from anonymous or false-name accounts. Furthermore, an emergency order can mandate the notification to the National Tax Service of large cash withdrawals. The government could have also taken measures to control for real estate speculations. The level of policy effort needed in 1982, however, was much greater than that in 1993.

It is interesting that the level of preparedness in terms of computerization placed a crucial role in postponing the introduction of the real-name financial system. Although it was not too difficult to level up the computer processing capability of National Tax Service, it was somewhat challenging in case of leveling up individual financial institutions, and

7. In his memoire, Minister Kang regrets that he did not listen to the suggestion that the government should adopt the real-name financial system through the issuance of the Presidential Emergency Order (Kang, 2010).

connecting the National Tax Service network with that of financial institutions.[8] Of course, computerization is only a necessary condition to introduce real-name financial transaction in a more efficient way, not a necessary condition to introduce the transaction itself. This is obvious when one acknowledges the fact that many developed countries have adopted the real-name financial system and the consolidated income tax system many decades before the computer era (Kang, 2005). Some sees the lack of preparation in terms of computerization gave both parties a convent excuse to compromise and postpone the introduction of the real-name financial system (Kang, 2005).

In spite of the failure to introduce the real-name financial system by the Chun Doo-hwan Administration, the attempt left two legacies favorable to the adoption of real-name financial system in later years. First, with higher income tax rates against financial assets in anonymous and false-name accounts, it gradually lowered the fraction of these accounts, and created a favorable condition for the Roh Tae-woo Administration to push for the real-name financial transaction again seven years later. Second, following the instruction of Article 4 Paragraph 1 in the Real-Name Financial Transactions Act, the Korean government expanded the budget allocated for the computerization of National Tax Service, which again contributed to meet the necessary technical conditions in later years to introduce the real-name financial system (Chin, 2015).

1.5. Policy Implications

I hereby summarize policy implications from the attempt made by the Chun Doo-hwan Administration. First, a successful introduction of the real-name financial system requires considerable amount of time and effort on its preparation by the government. A certain level of computerization in the government sector also helps. In this respect, the first attempt in 1982 by the Chun Doo-hwan Administration lacked such preparations. The 7.3 Measure that outlined government's plan to introduce the real-name financial system, was prepared in less than a week. No doubt, the government was unprepared for any side-effect. Upon the announcement of the 7.3 Measure, financial markets were in turmoil. Neither did the government seriously consider how the National Tax Service and the financial sector were prepared in terms of computerization. Such unpreparedness was an open invitation to the disadvantaged politicians to oppose the real-name financial system. This led the Roh Tae-

8. Minister Kang had a strong belief that he can level up the computer processing capabilities before July 1983. Doctor Ki-soo Sung at KIST, who was advising Minister Kang, also confirmed this when he appeared as a witness at the National Assembly (Kang, 2010). The head of National Tax Service Gong-hyuk Ahn, however, witnessed that individual financial institutions may not be ready with their computer processing capabilities.

woo Administration to take a very different approach when it prepared for the introduction of the real-name financial system in 1989. The government set up the Preparation Team for the Implementation of Real-Name Financial System that studied various aspects of introducing the system over a sufficient period of time.

Second, for a successful introduction of the real-name financial system, one needs to consider if the economy is in a situation to endure the change. In 1982, the fraction of financial assets in anonymous or false-name accounts were over 50 percent. This meant that the amount of assets that could be potentially withdrawn from financial institutions was also quite large. This also meant that the level of policy efforts needed to limit side-effects were also quite high. Of course, the attempt made by the Chun Doo-hwan Administration left a legacy favorable to the adoption of the real-name financial system in later years. With the higher income tax rate against financial assets in anonymous or false-name accounts, it gradually lowered the fraction of these accounts, and created a favorable condition for the Roh Tae-woo Administration to push for the real-name financial transaction again seven years later.

Third, for a successful introduction of the real-name financial system, one needs to consider in advance how aggressive the opponents would fight against it in advance. Unless the real-name financial system is simply proclaimed and immediately implemented without any prior notice by an emergency order, long and difficult negotiation with politicians is an inevitable step. So, one should pursue the introduction of the real-name financial system only when assured that one can successfully persuade the politicians. The attempt made by the Chun Doo-hwan Administration failed because it came short of overcoming the oppositions from the ruling party (Democratic Justice Party), the senior secretaries at the Presidential Office, and cabinet members. The attempt made by the Roh Tae-woo Administration failed for a similar reason. It could not overcome the oppositions coming from the incumbent party, the size of which significantly grew following the three-party merger in January 1990.

2. Attempt by the Roh Tae-woo Administration

2.1. Background

In 1982, the proponents failed to introduce the real-name financial system. Nevertheless, the attempt, imprinted on people's mind that the real-name financial system is a reform measure indispensable to curb corruption and to ensure equitable distribution of tax burden (Lim, 2000). This led the government to consider the introduction of real-name financial

system again in the midst of preparing the 6th 5-year Economic and Social Development Plan (1987~1991) (Nam, 2003). It was, however, the democratization of 1987 that truly elevated the introduction of the real-name financial system as a policy agenda of top priority as it was regarded as an inescapable task of the era. In fact, opposition to real-name financial system was identified as opposing democracy itself (Lee, 2011). Against this backdrop, the Democratic Justice Party candidate Roh Tae-woo pledged to introduce the real-name financial system in the midst of a presidential election campaign in late 1987.[9]

The technical environment conducive to the introduction of real-name financial system also improved. By 1984, the financial income data was fully computerized. With the introduction of Real-Name Financial Transactions Act, higher tax rates were levied on anonymous and false-name accounts, and this helped to diffuse the practice of using real-name accounts.[10] The government also increased the number of financial products that could be purchased only when using real-name accounts. <Table 3-1> shows that the fraction of real-name savings accounts (including borrowed-name savings accounts), in the banking sector, reached 97.8% (Lim, 2000).

Table 3-1 | The Fractionof Real-Name Savings Accounts

(Unit: %)

	Banks	Securities Firms	Short-term Investment Finance
June 1983	76.5	41.0	60.0
March 1989	97.8	98.6	97.2

Source: Lim (2000).

2.2. The Key Player and the Preparation

Candidate Roh was elected in December 1987 as President, but his Administration did not seriously discuss the introduction of the real-name financial system before the 1988 Summer Olympic Games that Korea hosted. After the Olympics, the Roh Tae-woo

9. In 1982, candidate Roh, when serving as the Minister of Home Affairs, opposed the introduction of real-name financial system (Kang, 2010). This makes one to suspect that the pledge was simply a means to win the election, and not truly out of his own conviction.

10. Article 4 Paragraph 2 of the Real-Name Financial Transactions Act stipulates income tax rates against financial assets in anonymous or false-name accounts. A surtax of 50 percent was to be added between July 1983 to December 1984, and a surtax of 100 percent was to be added from January 1985. Since the rate on real-name accounts was 10%, the rates on anonymous or false-name accounts were 15% (July 1983~December 1984) and 20% (January 1985~). In 1990, the tax rate on anonymous or false-name accounts was raised to 40%.

Administration led people's attention to a number of reform measures including those promoting the public ownership of land and the real-name financial system (Lee, 2011). Eventually, on October 14, 1988, the Economic Planning Board (EPB) announced the government's plan to introduce the real-name financial system and the consolidated income tax system by 1991. On the same day, EPB also announced its plan the fully computerize the land ownership registry and introduce a consolidated tax system on land ownership.

The key person in Roh Tae-woo Administration that took the lead in introducing the real-name financial system was the Senior Secretary to the President on Economic Affairs, Moon Hee-kap (Lee, 2011). When releasing the plan on October 14, Nah Woongbae, the Deputy Prime Minister and the Minister of Economic Planning Board, did not have the intension of disclosing the target year of adopting the real-name financial system and the consolidated income tax system. It was disclosed, however, because of Moon Hee-kap, who strongly insisted in doing so (Lee, 2011). To him, it was meaningless if a target year is not agreed upon and not disclosed. At the time of announcement, Moon was serving as the Vice Minister of EPB. The movement to introduce the real-name financial system gained greater momentum when he was later promoted as the Senior Secretary to the President on Economic Affairs.

The Roh Tae-woo Administration partly attributed previous administration's failure of introducing the real-name financial system to government's ill-preparedness. As such, the Ministry of Finance launched the Preparation Team for the Implementation of Real-Name Financial System (hereafter "Preparation Team"), in April 1989 and created the Real-Name Financial System Coordination Committee (hereafter "Coordination Committee") in July. It also established lower-level preparatory organizations at each financial business sector level and also at the individual company level (Ministry of Finance, 1989).[11]

The Coordination Committee was composed of 25 members representing various government ministries and financial business sectors. It was chaired by the Vice Minister of Finance. Its key function was to coordinate on various tasks that needed to be taken care of in preparation of the real-name financial system. The National Tax Service and each financial business sector, such as banking, securities, and short-term investment finance, also had to establish their own preparatory organizations. Following table summarizes the tasks assigned to each government ministries (Ministry of Finance, 1989).

11. Senior Secretary Moon Hee-kap initially had a plan to establish the preparation team directly under his control at the Presidential Office. This had an effect of making any opposition to real-name financial system, an opposition to the President. This, however, did not take place. With the persuasion that the real-name financial system is ultimately a tax issue made by the Minister of Finance Lee Kyu-sung, the preparation team was established inside the Minister of Finance (Lee, 2011).

Table 3-2 | Tasks Assigned to Each Ministry in Preparation of Real-Name Financial System

Ministry	Tasks Assigned
Economic Planning Board	• Implementing of real estate policy in line with the real-name financial system • Strengthening public relations regarding real-name financial system • Budgetary assistance
Ministry of Home Affairs	• Establishing plans to utilize resident registration network • Implementing of consolidated tax on land ownership and heavier property tax in line with the real-name financial system • Establishing plans to implement real-name financial system for community credit cooperatives and advancing the level of their computerization
Ministry of Justice	• Reviewing the legality of levying penalty on anonymous or false-name accounts that are not converted into real-name accounts • Strengthen its effort to crack down on real-estate speculation
Ministry of Postal Service	• Establishing plans to introduce real-name financial system for deposits at Postal Service, and advancing the level of their computerization
Others	• Assisting on tasks necessary to implement the real-name financial system

Source: Ministry of Finance (1989).

The Preparation Team, consisted of five units, reviewed all possibilities regarding the implementation of the real-name financial system.[12] Based on its review, the Preparation Team had a plan to present 3~4 implementation plans at a public hearing in early 1990. The Preparation Team also focused on measures of how to minimize side effects (Lee, 2011). <Table 3-3> shows the time schedule set by the Ministry of Finance.

12. The Preparation Team was initially headed by Shim Hyung-seop, and then by Yoon Jeung-hyun.

Table 3-3 | The Time Schedule to Implement Real-Name Financial System

1. Promote conditions conducive for real-name financial system (1) Promote the practice of using real-name accounts (2) Curb the underground economy (3) Promote computerization and networking (4) Strengthen public relations	June 1989~December 1990
2. Finalize the implementation plan (1) Plan to implement the real-name financial system (2) Plan to implement the consolidated income tax system	June 1989~December 1989
3. Seek measures to minimize side-effects (1) Financial market stabilization (2) Minimization of cash hoarding (3) Minimizing the size-effect when the real-name system applies to financial securities	July 1989~December 1989
4. Revise of related laws	April 1990~December 1990
5. Conduct series of run-through before the actual implementation	July 1990~December 1990
6. Implement the real-name financial system and the consolidated income tax system	January 1991
7. Conduct evaluation and correction shortcomings	January 1991~

Source: Ministry of Finance (1989).

2.2.1. The Preparation Team's Proposal

Soon after the Preparation Team commenced its operation, that the business sector and the ruling Democratic Justice Party started to call for the postponement of the real-name financial system (Lee, 2011). In response to this, the Preparation Team drafted a report in December 1989 either to alleviate or to refute the concerns raised by the opponents. Hereafter, I summarize the report.

First, in response to the accusation that Korea is still not ready for the introduction of the real-name financial system, the report stresses that the fraction of real-name accounts has reached 98 percent, the financial market has grown significantly, and the national savings rate is well above the investment rate.

Second, in addressing the concern that economic conditions are worsening and they will be aggravated if the real-name financial system is introduced, the report emphasizes that a multi-phased, gradual approach that it envisions will not aggravate the economy.

Third, it also responds to the allegation that recent attempts to introduce the real-name financial system failed in other countries. In explaining the Japanese failure, the report points out that the Green Card system (i.e., the Japanese version of real-name financial system) failed mainly because of its assignment of individual taxpayer's identification number, which triggered privacy invasion concerns. The report stresses that Korea, for many years, had the resident registration number system for many years, which is an equivalent to the individual taxpayer's identification number, and as such, privacy invasion cannot be a concern when introducing the real-name financial system in Korea. In explaining the Germany failure, the report points out that the failure was mainly caused by the reintroduction of withholding tax on interest income, and not by the real-name financial system itself. Lastly, in addressing the accusation regarding the preparedness in terms of computerization, the report stresses that the level of computerization at the National Tax Service and at individual financial institutions significantly improved since 1982.

The report also outlines how the real-name financial system should be introduced. The Preparation Team was basically envisioning a multi-phased gradual approach accompanied by a number of inducement measures, so as to minimize any possible side effects and not to give any new burden or inconveniences to the people. More specially, it proposes to give a grace period of six months, during which financial assets in anonymous or false name accounts can be converted into those in real-name accounts. It also proposes not to penalize account holders who reveal their law violations–e.g., illegibility to subscribe into certain financial products, illegitimately receiving prime interest rates, and being levied with less interest income tax - in the course of converting their accounts into real-name accounts. In other words, the Preparation Team had a position that widely-accepted practices before the real-name financial system should be fully respected and protected. It also had a position that financial assets that underwent real-name conversion–whether they were acquired before January 1983 or thereafter–should not be subject to tax office's funding source investigation, for fear that this may trigger sudden withdrawal of deposits, capital flight to the underground economy, and slowdown of economic activity. Related to this, it also mentioned the difficulty of supporting the evidence on illegal activities and the resulting administrative burden.

The report also stresses the importance of assuring confidentiality of financial transactions and points out some deficiencies in the Real-Name Financial Transactions Act. For example, it proposes that financial institutions should furnish the National Tax Service only with financial income data, and not with the underlying transactions data, so that the latter cannot be misused for other purposes. The report also proposes that when government

agencies request financial account information, their request should not be comprehensive, but be narrow at the level of specify transactions.

Moreover, the report suggests that the consolidated income tax system should be applied only to those with financial income above a certain level. As for those below this threshold level, it suggests to give an option either to be taxed separately from other types of income or be tax on a consolidated basis. On the level of computerization, it notes that the National Tax Service is fully prepared, but as for some financial institutions, it is inevitable to gradually introduce real-name financial system at a later stage gradually in multiple phases.

Based on this December report, the Preparation Team, released a detailed time schedule in January (Lim, 2000). In March, it also had a plan to present its proposal at a forum organized by Korea Development Institute (KDI) (Lee, 2011).[13]

2.2.2. The 4.4 Measure

Faced against the opposition from the business sector and the ruling Democratic Justice Party, and in the midst of worsening economic conditions, the second attempt to introduce the real-name financial system was stranded again.[14] From the business sector, it was Chey Jong-hyun, the Vice Chairman of the Federation of Korean Industries (FKI) and the President of Korea Economic Research Institute (KERI), who took the leading role in opposing the real-name financial system. From the Democratic Justice Party, it was Kim Jong-in, the Minister of Health and Social Affairs, that played a critical role (Lee, 2011). Regardless of his formal role in the cabinet, Minister Kim persistently presented his view against the introduction of real-name financial system to the President.[15] Such persuasion coupled with worsening economic conditions led the President to quickly lean toward the postponement.

Against this backdrop, President Roh reshuffled his cabinet on March 18, 1990. This removed Deputy Prime Minister Cho Soon and Senior Secretary on Economic Affairs Moon Hee-kap, who were proponents of the real-name financial system, leading the economic reform-drive. Instead, these positions were filled in by Lee Seung-yoon and Kim Jong-in, who were opponents to the real-name financial system. Upon their appointment, Deputy Prime Minister Lee declared that he would reconsider the introduction of real-name

13. KDI is a government think-tank established in 1971 to assist Economic Planning Board (EPB) on the formulating of economic development policies. In 1993, KDI was instrumental in drafting the Presidential Emergency Order that introduced the real-name financial system.

14. The government was greatly concerned with the current account balance that shifted from surplus to deficit and the stock market that crashed after the bubble in the late 1980s.

15. Minister Kim is also known to have opposed the real-name financial system back in 1982, when he was a member of the National Assembly and a member of the Democratic Justice Party.

financial system. Senior Secretary Kim also stressed that revitalizing investment sentiment should be on the top of government's priority list.

On April 4, 1990, the new economic team led by Deputy Prime Minister Lee released a comprehensive economic stimulation package, known as the 4.4 Measure, and made it official that the Roh Tae-woo Administration is postponing the introduction of real-name financial system indefinitely. In their press release, they pointed out the misjudgments made by the previous economic team in regards to the real-name financial system. First, they accused them of mistakenly attributing fast economic growth during the Three Lows period to our economy's own strength, and mistakenly judging that Korea can absorb shocks from the introduction of the real-name financial system.[16] Second, they accused the previous economic team of mistakenly believing that the measures institutionalizing public land ownership in 1990 would be sufficient to curb real estate speculation despite the introduction of the real-name financial system in 1991. Third, they pointed out the wide-spread use of borrowed-name financial accounts, and highlighted the danger of being relieved with certain statistics, such as the 95~98 percent fraction of real-name financial accounts, that regards borrowed-name accounts as real-name accounts. Lastly, they pointed out the importance of acknowledging the social psychology that people normally do not want their wealth to be disclosed to the public regardless of the legitimacy of their wealth accumulation.

They also listed up a number of side effects the introduction of the real-name system can bring about. The list includes sudden withdrawals of deposits that would result in cash hoarding, real estate speculation, capital flight, and an enlarged underground economy. The list also includes stock market contraction and the resulting difficulty of firms raising external equity capital. Moreover, they also showed concerns over tax office's funding source investigation that may freeze investment sentiment. The resulting contraction of investment would not only lead to lower employment opportunities, but also encourage conspicuous consumption and higher inflation rate that would make the lives of ordinary citizens more difficult.

The 4.4 Measure also listed a number of policies the government would pursue in lieu of the real-name financial system. First, it declared that the government would raise the tax rate on anonymous or false-name accounts up to the highest marginal income tax rate of 40 percent. It also promised to strengthen its tax enforcement so that it can increase

16. The Three Lows refer to a set of favorable external economic conditions to Korea that simultaneously emerged in the second half of the 1980s. They include low currency value of the Korean won, low level of international interest rate, and low level of crude oil price.

its tax revenue from inheritance tax, gift tax, and capital gains tax. It also promised to strengthen its tax enforcement so as to reduce undocumented commercial transactions by self-employed retailors.

2.3. Evaluation

The condition of the economy that was continuously worsening and the concerns over the side effects of the real-name financial system were the justifications made when postponing the introduction of the real-name financial system. The real underlying reason, however, was the lack of President Roh's conviction and the will to introduce the system (Lee, 2011). This is in contrast to the attempt made during the Chun Doo-hwan Administration, which failed despite President Chun's strong will, at least in the beginning. The attempt made during the Roh Tae-woo Administration, on the other hand, lacked President Roh's will from the very beginning. As mentioned earlier, President Roh had a past history of opposing the real-name financial system when he was serving as the Minister of Home Affairs during the Chun Doo-hwan Administration. No doubt, people who remembered this were skeptical from the beginning about the successful introduction of the real-name financial system from the beginning.

When the conditions of the economy worsened, the request to postpone the system gained momentum. From the business sector, it was Chey Jong-hyun, the Vice Chairman of the Federation of Korean Industries (FKI) and the President of Korea Economic Research Institute (KERI), who took the lead in requesting this. The ruling Democratic Justice Party could not initially voice against the real-name financial system as this would be equivalent to going against democracy itself. Since the three-party merger on January 22, 1990, however, they started to voice their views more actively, as the newly created Democratic Liberal Party had 217 seats in a 299-seat National Assembly.[17]

As previously mentioned, Moon Hee-kap, Senior Secretary to the President on Economic Affairs, was the key person who was pushing for the introduction of the real-name financial system. The radical stances he sometimes took, however, served as another reason behind the backfire. According to Cho Soon, who led the economic team as the Deputy Prime Minister and who was in favor of the real-name financial system, later confess that he was concerned with Moon's radical approaches (Lee, 2011).

17. The three-party merger was among the ruling Democratic Justice Party, the Peaceful Democratic Party (the second largest opposition party led by Kim Young-sam), and the Democratic Republican Party (the third largest opposition party led by Kim Jong-pil). The newly created Democratic Liberal Party had 217 seats in Korea's 299-seat National Assembly.

The unsuccessful attempt to introduce the real-name financial system during the Roh Tae-woo Administration, however, was not completely futile. Instead, it contributed to the successful introduction of the real-name financial system during the Kim Young-sam Administration in many ways. In particular, the data and the studies the Preparation Team accumulated in 1989, especially on the side effects of the real-name financial system and their remedies, were indispensable when later in 1993 the Working Group drafted the Presidential Emergency Oder and when the Implementation Team issued follow-up measures after the issuance of the Presidential Emergency Order (Chin, 2015).

The administrative structure the government organized to implement the real-name financial system in 1993 also greatly resembled those in 1989. For example, in 1993, the government launched the Real-Name Financial System Implementation Team (hereafter "Implementation Team"), the Real-Name Financial System Central Coordination Committee (hereafter "Central Coordination Committee"), the task-forces at each financial business sector level, and the task-forces at each financial company level in 1993. They do not differ, in terms of composition or function, from their predecessors established back in 1989, which include the Preparation Team for the Implementation of Real-Name Financial System (hereafter "Preparation Team"), the Real-Name Financial System Coordination Committee (hereafter "Coordination Committee"), the preparatory organizations at each financial business sector level, and the preparatory organizations at each financial company level.

The unsuccessful experience during the Roh Tae-woo Administration also greatly influenced the way the Kim Young-sam Administration introduced the real-name financial system in 1993. The multi-phased gradual approach adopted by the Roh Tae-woo Administration had its own merits, but had a problem with giving sufficient time for the politicians in opposition to unite their forces together. Eventually, this block the introduction. Having experienced this, from the very beginning, the Working Group had a plan to introduce the system by issuing a Presidential Emergency Order without prior notice.

2.4. Policy Implications

I hereby summarize policy implications from the attempt made by the Roh Tae-woo Administration. First, the multi-phased gradual approach, despite its merits, had the problem of giving sufficient time for the politicians in opposition to unite their forces together. This eventually blocked the introduction of the real-name financial system. This is particularly so in times of poor economic conditions. When the worsening conditions of the economy

is used as a justification to postpone the introduction of the real-name financial system, not many Presidents can go against it. Knowing this better than anyone else, the members of the Working Group, prepared a plan to introduce the system by issuing a presidential emergency order without prior notice in 1993. This approach, however, may not be replicable in other countries because not every country's constitution grants such power to the President.

Second, the most important success factor when following the multi-phased gradual approach is the head of state's conviction and the will to introduce the real-name financial system. President Roh, however, lacked this from the very beginning. Nor did he have much to gain from it. Due to such reasons, his initial stance was easily shaken when the conditions of the economy worsened. Contrary to this, President Chun had the need to restore his reputation as a President who was dispelling the underground economy and realizing social justice after the Lee and Jang scandal (Lee, 2008). President Kim Young-sam also had much to gain from the real-name financial system as he was expecting to see his position in the ruling party strengthen by making it difficult for his political opponents to raise funds through anonymous or false-name accounts.

Lastly, presenting a worthy cause is not enough for a successful introduction of the real-name financial system. Political dynamics can become a crucial factor. Members of the ruling Democratic Justice Party, who kept their silence in the beginning, became active opponents when it merged with two other parties in January 1990, and became a party that commands 217 seats in a 299-seat National Assembly. Political dynamics also played an important role during the Chun Doo-hwan Administration. The attempt was stranded when faced against the opposition from the ruling Democratic Justice Party and Senior Secretaries at the Presidential Office.

2015 Modularization of Korea's Development Experience
Korea's Experience of Introducing
the Real-Name Financial System

Chapter 4

The 1993 Introduction of Real-Name Financial System

The 1993 Introduction of Real-Name Financial System

1. Background

1.1. Change in Technical and Political Conditions

The level of preparedness in terms of computerization continuously improved. Also, the fraction of real-name accounts reached 98.6 percent as of year-end 1992 (Ministry of Finance, 1994a). The higher tax rate applied to financial assets in anonymous or false-name accounts since the legislation of the Real-Name Financial Transactions Act in 1982 played an important role. The fraction of financial products that could be subscribed only through real-name accounts also reached 44.5 percent as of November 1992 (Ministry of Finance, 1994a). The greater usage of credit cards and personal checks, and the introduction of alternative means that could substitute the usage of cashier's checks (e.g., automated account transfers and overdraft checking accounts) also played a role in increasing the fraction of financial assets in real-name accounts.

A number of measures to promote public ownership of land and to curb real estate speculation were also introduced in the first half of the 1990s. They include ownership ceiling on housing sites, excess profit tax on lands, restitution of development gains, and consolidated tax on land ownership. These measures gave a sense of relief to policy makers in that the amount of funds withdrawn from financial institutions to be used for real estate speculation after the introduction of real-name financial system would be limited.

Moreover, academics, civil organizations (in particular, the Citizens Coalition of Economic Justice), and the press have been continuously requesting the government to resume its discussion on the introduction of the system since the 4.4 Measure that officially

postponed the introduction of the system. In 1991 and 1992, a number of scandals involving bribery and illegal political funds broke out. In response, public support for the introduction of the real-name financial system spread widely. In the midst of all this, during the 1992 Presidential Election, all three major parties–the Democratic Liberal Party, the Democratic Party, and the United People's Party–pledged to introduce the real-name financial system during the 1992 Presidential Election.

For Kim Young-sam, who was elected as President in the 1992 election, the real-name financial system had a meaning beyond achieving economic justice. It was recognized as a means to learn about the financial status of his political rivals both in the ruling party and opposition. It was also recognized as an effective means to strengthen his political position in the ruling Democratic Liberal Party, where he was only a minority (Lim, 2000). At that time, party members who played a key role in the Chun Doo-hwan or Roh Tae-woo Administrations heavily relied on illegal political funds through anonymous or false-name financial accounts. In this regard, the real-name financial system was considered as an effective means to weaken their unity. The break-up of Hanahoe, a private organization in the military organized by President Chun, and the disclosure of registered property of public officials can also be understood as reform measures in line with such purpose.[18]

1.2. Accumulated Research on Real-Name Financial System

The activities of the Preparation Team (1989~1990) during the Roh Tae-woo Administration accumulated invaluable policy research that greatly contributed in formulating the real-name financial system in 1993 (Chin, 2015). Since the 1992 Presidential Election, KDI has also been publishing a number of policy reports on the introduction of the real-name financial system, which also contributed in shaping the Presidential Emergency Order in 1993 (Nam, 2003). In particular, KDI had an opportunity to brief Deputy Prime Minister, Lee Kyung-shik on the introduction of the real-name financial system in March 1993. In this meeting, KDI proposed to apply the real-name system to all financial assets without any exception. For the first time, it also suggested that the system for the first time, that it should be implemented without any prior notice (Nam, 2003). The fact that such approaches were inevitable in minimizing the possibility of massive withdrawals from financial institutions and lowering the incentives to shift funds from one type of asset to another was stressed.

Immediately after the inauguration of President Kim Young-sam, the Ministry of Finance also had internal discussions on how to introduce the real-name financial system. Among

18. Hanahoe also led the military coup, in December 1979.

various approaches considered, Minister Hong Jae-hyung and his staffs gave more weight on the approach that would introduce real-name financial system in a multi-phased manner. This approach was considered more realistic than others, given that the new Kim Young-sam Administration was trying to stimulate the economy through its 100-Day Plan for the New Economy (Chin, 2015).

2. The Preparation and the Implementation of RNFS

2.1. The KDI-MoF Joint Working Group

To implement the real-name financial system without prior notice, its preparation had to be carried out confidentially outside the government. On June 29, 1993, President Kim Young-sam gave Deputy Prime Minister (DPM) Lee Kyung-shik a secret mission to prepare for the real-name financial system. In return, Deputy Prime Minister Lee asked his Senior Advisor, Yang Soo-gil to organize a small team of KDI fellows, which included Nam Sang-woo, Kim Jun-il, and Yang Soo-gil himself.[19] In the beginning, it was just these four - Deputy Prime Minister Lee, Senior Advisor Yang, and two other KDI fellows – that carried out the mission. To keep their work strictly confidential, the meeting took place at venues such as the Deputy Prime Minister's next door villa and at an office room owned by Senior Advisor Yang's friend.

One may question why KDI took the lead in preparing for the real-name financial system. According to Nam (2003), the President could not give the mission to Park Jaeyoon, the Senior Secretary to the President on Economic Affairs, for he was known to be an ardent opponent to the real-name financial system. Also, in the beginning, the bureaucrats at the Ministry of Finance was ruled out for fear that their involvement would make it hard to keep the operation fully confidential. It is a daunting task for them to work outside the Ministry for an extended number of days without being noticed by their colleagues and the reporters who freely visit their offices (Nam, 2003).

Once the KDI working group drafted the plan, it was discussed and revised at meetings with the Deputy Prime Minister. Previous studies by the Preparation Team and in the KDI reports served as an invaluable resource in this process. Afterwards, the plan was then presented to the President, who usually went for the option that was most comprehensive and most aggressive (Nam, 2003). It was not until the third report to the President was complete did the KDI Working Group was given the instruction to brief Hong Jae-hyung,

19. Dr. Yang Soo-gil was dispatched from KDI to EPB as the Minister's senior advisor.

the Minister of Finance, and Kim Yong-jin, the Assistant Minister of Tax and Customs, on the progress made until then. Immediately after this briefing, a team of bureaucrats from the Ministry of Finance joined the Working Group and was given the mission to draft a more detailed plan. Their participation was inevitable and also expected for it was the Ministry of Finance that had the authority to enforce the real-name financial system. The new KDI-MoF Joint Working Group was headed by Kim Yong-jin, the Assistant Minister of Tax and Customs, and was consisted of two teams, the KDI team led by Yang Soo-gil and the MoF team led by Kim Jin-Pyo. From the Ministry of Finance, five other bureaucrats joined the Working Group. This includes Chin Dongsoo (Director, Division of Overseas Direct Investment), Lim Ji-soon (Director, Income Tax Division), Paik Woon-chan (Deputy Director), Choi Gyu-hyun (Deputy Director), and Lim Dong-bin (Deputy Director). Later, a legislative officer from the Ministry of Government Legislation, officers from the National Tax Service's computer center, and a manager from the Citizens National Bank joined the team. <Table 4-1> lists the names and the titles of members who participated in the KDI-MoF Working Group.

Table 4-1 | Members of the KDI-MoF Joint Working Group

Name	Affiliation and Title	Name	Affiliation and Title
Kim Yong-jin	Assistant Minister of Tax and Customs, MoF	Chin Dong-soo	Director, Overseas Direct Investment Division, MoF
Yang Soo -gil	Senior Advisor, EPB	Paik Woon-chan	Deputy Director, Income Tax Division, MoF
Kim Jin-Pyo	Director-General, Office of Tax and Customs, MoF	Choi Gyu-hyun	Deputy Director, Foreign Direct Investment Division, MoF
Bang Ki-ho	Legislative Officer, MoGL	Lim Dong-bin	Deputy Director, Customs Division, MoF
Nam Sang-woo	Senior Fellow, KDI	Kim Hae-young	Manager, Citizens National Bank
Kim Jun-il	Fellow, KDI	Paik Seung-hoon	Level-7 Official, National Tax Service
Lim Ji-soon	Director, Income Tax Division, MoF	Choi Hoi-sun	Level-8 Official, National Tax Service

Source: Ministry of Finance (August 12, 1994).

2.2. The Key Issues

The implementation plan that was developed in the course of three presentations to the President was an aggressive one, reflecting the will of the President. After numerous meetings with MoF bureaucrats, the plan was moderated by taking into account a number of practical considerations into account (Chin, 2015). I hereby summarize how the stances on some key issues evolved over time and how they were finalized.

First, the position to implement the real-name financial system without prior notice through the issuance of the Presidential Emergency Order was upheld from the very beginning till the end. They feared that a legislation with prior notice would give ample time for illegal funds to be withdrawn massively from financial institutions, and inflict crisis in the economy, which would make the introduction of the real-name financial system extremely difficult (Ministry of Finance, 1994a).[20] The members of the Working Group agreed that the emergency order to implement the real-name financial system meets the two conditions stipulated in the constitution that authorizes the president to issue an emergency order: the existence of grave financial and economic crisis, and the lack of time to wait for the convocation of National Assembly. The second report to the President suggested that the emergency order be issued on Saturday afternoon in late August was well before the beginning of the National Assembly's regular session begins (Nam, 2003).[21]

Second, the position to apply the real-name financial system to all financial transactions by all financial institutions without any exception was also upheld from the very beginning till the end (Nam, 2003). There were suggestions to exclude insurance companies that were relatively less related to the real-name financial system. There were also suggestions to apply the real-name financial system to stocks at a later stage for fear of their high sensitivity to external shocks. These suggestions, however, were dismissed so as to prevent disruptive shift of funds between different types of financial assets or between different types of

20. This Presidential Emergency Order on Financial and Economic Affairs is based on Article 76 of the Constitution. According to this article, in time of internal turmoil, external menace, natural calamity or a grave financial or economic crisis, the President may take in respect to them the minimum necessary financial and economic actions or issue orders having the effect of Act, only when it is required to take urgent measures for the maintenance of national security or public peace and order, and there is no time to await the convocation of the National Assembly. In case actions are taken or orders are issued under paragraphs, (1) the President shall promptly notify it to the National Assembly and obtain its approval. In case no approval is obtained, the actions or orders shall lose effect forthwith. In such case, the Acts which were amended or abolished by the orders in question shall automatically regain their original effect at the moment the orders fail to obtain approval.

21. Instead of Saturday afternoon, the actual emergency order to implement the real-name financial system was issued on Thursday evening.

financial institutions (Ministry of Finance, 1994a). Equitable treatment across different financial institutions was also considered.

Third, as for the time period, the initial plan did not specify the time limit of which financial asset owners of anonymous or false-name accounts had to convert their accounts into real-name accounts. Reflecting the input from the President, it later specified a mandatory conversion period (Nam, 2003). This mandatory conversion period, which was initially set to be one month, was shortened to two weeks, again reflecting the request made by the President. After the participation of MoF bureaucrats, however, the mandatory conversion period was extended to two months (and could be extended for another month following the Presidential Decree).

Fourth, as for the penalty on financial assets that remains in anonymous or false-name accounts even after the mandatory conversion period has lapsed, the initial plan had a penalty of 10 percent on the first year, and then a penalty of 100 percent in the second year (i.e., full confiscation), reflecting the will of the President. Concerned that it may bring about controversy over property rights infringement, it was decided to levy each year only 10 percent of the initial asset value each year, up to six consecutive years, so that the maximum penalty does not exceed 60 percent, This was equal to the highest marginal tax rate on gift income (Nam, 2003). In lieu of this this revision, it was decided to levy a tax rate of 90 percent on interest or dividend income from financial assets that remains in anonymous or false-name accounts even after the mandatory conversion period has lapsed.

Fifth, as for the tax office's funding source investigation on financial assets that used to be in anonymous or false-name accounts, but now in real-name accounts, it was initially proposed to exempt the investigation if the financial asset owner is a minor who owns less than 30 million won, a head of household in the 20s who owns less than 100 million won, a head of household in the 30s who owns less than 300 million won, or a head of household over 40 who owns less than 500 million won (if not a head of household, 50 percent of these asset values). The thresholds were, however, tightened after incorporating the request made by the President. That is, exemption is given only if the financial asset owner is a minor who owns less than 20 million won, a head of household in the 20s who owns less than 70 million won, a head of household in the 30s who owns less than 150 million won, or a head of household over 40 who owns less than 300 million won (if not a head of household, 50 percent of these asset values). The thresholds, however, changed again when MoF and National Tax Service officials joined the Working Group. Given the reality that the National Tax Service was not yet ready to aggregate across different types of financial assets for a given individual, it also was decided to set the threshold at the account level. That is,

exemption is given only if the financial account owner is a minor and the account has less than 15 million won, in 20s and the account has less than 30 million won, or over 30 and the account has less than 50 million won (Nam, 2003).

Sixth, as for financial assets that used to be in anonymous or false-name accounts, but now in real-name accounts, it was initially proposed not to levy tax on interest or dividend income that was accrued during the period before the conversion. Reflecting the will of the President, however, it was decided to levy tax on such income (Nam, 2003).

Lastly, it was also discussed whether to introduce the consolidated income tax system concurrently with the real-name financial system, or sequentially after the real-name financial system. If the sole aim was to maximize the effect of the real-name financial system, a concurrent introduction would have been preferable. However, there were concerns over the level of shock they would bring about if introduced concurrently, and the level of computerization in some segments of the financial industry (e.g., 50% below in case of community credit cooperatives and credit unions). Accordingly, it was inevitable to introduce them sequentially (Ministry of Finance, 1994a): the real-name financial system was introduced in 1993 and the consolidated income tax system in 1996 (i.e., taxing 1996 income that was paid in May 1997).

2.3. The Implementation Team and the Coordination Committee

On August 13, a day after the issuance of the Presidential Emergency Oder, the Ministry of Finance launched the Real-Name Financial System Implementation Team (hereafter the "Implementation Team") (Ministry of Finance, 1993a). This was a measure following Article 11 in the Presidential Emergency Order, which allowed the establishment of an organization that would facilitate the implementation of the real-name financial system and to prepare for the introduction of the consolidated income tax system. Such an organization was necessary to respond to queries, give out official interpretations, establish manuals, and issue follow-up measures regarding the real-name financial system. The Implementation Team also served as the secretariat of the Central Coordination Committee. It coordinated the efforts made by preparatory organizations of various levels so that the decisions made at the Central Coordination Committee could be implemented without interruption.

In the beginning, the head of the Implementation Team was the Assistant Minister of Tax and Customs (Kim Yong-jin), and the deputy was the Director-General of Tax and Customs Office (Kim Jin-pyo). On August 28, however, they were replaced by officials who were overseeing the financial market-the First Assistant Minister (Lee Hwan-gyun)

and the Deputy Director-General of Savings (Chung Duck-koo). There were basically two reasons behind this. First, most of the work the Implementation Team was engaged in had to do with monitoring the financial market and supervising financial institutions. Second, the Office of Tax and Customs was overburdened with the work of preparing for the upcoming tax law amendments (Ministry of Finance, 1993c). The Implementation team was consisted of 30 members, each assigned to one of the three units – the overarching unit, the finance unit, and the tax unit. In 1995, when the government implemented the real-name real estate system, its official name changed to the Real-Name Financial and Real Estate System Implementation Team.

The introduction of the real-name financial system is a reform measure that has a far-reaching effect, not confined to areas directly related to the works of the Ministry of Finance, but also to many other areas in the society, which makes inter-ministerial coordination an important element for the successful implementation of the real-name financial system. In this respect, the Korean government established the Central Coordination Committee, which was composed of members no more than 30 and chaired by the Vice Minister of Finance (Ministry of Finance, 1994b). Other members were the head of the Implementation Team (as Deputy Chair), representatives from the Economic Planning Board (EPB) and other government ministries, a representative from the Bank of Korea (BOK), representatives from various financial supervisory agencies, representatives from ten financial business sectors, and a person appointed by the Minister of Finance.

The Korean government also established task-forces in various government ministries that were closely related to the implementation of the real-name financial system. These include the Economic Planning Board (EPB), the Ministry of Home Affairs, the Ministry of Commerce, Industry, and Energy, the Ministry of Construction, the Bureau of Public Information, and the National Tax Service (Ministry of Finance, 1994b). These task forces had the mission to establish plans related to the implementation of the real-name financial system that falls under their jurisdiction, oversee the implementation of such plans, make proposals to the Minister of Finance regarding the implementation of real-name financial system, and carry out tasks requested by the Minister of Finance.

Financial institutions were grouped into ten financial business sectors, which separately had their own task force teams to carry out necessary measures to implement the real-name financial system. <Table 4-2> lists the ten financial business sectors, their representatives, and their coverage.

Table 4-2 | Task Force Teams in Various Financial Business Sectors

Sector	Representative	Industry Coverage
Banks	Deputy Governor, Bank Supervisory Agency	State-owned banks, commercial city banks, provincial banks (including credit business units of agricultural, fisheries, and livestock cooperatives)
Securities	Deputy Governor, Securities Supervisory Agency	Korea Stock Exchange, securities firms, Korea Securities Finance Corporation, Korea Securities Depository, and Korea Securities Computing Corporation
Insurance	Deputy Governor, Insurance Supervisory Agency	Life insurance companies, non-life insurance companies
Investment Trusts	Vice President, Daehan Investment Trust	Investment trust companies
Mutual Savings and Finance	Vice Chairman, Federation of Mutual Savings and Finance Companies	Mutual savings and finance companies
Investment Finance	Vice Chairman, Federation of Investment Finance Companies	Investment finance companies, merchant banks
Cooperatives	Vice Chairman, National Agricultural Cooperatives Federation	Mutual savings and loans at agricultural, fisheries, and livestock cooperatives
Credit Unions	Vice Chairman, National Credit Union Federation	Credit unions
Community Credit Cooperatives	Vice Chairman, Federation of Community Credit Cooperatives	Community credit cooperatives
Postal Finance	Director-General, Postal Finance Bureau, Ministry of Postal Service	Postal offices

Source: Ministry of Finance (August, 12, 1994b).

To draw full cooperation from the people, the Korean government also exerted its effort on public relations and education (Ministry of Finance and Economy, 1996). First, there were rounds of education and training sessions offered on-site for the managers and employees of financial institutions, offerings of in-house training programs, and appointments at each financial institution and at each branches of staff members whose sole job was to facilitate

the implementation of the real-name financial system. Second, to reach out the public and publicize the importance of the real-name financial system, Prime Minister Hwang In-sung held regional presentations all around the country. The government also made use of the television, the radio, and the press. In April 1996, it even produced cartoons and videos to publicize the real-name financial system. Moreover, to prepare taxpayers on the upcoming introduction of the consolidated income tax system, in August 1995, the government advertised it in 21 newspapers in August 1995 and ran a TV advertisement in November 1995.

Figure 4-1 | Prime Minister Hwang In-Sung Holding Regional Presentations

To reach out the public and publicize the importance of real-name financial system, Prime Minister Hwang In-sung held regional presentations all around the country.

Source: ehistory.go.kr

3. The Emergency Order and the Consolidated Income Tax System

3.1. Proclamation of the Presidential Emergency Order

At 8 p.m. on August 12, 1993, President Kim Young-sam released a statement introducing the real-name financial system by issuing the Presidential Financial and Economic Emergency Order on Real-Name Financial Transactions and Confidentiality.[22, 23] Following is an excerpt from his statement.

Box 4-1 | Presidential Statement on Real-Name Financial System

Dear fellow citizens!

We are finally introducing the real-name financial system. From this moment onward, all financial transactions can be carried out only in real-names.

Without the introduction of the real-name financial system, there is no way we can eradicate corruption. Nor can we cut off the dark collusive relationship between politicians and businessmen.

Without the real-name financial system, we cannot realize distributive justice in this country, nor can we establish social morality.

Without the real-name financial system, neither a healthy democracy, nor a vigorous capitalism can blossom. Political and economic advancement cannot be accomplished either.

To build New Korea, the introduction of the real-name financial system is a reform measure that is more important than anything else. It is the centerpiece and the key of reforms of our time.

22. It was Chin Dong-soo, the Director of Overseas Direct Investment Divison at the Ministry of Finance that suggested to insert the word "Confidentiality" when naming the Presidential Emergency Order.

23. The last issuance of a Presidential Emergency Order was in 1972 when government forced private loans to be restructured in favor of borrowers (also known was the 8.3 Measure).

Figure 4-2 | President Kim Introducing the Real-Name Financial System

At 8 p.m. on August 12, 1993, President Kim Young-sam released a statement introducing the real-name financial system by issuing the Presidential Financial and Economic Emergency Order on Real-Name Financial Transactions and Confidentiality.

Source: ehistory.go.kr.

This Presidential Emergency Order was approved at the cabinet meeting on the day of its issuance, deliberated at the National Assembly, the extraordinary session of which was convened on the 16th, and approved at the National Assembly on the 19th.[24] Having passed the National Assembly, the Presidential Emergency Order obtained the status as a law. The Presidential Emergency Order, however, was challenged by a lawyer who petitioned that it is against the Constitution. The Constitutional Court's decision on this complaint came out in 1996, adjudicating that the Presidential Emergency Order meets all the requirements stipulated in the Constitution. The Court upheld the view that the widely spread corruption before the Presidential Emergency Order led to grave financial and economic crisis and prevented the government from managing the economy in a normal manner.

24. All members, except one, voted for the Presidential Emergency Order.

3.2. Details of the Presidential Emergency Order

The Presidential Emergency Order was composed of 16 Articles and 3 supplementary provisions. The structure was very similar to that of the Act on Real-Name Financial Transactions legislated in 1982.

Article 1 (Purpose) states that the purpose of the Emergency Order is 'to realize economic justice and to facilitate the sound development of the national economy by normalizing financial transactions.' Article 2 (Definitions) defines the terms 'financial institutions,' 'financial assets,' and 'financial transactions.' As in the Act on Real-Name Financial Transactions of 1982, they were defined in a comprehensive manner. One major difference is that the Presidential Emergency Order includes insurance companies, whereas the Act on Real-Name Financial Transactions does not. Article 3 (Real-Name Financial Transactions) is the key article stating that financial institutions should enter financial transactions only with those that trade under their own name. It also states, as for accounts opened before the enforcement of the Emergency Order, financial institutions shall confirm whether such accounts are under one's real name at the time of their first transactions.

Article 4 (Confidentiality of Financial Transactions) states that 'employees of financial institutions should not provide or reveal information or data concerning the contents of financial transactions to others, unless there is a request in writing or a consent from the account holder.' It also states that 'no one can request employees of financial institutions to provide information.' There is an exception, however, when there are requests pursuant to the court's warrant, requests pursuant to the tax codes, and requests from financial supervisory agencies. Upon these requests, the scope of information being provided should be kept at its minimum necessary to serve the purpose.

Article 5 (Mandatory Conversion into Real-Name Accounts) sets the grace period, within which non-real name accounts should be converted into real-name accounts, to be two months, but can be extended for another month as provided by the Presidential Decree. Moreover, in cases where the Ministry of Finance deems that it is difficult for a person to convert into a real-name account within two months for an unavoidable reason, such as disease, the grace period is set to be six months. Article 6 (Exemptions from Tax Investigation) exempts tax office's funding source investigation, as for accounts that have been converted into real-name accounts, if the account holder is a minor and holds in the account less than 15 million won in the account, the account holder is in the 20s and holds in the account less than 30 million won in the account, or the account holder is over 30 and holds in the account less than 50 million won in the account.

Article 7 (Penalty on Non-Converted Accounts) states that a penalty (a certain fraction of financial assets value on the first day of the Emergency Order's enforcement) should be levied on financial assets that have not been converted into real-name accounts within the mandatory conversion period. According to this article, a penalty of 10, 20, 30,40, 50, and 60 percent is levied respectively for accounts that have not been converted within the mandatory conversion period, but converted within a year, two years, three years, four years, five years, and six years. Article 8 (Withholding Shortly Collected Financial Income Tax) states that the government should withhold financial income tax that has been shortly collected from non-real name accounts before the conversion date.

Article 9 (Higher Withholding Tax on Non-Real Name Accounts) states that the government should withhold 90 percent of financial income from accounts that have not been converted into a real-name, during the mandatory conversion period. Article 10 (Notification of Large Cash Withdrawals) states that financial institutions shall notify the National Tax Service within a months since the mandatory conversion period expired, if there was any individual withdrawing cash of more than 30 million won during the mandatory conversion period. The article also obligates financial institutions to notify the National Tax Service of any transactions of bonds, beneficiary certificates, certificates of deposits (CDs) that have not been in deposits prior to the Emergency Order's enforcement, and the value of which exceeds 50 million won.

Article 11 (Consolidated Income Tax System) states that the government can establish an organization for the purpose of preparing for the consolidated income tax system. Articles 12, 13, and 14 cover penalties, fines, and joint liability. According to Article 12, a penalty of imprisonment not more than three years or a fine not exceeding 20 million won can be levied only to a person that violates Article 4 (Confidentiality of Financial Transactions). According to Article 13, the violation of Article 3 (Real-Name Financial Transactions) results only in a fine not exceeding 5 million won.

Article 14 provides that a penalty and a fine can be levied not only on the individual who violated, but also on the company that employees the individual (joint liability clause). Article 15 (Relations to Other Acts) abolishes the Act on Real-Name Financial Transactions. Article 16 (Debt Guarantee for SMEs) allows the Minister of Finance to raise the debt guarantee limit of Credit Guarantee Fund so as to ease financing constraints of small-and medium-sized enterprises.

3.3. Government's Follow-Up Measures

To minimize any possible side-effect from the real-name financial system, the Korean government adopted a number of follow-up measures (see Ministry of Finance and Economy, 1996, for details). First, it managed money supply more flexibly, increased the deposit base of financial institutions, and induced institutional investors to increase equity holdings, so that financial markets quickly stabilize from the initial shock. Second, to prevent real estate speculation, it designated a broader area of lands to be subject to transaction permission and strengthened tax enforcement against real estate speculations. Third, to prevent overseas capital flight, it strengthened customs investigation and the notification system to the National Tax Service on overseas remittances. Fourth, to dissipate people's anxiety over National Tax Service's investigation, it loosened the funding source investigation on accounts that have been converted into real-name accounts, and exempt the investigation on large cash withdrawals. Fifth, to ease the increased tax burden from the introduction of the real-name financial system, it revised the tax codes in December 1993 so that a lower tax rate would be applied. It also adjusted a number of income and tax deductible items.

Moreover, the government had to give instructions on how the real-name financial system would be applied in cases that could not be directly covered by the Emergency Order. Such examples abound. When an agent makes deposits without a bankbook, the agent does not need to reveal who he or she is representing, regardless of the amount being deposited, as long as the deposits are made under the agent's real name (August, 1994). Students can open bank accounts, even without resident registration cards, as long as they provide documentation issued by the school principal (August, 2014). In case the amount of remittance is less than 300 thousand won a day, the sender can do so with his or her signature alone and does not need to show his or her resident registration card (September, 1995). If subscription to a financial product is paid directly from employees' salary, real-name verification can be done by documents submitted by the employer (September, 1995). None-resident Koreans were allowed to verify the real-name of their Korean accounts through Korean banks' overseas branches (January 1996). Moreover, to make sure that the articles on confidentiality assurance in the Emergency Order effectively serve their intended purpose, the government established detailed rules on how to implement Article 4 in the Emergency Order (May 1994). Also, the government allowed the National Election Commission, the Government Public Ethics Committee, and the Bureau of Audit and Inspection to make requests to obtain financial transactions information (December 1994~January 1995).

3.4. Consolidated Income Tax System

Immediately following the introduction of the real-name financial system, in December 1994, the government prepared a bill to introduce the consolidated income tax system. That is, levying a progressive tax on consolidated income that includes not only labor and business income, but also interest and dividend income that used to be taxed separately at a lower flat rate. Consolidated income tax system not only has an effect of promoting equitable distribution of tax burden, but also has an effect of deterring the use of borrowed-name accounts, thereby increasing the effectiveness of the real-name financial system.

To ameliorate the tax burden from the introduction of consolidated income tax system, the government lowered the highest marginal tax rate, adjusted the income tax brackets, and increased deductible amounts. This resulted in a person with an yearly financial income of 81 million won to experience a lower tax burden after the introduction of consolidated income taxation, regardless of how much labor and business income he or she has (in the absence of labor and business income, this resulted in a person with an yearly financial income of 123.8 million won to experience a lower tax burden after the introduction of consolidated income taxation). Also, if the combined financial income of husband and wife is less than 40 million won, they were subject to a tax rate of 15 percent. Financial income from long-term savings, long-term bonds, long-term endowment policies, and capital gain from stock investments were not included in the consolidated income.

After two years of preparation, the actual taxation on income accrued in calendar year 1996 took place in May 1997. Thereafter, however, the consolidated income tax system experienced twists and turns. First, in December 1997, in the midst of Asian Crisis, the consolidated income tax system was indefinitely put off after only one year of implementation. In January, 2001, however, it was introduced again. Second, the Constitutional Court made a decision in 2002 that levying tax on a combined financial income of husband and wife is against the constitution. Thereafter, consolidated income tax had to be levied against individuals whose total financial income was above 40 million won. In 2013, the deductible amount was lowered down to 20 million won.

4. Evaluation

4.1. The Achievements Made

The fraction of accounts verified to be in real-name and the fraction of non-real name accounts converted into real-name accounts increased. The number of violation cases that was non-trivial in the beginning also dropped over time (Ministry of Finance and Economy, August 12, 1996). Real-name verification itself did not have a deadline, which made its fraction increase rather slowly from 81.3% in October 12, 1993 to 98.2% in June 30, 1996. The conversion into real-name accounts, on the other hand, had to be completed within two months since the issuance of Emergency Order, which made its fraction record 97.1% in October 12, 1993 and 98.7% in June 30, 1996. The number of violation cases also dropped from 84 cases in 1993 to 22 cases in 1995.

Table 4-3 | Real-Name Verification and Conversion into Real-Name Accounts

	October 12, 1993	August 12, 1994	June 30, 1996
Real-Name Accounts			
• Verified (%)	81.3	94.4	98.2
• Not verified (trillion won)	72.5	19.1	4
Non-Real Name Accounts			
• Converted (%)	97.1	97.9	98.7
• Converted (100 million won)	27,604	27,808	28,059
• Not converted (100 million won)	813	609	358

Source: Ministry of Finance and Economy (1996).

Table 4-4 | Number of Cases Violating the Real-Name Financial System

	1993	1994	1995	1996 (1st Half)
No. of Cases	84	65	22	3

Source: Ministry of Finance and Economy (August, 12, 1996).

The introduction of real-name financial system also resulted in a more equitable distribution of tax burden. First, with greater transparency, it increased the tax base (Ministry of Finance and Economy, 1996). This was especially so in the case of value-added tax. Even

when controlling for increased revenue following economic recovery and heightened tax investigation, the tax base of value-added tax increased significantly.

Table 4-5 | Increase in the Tax Base of Value-Added Tax

	1992	1993	1994	1995
Tax Base Increase (%)	12.7	14.2	20.76	20.79

Source: Ministry of Finance and Economy (1996).

Moreover, the fraction of direct tax out of total domestic tax increased from 48.9% in 1992 to 53.4% in 1995. This is impressive given the fact that the government lowered the income tax rate and deductibles after the introduction of the real-name financial system (Ministry of Finance and Economy, 1996).

Table 4-6 | Fractin of Direct and Indirect Tax out of Total Domestic Tax

	1992	1993	1994	1995
Domestic Tax				
• Direct Tax (%)	48.9	48.2	51.6	53.4
• Indirect Tax (%)	51.1	51.8	48.4	46.6

Source: Ministry of Finance and Economy (1996).

Lastly, the introduction of the consolidated income tax system in 1996 made the distribution of tax burden more equitable by levying progressive tax on combined income that includes not only labor and business income, but also interest and dividend income. As mentioned earlier, consolidated income tax system ceased temporarily in the midst of Asian crisis, but resumed in 2001, and strengthened thereafter.

The introduction of the real-name financial system also helped to lower election campaign expenses (Ministry of Finance and Economy, 1996). This was done by making the Act on the Election of Public Officials and the Prevention of Election Malpractices (later, renamed as the Public Official Election Act), legislated in 1994, more effective. Under this Act, any receipt or disbursement of political funds must go through the deposit account registered at the election commission, and the accounting books concerning the revenue and the expenditure of political funds must be disclosed through the election commission. If it was not for the real-name financial system, this provision would have been totally useless and monitoring how much is being spent on election campaigns would have been

impossible. Of course, politicians could use cash when delivering or receiving illegal funds. This, however, comes with a cost. The actual election campaign expenses effectively revealed how effective the new rules were. For instance, the local government and assembly elections that took place in June 27, 1995 and the general election that took place in April 11, 1996, respectively recorded election campaign expenses that are 44.1% and 66.4% of their respective upper ceilings. The efforts to raise political funds in a more transparent way, such as through the formation of supporter associations at party or individual levels, also increased (Ministry of Finance and Economy, 1995).

Table 4-7 | Number of Supporter's Associations after Real-Name Financial System

	August 1993	June 1995	Growth Rate (%)
Central Level	3	3	-
City and Province Level	15	19	26.7
District Level	84	144	71.4
Individual Level	153	229	49.7

Source: Ministry of Finance and Economy (1996).

The introduction of the real-name financial system also helped to lower corruption. Incidents of taking bribes fell as the real-name financial system made account tracing an effective means to detect bribery. The real-name financial system, together with the real-name real estate system, also made the Public Service Ethics Act, legislated in 1993, to be more effective. They basically made it impossible for public officials to hide their properties using anonymous or fake names.

According to the survey conducted by the Citizens Coalition of Economic Justice (CCEJ) on the real-name financial system's second anniversary, 99 percent of respondents, out of a total of 290, stated that they strongly support the real-name financial system (Ministry of Finance and Economy, 1995). On the question asking how successful the implementation was, 72 percent responded positively, whereas 27.9 percent responded negatively. On the existence of borrowed-name or stolen-name accounts, 82.4 percent responded that they exist, whereas 15.5% responded that they do not. As for the question on the 40 million won threshold that exempts consolidated income taxation if financial income is below the threshold, 41.7 percent responded that it is too high, 40.7 percent responded that it is appropriate and 15.9 percent responded that it is too low. Among the respondents who did not regard the 40 million won threshold appropriate, 63.7 percent supported the 30 million won threshold, whereas 24.7 percent supported the 50 million won threshold.

4.2. Its Impact on Financial Market and Economy

Contrary to the 7.3 Measure of 1982, the Presidential Emergency Order of 1993 did not prompt much financial market turmoil. There are a number of explanations for this. They include the sudden implementation of the real-name financial system without prior notice, the comprehensiveness of the real-name financial system's coverage of financial assets, financial institutions, and financial transactions (Presidential Emergency Order Article 2), the prohibition of withdrawals before real-name conversion (Article 3), the notification of large cash withdrawals to the National Tax Service (Article 9), the government policies to curb real estate speculation, the government expanded financial assistance to small-and medium sized enterprises, and the government's flexible policy on money supply.

The financial market that responded most sensitively to the Presidential Emergency Order was the stock market. Korea Composite Stock Price Index (KOSPI) that was 725.94 on August 12 dropped down to 693.57 on the 13th. The index dropped further on the next day (on the 14th) and closed at 666.67. This drop, however, was temporary. On the 19th, which was the 5th day since the Presidential Emergency Order issuance, the index recovered the pre-announcement level.

Table 4-8 | Stock Price Movement since the Emergency Order Issuance

	August 12	August 13	August 14	August 16	August 18	August 19
KOSPI	725.94	693.57	666.67	691.67	713.18	737.97

Source: Ministry of Finance (1993b).

Market interest rates also showed a similar pattern. For example, the three-year corporate bond yield increased from 12.89 percent in July 1993 to 14.03 percent in September 1993, but stabilized at 12.21 percent in December 1993.

Table 4-9 | Market Interest Rate Movement since the Emergency Order Issuance

	Dec. '92	Jul '93	Aug. '93	Sep. '93	Dec. '93	Jun. '94
Call Rate	13.52	14.05	13.80	12.41	11.50	12.59
Corporate Bond Yield (3-yr.)	14.00	12.89	13.79	14.03	12.21	12.40
CD Yield (91 days)	15.22	13.29	14.82	14.71	12.27	12.49

Source: Ministry of Finance and Economy (1996).

The KRW/USD exchange rate, on the other hand, showed stability exhibiting only small fluctuations reflecting the market demand the supply conditions.

Table 4-10 | Exchange Rate Movement since the Emergency Order Issuance

	Aug., 12, '93	Aug. '93	Dec. '93	Jun. '94	Dec. '94	Jun. '95
KRW/USD	809.10	808.40	808.10	805.5	788.7	758.1

Source: Ministry of Finance and Economy (1996).

In the beginning, cash ratio (cash in circulation / money supply) also increased reflecting people's increased cash hoarding behavior. This ratio, however, dropped since 1994. According to Jwa and Yoo (1993), the impact of introducing the real-name financial system had an impact of reducing money supply (M2) by 7~8 percent. The actual money supply, however, increased thanks to government's flexible stance to supply more money.

Table 4-11 | Cash and Money in Circulation since the Emergency Order Issuance

(Units: 100 million won)

	Jul. '93	Aug. '93	Sep. '93	Oct. '93	Jun '94	Jun. '95
Cash (A)	85,999	92,832	107,659	111,633	106,177	118,275
Money (B)	1,021,642	1,038,499	1,076,093	1,087,759	1,160,725	1,346,659
A/B	8.4	8.9	10.0	10.3	9.1	8.8

Source: Ministry of Finance and Economy (1996).

The real asset market, including housing and precious metals, also did not show any sign of instability.

Table 4-12 | Housing and Gold Prices since the Emergency Order Issuance

(Units: 100 million won)

	Aug.'93	Jun. '93	Dec.'93	Jun. '94	Dec. '94
Housing Price Index (Dec. 90 = 100)	92.5	91.8	91.6	91.7	91.6
Housing Rent Index (Dec. 90 = 100)	111.7	112.3	115.2	117.4	120.8
Gold (won/don)	41,500	41,200	41,000	40,700	39,750

Source: Ministry of Finance and Economy (1996).

The private loans market, however, did go through a significant contraction. Nevertheless, this was not a concern to the policy makers as this was one of their intended policy objectives. Rather, their major concern was its impact on firms that heavily relied on private loans. The default rate did increase in the beginning, but stabilized later thanks to the government's expanded financial assistance to small-and medium-sized enterprises.

Table 4-13 | Default Rate since the Emergency Order Issuance

(Unit: 100 million won)

	Jul. '93	Aug. '93	Nov. '93	Apr. '94	May. '94
Amount of Default (100 mil. won)	5,300822	5,211	8,063	7,316	7,504
Default Rate (%)	0.11	0.12	0.17	0.15	0.17
No. of Defaulted Firms	721	817	879	851	848
No. of Newly Established Firms	1,076	822	1,017	1,263	1,198

Source: Ministry of Finance (1994a).

The introduction of the real-name financial system hardly had any negative impact on Korea's economic growth rate and inflation rate. The GNP growth rate of 5.8% in 1993 increased to 8.2% in 1994, and consumer price index of 4.8% in June 1993 dropped down to 4.3% in June 1995.

Table 4-14 | GNP Growth Rate since the Emergency Order Issuance

	'92	'93					'94					'95
		Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	
GNP Growth Rate (%)	5.0	5.8	3.9	4.8	6.8	6.4	8.2	8.7	7.6	7.3	9.2	9.9

Source: Ministry of Finance and Economy (1996).

Table 4-15 | Consumer Price Index since the Emergency Order Issuance

	Jun. '92	Dec. '93	Jun. '94	Dec. '94	May. '95	Jun. '95
CPI (%)	4.8	5.8	5.9	5.6	5.1	4.3

Source: Ministry of Finance and Economy (1996).

4.3. The Limitations of the 1993 Reform and Its Retreat

As mentioned earlier, the real-name financial system introduced in 1993 achieved most of its policy objects and allowed Korea to elevate its economic system to the next level, to foster national unity, and to make economic development more sustainable. Having said this, the real-name financial system introduced in 1993 was not perfect either. It did not adopt any provision prohibiting borrowed-name financial accounts, it allowed to levy fine (the maximum amount of fine that can be levied was limited to 5 million won) on the managers and the employees of financial institutions that violated real-name financial transactions, but not on the financial account holders or owners, and it levied penalty and imprisonment sentences only when the managers and employees of financial institutions violated the obligation to ensure confidentiality.

Moreover, the real-name financial system went through a considerable retreat in 1997. Starting in 1996, the Korean economy slowed down and firms started to experience financial distress. People disadvantaged by the real-name financial system began to blame it for every economic problem Korea was facing. They blamed the real-name financial system for low savings rate, conspicuous consumption, and companies' financial distress. They also argued that the real-name financial system should be loosened so that underground funds can come back to the formal sector and be used to overcome the economic crisis. This argument, however, could be an excuse to hide their real motive of hiding illegal funds and evading taxes.

Initially, President Kim Young-sam strong opposed, but later gave in as he was stigmatized as a president who failed to prevent the crisis, and therefore did not have the political power to resist. Eventually, the National Assembly replaced the Presidential Emergency Order with an Act that considerably weakened the system. First, the Act temporarily allowed the issuance of public-sector bonds that could be held anonymously. More specifically, in Article 3, it added certain public-sector bonds, the terms of which were determined by the Minister of Finance and Economy, in the list of financial assets not subject to real-name financial transactions. These certain bonds include Employment Stabilization Bonds, foreign currency denominated Foreign Exchange Stabilization Bonds, SME Corporate Restructuring Bonds, and Securities Finance Bonds. Furthermore, these bonds were subject to a 20 percent withholding income tax rate instead of a default rate of 90 percent (Article 5), exempt from tax office's funding source investigation, and exempt from retroactive taxation even if funding source investigation reveals new income that should have been taxed in the past (Supplementary Provision 9).

Second, the new Act lowered the upper ceiling of penalties levied on financial assets that remain under non-real name accounts even after the mandatory conversion period, from 60 percent to 50 percent (Supplementary Provision 6). Third, the New Act gave more exemptions on tax office's funding source investigation. It was relaxed so that only the account holder of age less than 30 with more than 30 million won were investigated (Supplementary Provision 8). Fourth, the New Act ruled that financial income accrued after January 1st 1997 should be taxed separately from other types of income (Supplementary Provision 11). This meant that the consolidated income tax system introduced in 1996 will cease to exist after only one year of implementation. It also meant that the Act is giving up its role of deterring borrowed-name financial accounts as the consolidated income tax system worked as one source of deterrence by inducing legal disputes between the name borrower and the name lender over tax payment obligations (Lim, 2000).

The amount of public-sector bonds issued following Article 3 reached a total of 3.87 trillion won. They include 2 trillion won of Securities and Finance Bonds used for restructuring the securities firm industry, 1 trillion won of SME Corporate Restructuring Bonds, and 87 million won of Employment Stabilization Bonds. Thanks to the issuance of such bonds, the government was able to easily raise new funds that were needed to overcome the crisis. Such issuance of anonymously held bonds, however, also made it easier to evade tax, hide illegally acquired properties, amass illegal slush funds, and thereby considerably tarnish the achievements the real-name financial system has obtained.

5. Policy Implication

I hereby summarize the policy implications one can draw from the introduction of the real-name financial system in 1993 and its retreat in 1997. First, contrary to what happened in 1982 when the Chun Doo-hwan Administration made an attempt to introduce the real-name financial system, the sudden implementation of the system without any prior notice by issuing the Presidential Emergency Order did not allow the time needed for politicians to unite their forces together and oppose the introduction.[25] The issuance of Presidential Emergency Order also allowed the government to introduce the real-name financial system even in times of weak economic conditions. Issuing a Presidential Emergency

25. According to Article 76 of the Constitution, Presidential Emergency Order needs to be approved at the National Assembly to be effective as a law. This means there was a room for opponents to unite their forces and block the introduction. This, however, did not take place as President Kim Young-sam made it a fait accompli and prevailed upon the National Assembly to approve the Presidential Emergency Order, raising the spectre of financial chaos and confusion that would ensue if the Order were disapproved.

Order also had the benefit of blocking sudden withdrawals of deposits. This was because many other supplementary measures in the Presidential Emergency Order also went into effect immediately after its proclamation. One of them was prohibiting withdrawals from anonymous or false-name accounts. Withdrawals were allowed only after their conversion into a real-named account. The Emergency Order also had a provision mandating bankers to notify the National Tax Service of large cash withdrawals.

Such freezing effect on financial deposits also made it possible to adopt a stricter version of the system. When the Roh Tae-woo Administration took a gradual approach of going through the whole legislation process with prior notice, allowing for special exceptions for fear that the imminent introduction of the system without exceptions might trigger a massive withdrawal from anonymous or false-name financial accounts was inevitable. For example, any law violation uncovered in the process of conversion into a real-name financial account had to be pardoned. Also, financial accounts newly converted to be under a real name had to be exempt from investigation by the tax office on its funding source regardless of the account holder's age. The stance taken by the Kim Young-sam Administration, however, was starkly different. In principle, every financial account that went through real-name conversion was subject to investigation by the tax office for its funding source. Also, if not converted to be under a real name within a certain period, government had the authority to levy penalty on the principal amount and tax any interest or dividend income from such assets at a rate of 90 percent.

Second, the experience in 1993 also shows the importance of having a President with a strong will to fight for its adoption. The first and the second attempts to introduce the system during previous administrations were led either by a cabinet member (Kang Kyung-shik, Minister of Finance) or by a senior secretary at the Presidential Office (Moon Hee-kap, Senior Secretary for Economic Affairs), but the third attempt was practically led by the president himself. President Kim Young-sam kept the plan even as a secret from his own Senior Secretary for Economic Affairs, who was against its introduction. When drafting the Presidential Emergency Order, he always opted for the strictest and the most comprehensive approach.

Third, a country's economic condition does not have much influence when introducing the system, but it is critical when weakening it. Starting in 1996, the Korean economy slowed down and firms started to experience financial distress. People disadvantaged by the real-name financial system began to blame it on every economic problem Korea was facing. They blamed the real-name financial system for low savings rate, conspicuous consumption, and companies' financial distress. They also argued that the real-name financial system

should be relaxed so that the underground funds can come back to the formal sector and be used to overcome the economic crisis. Eventually, the National Assembly replaced the Presidential Emergency Order with an Act that considerably weakened the system. A similar decision took place in during the Roh Tae-woo Administration, when the introduction of the real-name financial system was postponed with the 4.4 Measure that was basically an economic stimulation package announced in the midst of worsening economic conditions.

Fourth, the fate of the real-name financial system changed depending upon the year of President's five-year tenure period. The system was introduced on the first year (1993), whereas it was weakened on the fifth year (1997). President Kim Young-sam, who initially opposed the Act that weakened the Presidential Emergency Order, had no choice but to give in later as he was stigmatized as the president who failed to prevent the crisis, and therefore did not have the political power to resist.

2015 Modularization of Korea's Development Experience
Korea's Experience of Introducing
the Real-Name Financial System

Chapter 5

The Limitations of the 1993 Reform and Remedies

The Limitations of the 1993 Reform and Remedies

1. The Borrowed-Name Accounts and Illegal Slush Funds

1.1. The Limitations of the 1993 Reform

The 1993 reform mandates to convert anonymous or false-name accounts in to real-name accounts, but does not mandate that this 'real-name' is the name of the real financial asset owner. This is so because real-names are verified by simply showing identification cards to bank tellers, and these bank tellers had no obligation or the power to investigate whether the account holder actually owns the financial asset. According to Article 3 in the Presidential Emergency Order, 'financial institutions must engage in financial transactions with others who use their real name.' Article 2 in the Presidential Emergency Order, however, states that real-names are verified by showing resident registration card in case of individuals and business registration card in case of firms. In other words, provided that there exists trust between the name-lender and the name-borrower, there is no obstacle to creating borrowed-name financial accounts.

The consolidated income tax system has an effect of increasing tax burden of a name-lender and thereby deterring the creating of borrowed-name financial accounts. However, from the perspective of the name-lender who earns large amounts of financial income the consolidated income tax system provides a strong economic incentive to create borrowed-name financial accounts, so as to be subject to a lower marginal tax rate. Provided that the tax saving the name-borrower can enjoy is greater than the additional tax payment burden the name-lender has to suffer, the name-lender will have the incentive to create borrowed-

name financial accounts by compensating for the additional burden the name-lender would have to suffer.

In this sense, the 1993 reform certainly has its limits. Even so, such limits cannot overshadow the achievements of this reform. Illegalizing anonymous financial accounts and accounts in false-names are great triumphs in and of themselves. Also, as of 1993, when laws obligating financial institution employees to report illegal financial transactions, or activities to disguise the acquisition of criminal proceeds did not exist, the prohibition of borrowed-name financial account alone could have had only a limited effect.

Another limitation of the 1993 reform is that it levies fine on the managers and the employees of financial institutions that violated real-name financial transactions, but not on financial account holders or owners that were involved (Article 13). This approach, however, can be justified by the fact that the 1993 reform was aiming to ban anonymous or false-name accounts only, which can be easily verified by the managers and the employees of financial institutions by asking customers to show their ID cards. It was considered that a fine on the managers and the employees of financial institutions is sufficient enough to achieve their policy goal. The level of such fine, however, was set to be only 5 million won, making one to suspect its deterrence effect. Also, the penalty and imprisonment sentences were applied only when the managers and the employees of financial institutions violated the obligation to ensure confidentiality.

1.2. Series of Illegal Slush Fund Scandals

Since the introduction of the real-name financial system in 1993, series of events took place revealing the use of borrowed-name accounts in creating illegal slush funds (see the <Table 5-1>). The borrowed-name accounts were typically used to disguise illegal slush funds, to evade tax, or to manipulate stock prices. During this process, financial supervisory agencies were criticized for their leniency against those who violated the real-name financial system.

Table 5-1 | Creation of Illegal Slush Funds using Borrowed-Name Accounts

Year/Month	Event Summary
Apr. 1997	The Supreme Court issued a sentence of life imprisonment and a fine of 220 billion won against former President Chun Doo-hwan for military insurrection, rebellion, murder, and bribe-taking. However, the government had difficulty in collecting the fine as he held most of his properties in thousands of borrowed-name accounts, and refused to reveal them (media reports put together).
Apr. 1997	The Supreme Court also issued a sentence of 17-year imprisonment and a fine of 263 billion won against former President Roh Tae-woo for a set of similar crimes. He also held most of his properties in borrowed-name accounts, but contrary to former President Chun, showed strong interest in paying the fine. He notified the government the list of people who were managing the accounts on his behalf (media reports put together).
Apr. 1999	Financial Supervisory Service filed a complaint to the prosecutor's office charging Hyundai Heavy Industry, Hyundai Shipping, and two individuals related to Hyundai Group for engaging in stock price manipulation. The investigation at the prosecutor's office, however, revealed that Hyundai Securities has been using a number of borrowed-name accounts to artificially inflate the stock price of Hyundai Electronics from May to November 1998 (Yunhap News, Sep. 1, 1999 and Sisa Press, Jun. 14, 2012).
Jun. 1999	Samsung Group announced on June 29, 1999, that Chairman Lee Kun-hee will donate 4 million shares of Samsung Life Insurance (20 percent of outstanding shares) to Samsung Motors, so that it can pay back its debt of 2.8 trillion won. This announcement, however, revealed that Chairman Lee was holding a significant number of Samsung Life Insurance shares using borrowed-name accounts. This was so because the most recent official filing showed that Chairman Lee owned only 1.87 million shares of Samsung Life Insurance (PSPD, Jul. 6, 1999).
Jan. 2004	On January 19, Sohn Gil-seung, the Honorary Chairman of SK Group, was imprisoned for breach of duty as he used 79 billion won of SK Shipping's company money without its board approval to engage in overseas futures trading. This fund was separately held in 11 borrowed-name accounts (Newsis, Jan. 10, 2004).
Nov. 2004	In November 2004, during due diligence, the creditors of SK Networks found out that SK Networks was holding 10 million shares of SK and 2.38 million shares of SK Telecom (including ADR) in borrowed-name accounts. They were typically purchased by the overseas branches of SK Networks and then entrusted to their headquarter (PSPD, Nov. 3, 2004).

Year/Month	Event Summary
Oct. 2007	On October 22, 2007, National Assembly Women Shim Sang-jung accused the Seoul Regional National Tax Service for not filing a complaint to the prosecutor's office even after levying a tax on shares owned by the Sinsegae Group founding family members, but held in borrowed name accounts (SER, Oct. 22, 2007).
Oct. 2007	On October 29, 2007, Kim Yong-chul (former head of Samsung Group's legal office) released that Samsung Group has been using borrowed-name accounts to hide illegal slush funds (SER, Oct. 29 2007). On December 12, 2007, Financial Supervisory Commission verified that Woori Bank and Good Morning Shinhan Securities violated the real-name financial system (SER, Dec. 12, 2007). Later the prosecutor's office confirmed that Samsung group has been managing more than 2,000 borrowed-name accounts that were open at Samsung Securities using the names of current and past professional managers of Samsung Group. These accounts were used to systematically purchase unsubscribed shares and make capital gains (SER, Jan 8, 2008).
Apr. 2008	Joon-woong Cho, the special counsel appointed to investigate the Samsung slush fund case, released on April 17, 2008, that the Samsung Life Insurance shares held by current and past professional managers of Samsung Group were actual the shares owned by Lee Byung-chul, the founder of Samsung Group, and bequeathed Lee Kun-hee in 1987 (SER, Apr. 24, 2008).
Sep. 2008	The police revealed the existence of a slush fund held under borrowed-name accounts when investigating a person who managed the personal wealth of Lee Jae-hyun, the Chairman of CJ Group. CJ Group argued that the slush fund is not embezzled from the company, but comes from shares originally owned by Lee Buyung-chul, the founder of Samsung and CJ Group, and bequeathed to Lee Jae-hyun. CJ also explained that Chairman Lee paid all the unpaid taxes voluntarily in August (SER, Sep. 30, 2008).
Apr. 2009	On April 7, 2009, the prosecutor's office found borrowed-name accounts using 60 different names in the course of investigating Ra Eung-chan, the Chairman of Shinhan Financial Group (E-Daily, Apr. 8, 2009). Financial Supervisory Service requested cooperation from the prosecutor's office to investigate if Chairman Ra has violated the real-name financial system (SER, Jul. 18, 2010).
Sep. 2010	In early 2010, an outgoing employee of Hanwha Securities notified the Financial Supervisory Service that Hanwha Group has been managing an illegal slush fund. In response, the prosecutor's office found five borrowed-name accounts through which billions of won came in and out. Hanwha Group claimed that the slush fund is not embezzled from the company, but comes from the personal wealth of Kim Seung-youn, the Chairman of Hanwah Group (SER, Sep 17, 2010).

Year/Month	Event Summary
Apr. 2011	The National Tax Service confirmed that Chey Tae-won, the Chairman of SK Group, engaged in 100 billion won worth of futures trading through borrowed-name accounts held by the current and the past professional managers of SK Group. The National Tax Service requested the prosecutor's office to investigate if such transaction is violating the real-name financial system (Dong-Ah Daily, Apr. 28, 2011).
May 2013	On May 21, 2013, media reported that the prosecutor's office is investigating Lee Jae-hyun, the Chairman of CJ Group, whether he has created an illegal slush fund using borrowed-name accounts. The media also reported that Chairman Lee may have created an illegal slush fund outside the country using funds from disguised subsidiaries and paper companies. The media also reported that a part of the slush fund came into the country through a special purpose company established in Hong Kong, and engaged in the transactions of CJ member firm shares, using inside information (SER, May 27, 2013).
Jan. 2014	In January 2014, the prosecutor's office indicted Cho Suk-rae, the Chairman of Hyosung Group, for accounting fraud, evasion of corporate income tax (124 billion won), stock trading through borrowed-name accounts, and evasion of capital gains tax (27 billion won). The prosecutor's office also charged his son, Cho Hyun-joon, for inheriting a 16 billion won slush fund in borrowed-name accounts from his father and evading gift tax of 7 billion won (SER, Feb. 20, 2014).

Source: Press releases from People's Solidarity for Participatory Democracy (PSPD) and Solidarity for Economic Reform (SER), and other media reports.

2. Movements to Fix the Problem

2.1. The Introduction of Real-Name Real Estate System

Before 1995, it was common to see real-estate transactions taking place using someone else's name. The most popular method was to use someone else's name when registering the real-estate's ownership, but entering into a separate confidential contract, known as the title trust contract, between the real owner and the name-lender, so that the real owner can use and sell the real estate at his or her discretion. Such title trust contracts were used to evade tax and to circumvent regulation aimed to curb real-estate speculation.

However, with the introduction of real-name financial transaction in August 1993, many voiced that such title trust contracts should not be allowed. This was especially so because the consolidated income tax system was scheduled to be introduced in 1996, and in the

presence of title trust contracts, it would trigger funds to move into the real estate market and result in higher real estate prices

In response, the government started to prepare the introduction of the real-name real estate system from October 1994. On January 9, 1995, the Ministry of Finance and Economy and the Ministry of Justice jointly released their plan to introduce the system. Eventually, the government released the proposed Act on the Registration of Real Estate under Actual Titleholder's Name on January 27, 1995. The bill passed the National Assembly on March 18, and went into effect from July 1st 1995.

The key provision in this Act is to ban real estate registration using someone else's name. Such registration was regarded as legally invalid, and subject to criminal charges and penalties. Since the prohibition of title trust contract is equivalent to banning borrowed name financial accounts, many raised voices that borrowed-name financial accounts should also be banned.

2.2. Bills to Amend the Real-Name Financial System

With series of scandals involving illegal slush funds in borrowed-name accounts taking place, many voiced the necessity to amend the Act on Real-Name Financial Transactions and Confidentiality to ban borrowed-name accounts. In response, a number of bills were proposed to do so at the National Assembly. I hereby introduce two of such bills.

First, on November 9, 2004, National Assembly Women Shim Sang-jung from the Democratic Labor Party, proposed a bill to prohibit borrowed-name and stolen-name accounts. The bill also proposed to levy imprisonment sentence and penalty against the individuals that violated this provision. This is contrary to the existing law that levies such sentence only against the managers and the employee of financial institutions. Following the Act on Real-Name Registration of Real Estate, this bill regards any borrowed-name financial transactions legally invalid. Nullifying a title trust contract can have a deterrent effect since the title-lender becomes the legally righteous owner, and this could be a great concern to the real owner who borrowed the name. The bill, however, allowed borrowed-name financial accounts if the title-lender is a spouse, and also exempted such transactions from any criminal charges.

Second, on December 30, 2008, a similar bill was proposed by National Assembly Women Park Sun-sook from the Democratic Party. This bill also proposed to charge imprisonment sentences and penalties against the individuals that violated the real-name financial system. However, the charges were set to be different depending upon which types of non-real name financial accounts have been used. Specifically, in case of stolen-name accounts, it was

subject to a maximum of 7-year imprisonment or a maximum of 70 million won penalty. In case of borrowed-name accounts, it was subject to a maximum of 5-year imprisonment or a maximum of 50 million won penalty. In case of false-name accounts, it was subject to a maximum of 3-year imprisonment or a maximum of 30 million won penalty. In addition, the amount of fine that used to be 5 million won was raised up to be 30 million won as well. Similar to the bill proposed by Shim Sang-jung, this bill also allows borrowed-name financial accounts if the title-lender is a spouse, and also exempted such transactions from any criminal charges as long as the accounts are not used for illegal purposes.

The two bills, however, were automatically discarded with the expiration of the term of the National Assembly. The views of the opponents can be summarized as follows. First, borrowed-name financial accounts created for good-intensions, such as accounts held on behalf of other family members, accounts held by representatives on behalf of private organizations, are widely spread in Korea. As such, legally prohibiting the borrowed-name account can make all Koreans a criminal. Second, to prohibit the use of borrowed-name financial accounts, the managers and the employees of financial institutions need to have an investigative power to verify the real owner of financial assets. But, such authority is not given to them. Third, if borrowed-name financial transactions are involved in a criminal activity, the account owners and holders are already subject to criminal charges following the Punishment of Tax Evaders Act and the Act on the Regulation of Punishment of Criminal Proceeds Concealment.

3. The 2009 Supreme Court Decision and the 2014 Amendment

3.1. The 2009 Supreme Court Decision

In the midst of slush fund scandals using borrowed-name accounts, the Supreme Court released an important verdict on borrowed-name financial accounts on March 19, 2009. It gave out a decision that when the real owner and the account holder are different, the account holder should be regarded as the sole legal owner of the account. It also stated that the real owner can be the legal owner of the account only in exceptional cases when the two parties have a complete agreement

If the name-borrower and the name-lender have strong trust toward each other, it is impossible for outsiders to detect the existence of borrowed-name financial accounts. No matter how many obligations the law imposes on the managers and the employees of

financial institutions, they would fail to prove the existence of borrowed-name accounts. So, the key is to break the trust between the two. In this sense, the 2009 verdict from the Supreme Court must have had some effect on deterring the use of borrowed-name accounts. This is so because a name-lender can now become the legal owner by simply declaring that the asset is his or hers, and in this situation, the name-lender would have no legal means to claim his or her ownership.

3.2. The 2014 Amendment

The 2014 amendment to the Act on Real-Name Financial Transactions and Confidentiality took place in May 2014, and came into effect in November 2014. It bans financial transactions under the real name of another person for the purpose of engaging in certain illegal activities and imposes criminal and administrative charges against violators. It is noteworthy that Korea did not resort to extraordinary measures to prohibit borrowed-name financial transactions. Contrary to the reform in 1993, Korea took a regular legislative procedure. I hereby summarize the key provisions that were newly introduced.

First, the amendment provides that no person shall perform financial transactions under the real name of another person for the purpose of concealing illegitimate property, money laundering, financing of terrorism, evading compulsory execution, and evading other laws (Article 3 Paragraph 3). The amendment also provides that no person that works at a financial company, etc. shall render services for or arrange financial transactions under Paragraph 3 (Article 3 Paragraph 4). Since it bans only the borrowed-name transactions conducted for the purpose of certain illegal activities, it does not ban borrowed-name transactions with good intensions, such as those carried out on behalf of other family members or those carried out by a representative on behalf of a private organization. Of course, if such borrowed-name transactions are conducted to evade consolidated income tax, it will constitute a transaction that falls under Article 3 Paragraph 3.

Second, the amendment provides that financial assets held in the account, whose account holder's real name has been identified, shall be presumed to be owned by the account owner (Article 3 Paragraph 5). This is basically the same as the verdict made by the Supreme Court in 2009. If the real owner wishes to recover his or her legal ownership, he or she must file a litigation and prove that the asset as his or hers.

Third, the amendment provides that any financial company, etc. shall explain the main content referred to in Paragraph 3 to customers according to the method prescribed by the Financial Supervisory Commission (FSC) (Article 3 Paragraph 6).

Fourth, the amendment gives the Financial Supervisory Commission the right to impose administrative sanctions on the business of financial company, etc. when they violate the Act or orders (or instructions) under this Act (Article 5-2). Previously, it was only the managers and the employees of financial companies that were subject to penalties. Administrative sanctions include orders to correct or stop an offense, orders to suspend business, and orders to release from office.

Fifth, the amendment provides that persons violating Article 3 Paragraphs 3 and 4 (Prohibition of Borrowed-name Transactions) are also subject to imprisonment sentence or fine (Article 6 Paragraph 1). Previously, only the persons violating Article 4 (Confidentiality of Financial Transactions) were subject to them. The amount of fine was also raised from 30 million won to 50 million won.

Sixth, the amendment provides that managers and employees of financial companies are subject to a fine of 30 million won (previously 5 million won) when violating Article 3 (Financial Transactions under Real name) and Article 4-2 (Notice of Fact of Providing Transaction Information) (Article 7 Paragraph 1).

Table 5-2 | The 2014 Amendment

	Before	After
Prohibition of Borrowed-name Transactions	Allowed as long as there is an agreement exists between the real owner and the title holder	Regardless of the agreement between the two, subject to criminal charges if related to certain criminal activities
Charges Against Persons Involved in Borrowed-Name Transactions	Retroactive collection of tax	Imprisonment of no more than 5 years or a fine of no more than 50 million won, plus retroactive collection of tax
Criminal Charges Against the Managers and the Employees of Financial Institutions that Violated the Confidentiality Provisions	Imprisonment of no more than 5 years or a fine of no more than 30 million won	Imprisonment of no more than 5 years or a fine of no more than 50 million won
Administrative Sanctions Against Financial Institutions that Violated the Act	No sanctions	Orders to correct or stop an offense, orders to suspend business, release from office, and so on

	Before	After
Fines Against the Managers and Employees of Financial Institutions who Violated the Act	A fine of less than 5 million won	A fine of less than 30 million won
Legal Ownership	No explicit provision (subject to Supreme Court decision of 2009 that regards the title holder as the sole legal owner)	Presume that the title holder is the legal owner of the asset

Source: The Office of Legislation (2014) plus author's revision.

3.3. The Effect of the 2014 Amendment

As mentioned earlier, to deter the use of borrowed-name financial transactions, the key is to break the trust between the real owner and the title-holder. In this sense, the 2014 amendment to the Act is made in the right direction as it presumes that the title holder is the legal owner of the asset. However, for this provision to have a greater effect, the real owner must be subject to a serious penalty. In the absence of such penalty, the real owner can file a lawsuit against the title-holder and reclaim his or her ownership. In the presence of such penalty, however, the real owner cannot do so since litigation itself is revealing the existence of a borrowed-name account.

In this respect, the amendment made to introduce criminal charges against the persons involved in borrowed-name transactions is crucial in deterring the use of such transactions. The amendments made to impose administrative sanctions on financial institutions and the amendments made to raise fines would also help.

Of course, the amendment would have no effect on borrowed-name transactions where there is no room for a dispute between the real owner and the title-holder. In this case, the title-holder will never claim his or her legal ownership. When it comes to such situation, introducing a system that gives awards to whoever notifies the existence of borrowed-name accounts can be effective. This is what the National Tax Service exactly did in 2013, which dates before the 2014 amendment. According to the National Tax Service, the amount of tax collected through such reporting amounted to 116 billion won in 2013.

Lastly, it is important to note that the effectiveness of the 2014 amendment will depend on the will of Financial Supervisory Commission that is authorized to levy fine and impose administrative sanctions. It will also depend on the will of the prosecutor's office and the court that indicts and finalizes imprisonment sentences and penalties. If these authorities are too soft or lenient, the 2014 amendment would not bring about much effect.

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APPENDIX 1. The Chronology of Major Events

1961		
	July	Adopted the Act on the Confidentiality Assurance of Deposits and Savings
1971		
	January	Amendment to the Act on the Confidentiality Assurance of Deposits and Savings
1982		
	May	The Lee Chul-hee and Jang Young-ja promissory note fraud scandal known to the public
	June	Kang Kyung-shik promoted to be Minister of Finance
	July	Announced a plan to introduce the real-name financial system and the consolidated income tax system by July 1983 (The 7.3 Measure)
	August	Revision made to the 7.3 Measure
	October	Agreed to enact legislation for the Act on Real-Name Financial Transactions
	December	National Assembly legislates the Act on Real-Name Financial Transactions
1983		
	July	50 percent surtax on income from financial assets held in anonymous or false-name accounts (~ December 1984)
1985		
	January	100 percent surtax on income from financial assets held in anonymous or false-name accounts (~ December 1989)
1987		
	December	Roh Tae-woo, elected as President
1988		
	October	Announced a plan to introduce the real-name financial system and the consolidated income tax system by 1991
	December	Moon Hee-kap promoted to be the Senior Secretary to the President on Economic Affairs
1989		
	April	Launched the Preparation Team for the Implementation of Real-Name Financial System and the Real-Name Financial System Coordination Committee
	December	The Preparation Team released a report to alleviate the concerns raised by the opponents

1990		
	January	Three political parties (Democratic Justice Party, the Peaceful Democratic Party, and the Democratic Republican Party) merged and formed the Democratic Liberal Party
	March	President Roh appoints Lee Seung-yoon and Deputy Prime Minister and the Minister of Economic Planning Board and Kim Jong-in as Senior Secretary to the President on Economic Affairs
	April	Announced a comprehensive economic stimulation package, known as the 4.4 Measure, and made it official that the government is postponing the introduction of the real-name financial system indefinitely
1992		
	December	Kim Young-sam, elected as President
1993		
	March	Meeting between KDI fellows and Deputy Prime Minister Lee Kyung-shik
	June	Deputy Prime Minister forms a Working Group composed of KDI fellows to prepare for the introduction of the real-name system
	June	National Assembly amended the Public Service Ethics Act
	July	Ministry of Finance officials joined the Working Group.
	August	President Kim announced the introduction of the real-name financial system by issuing the Presidential Financial and Economic Emergency Order on Real-Name Financial Transactions and Confidentiality
		Launched the Real-Name Financial System Implementation Team and the Real-Name Financial System Central Coordination Committee
1994		
	March	National Assembly legislated the Act on the Registration of Real Estate under Actual Titleholder's Name
	March	National Assembly legislated the Public Official Election Act
1996		
	February	Constitutional Court gave out a decision that the Presidential Emergency Order meets all the requirements stipulated in the Constitution
1997		
	May	First time income tax is paid on a consolidated basis
	December	Presidential Emergency Order replaced by the Act on Real-Name Financial Transactions and Confidentiality
		Financial income tax separately from other types of income

2001		
	January	Reintroduced consolidated income tax system
	September	National Assembly legislated the Act on Reporting and Using Specified Financial Transaction Information
	September	National Assembly legislates the Act on the Regulation and Punishment of Criminal Proceeds Concealment
2004		
	November	Shim Sang-jung, National Assembly Women from the Democratic Labor Party proposed a bill to amend the Act on Real-Name Financial Transactions and Confidentiality to prohibit borrowed-name financial transactions
2008		
	December	Park Sun-sook, National Assembly Women from the Democratic Party proposed a bill to amend the Act on Real-Name Financial Transactions and Confidentiality to prohibit borrowed-name financial transactions
2009		
	March	Supreme Court gave a verdict that the title holder of a financial account is the legal owner of the financial asset
2014		
	May	National Assembly passes the amendment to the Act on Real-Name Financial Transactions and Confidentiality to prohibit borrowed-name financial transactions related to certain illegal activities

APPENDIX 2.

PRESIDENTIAL FINANCIAL AND ECONOMIC EMERGENCY ORDER ON REAL NAME FINANCIAL TRANSACTIONS AND GUARANTEE OF SECRECY

[Enforcement Date Aug. 12, 1993.] [No.16, Aug. 12, 1993.,]

Article 1 (Purpose)

The purpose of this Order is to realize economic justice and to facilitate sound development of the national economy by normalizing financial transactions through the execution of the real name financial transactions system which guarantees secrets.

Article 2 (Definitions)

The definitions of terms used in this Order shall be as follows:

1. The term "financial institutions" means those prescribed in the following items:

(a) The Bank of Korea, and financial institutions pursuant to the Banking Act;

(b) Short-term financing corporations pursuant to the Short-Term Financing Business Act;

(c) Merchant banks pursuant to the Merchant Banking Corporations Act;

(d) Mutual savings and financing companies and the federation thereof pursuant to the Mutual Savings and Financing Act;

(e) Agricultural cooperatives and the National Agricultural Cooperatives Federation pursuant to the Agricultural Cooperatives Act;

(f) Fisheries cooperatives and the National Fisheries Cooperatives Federation pursuant to the Fisheries Cooperatives Act;

(g) Livestock cooperatives and the National Livestock Cooperatives Federation pursuant to the Livestock Cooperatives Act;

(h) Ginseng cooperatives and the National Ginseng Cooperatives Federation pursuant to the Ginseng Cooperatives Act;

(i) Credit cooperatives and the Central Credit Cooperative Association pursuant to the Credit Cooperatives Act;

(j) Community credit cooperatives and the Korean Federation of Community Credit Cooperatives pursuant to the Saemaul Savings Depository Act;

(k) Trust companies pursuant to the Trust Business Act, and securities investment trust companies pursuant to the Securities Investment Trust Business Act;

(l) Securities companies, securities finance companies, order matching corporations, and companies acting for renewal of title pursuant to the Securities and Exchange Act;

(m) Insurers pursuant to the Insurance Business Act;

(n) Postal service organizations pursuant to the Postal Savings and Insurance Act; and

(o) Other organizations as prescribed by the Presidential Decree.

2. The term "financial assets" means cash and securities, such as demand deposits, installment deposits, installment savings, mutual savings, funds in custody, subscription payments, trust estates, premium, deductions, stocks, bonds, beneficiary certificates, contribution quota, bills, cheques, debt certificates, etc. which are dealt with by financial institutions, and/or other things which are similar to cash and securities and are prescribed by the Ordinance of the Ministry of Finance and Economy;

3. The term "financial transactions" means transactions where financial institutions receive, sell and purchase, repurchase, refund, mediate, discount, issue, redeem, are entrusted with, register, and exchange financial assets or where financial institutions pay interest, money discounted, or dividend of those financial assets or act for such payment, or other transactions which make financial institutions its object and are prescribed by the Ordinance of the Ministry of Finance and Economy; and

4. The term "real name" means a name as prescribed by the Presidential Decree such as that entered in a resident registration card and that recorded on the trader's registration certificate, and so on.

Article 3 (Real Name Financial Transactions)

(1) Financial institutions shall deal with financial transactions under the real name of the relevant trader (hereinafter referred to as "real name").

(2) Financial institutions shall confirm, with respect to a holder of a title deed of financial assets for which a financial transaction account has been opened before the enforcement of this Order (hereinafter referred to as "existing financial assets"), whether such title is a real name or not.

(3) Financial institutions shall not make payment, redemption, refundment, or repurchase, etc. (hereinafter referred to as "payment, etc.") for existing financial assets for which the

confirmation pursuant to paragraph (2) of this Article or which proves to be under a real name: Provided, That in cases where the Minister of Finance and Economy deems that payment, etc. are unavoidable in spite of financial assets for which the confirmation pursuant to paragraph (2) of this Article is not executed, such as case of payment, etc. resulting from honoring of bills or cheques issued before the enforcement of this Order, the same shall not apply.

Article 4 (Guarantee of Secrecy of Financial Transactions)

(1) Persons working for financial institutions may not provide or reveal information or data concerning contents of financial transactions (hereinafter referred to as "information, etc.") to other persons unless they do receive a request in writing or consent from a holder of a title deed (in case of trust, meaning a truster or a beneficiary), and any persons may not request persons working for financial institutions to provide information, etc.: Provided, That the same shall not apply in cases which fall under any of the following subparagraphs, and is which said information, etc. is requested or provided within the minimum limit necessary for the purpose of use of information, etc.:

1. Where an offer of information, etc. is requested by means of an order to produce evidence made by a court, or by means of a warrant which is issued by a judge;
2. Where the head of a competent agency requests an offer of information, etc. for the purpose of question and inspection pursuant to provisions of Acts relating to taxes, and where the head of a competent agency offers data for assessment, etc. which he is under duty to present pursuant to provisions of Acts relating to taxes;
3. Where the Minister of Finance and Economy, the Superintendent of the Office of Bank Supervision affiliated with the Bank of Korea, the head of the Securities Supervisory Board, and the head of the Insurance Supervisory Board request information, etc. necessary for the supervision and inspection over financial institutions;
4. Where information, etc. necessary for business is provided inside any financial institution or between financial institutions; and
5. Where any information, etc., which is obligatorily opened to many and unspecified persons pursuant to provisions of other Acts, is requested pursuant to provisions of Acts concerned.

(2) A person who requests information, etc. pursuant to paragraph (1) 1 through 3, or 5 shall do so a specified place of business of a financial institution by means of a document on which matters stipulated in each following subparagraph are recorded:

1. Personal information on a trader;

2. Objectives of the use of information; and

3. Contents of information, etc. required.

(3) In case where persons engaged in financial institutions receive a request for an offer of information, etc. in violation of the provisions of paragraph (1) or (2) of this Article, they shall refuse it.

(4) Persons who come to know information, etc. pursuant to any subparagraph of paragraph (1) of this Article (including Article 5 (1) 1 through 4 of the previous the Real Name Financial Transactions Act) may not provide or reveal such information, etc. to other persons, or use such information, etc. for objectives other than original objectives of use thereof, and any persons may not request persons who such information, etc. that comes to his knowledge to provide such information, etc.

Article 5 (Obligation to Convert Existing Non-Real Name Assets into Real Name Assets)

(1) Traders who transacted existing financial property under non-real names (hereinafter referred to as "existing non-real name assets") shall convert said names into real ones within 2 months from the enforcement date of this Order (hereinafter referred to as a "period for the obligatory conversion"). In this case, a period for the obligation to convert into a real name may be prolonged within the limit of one month under the conditions as prescribed by the Presidential Decree.

(2) In cases where the Minister of Finance and Economy deems that for any unavoidable reason such as disease it is difficult for a person to convert into a real name during a period for the obligatory conversion pursuant to paragraph (1) of this Article even by way of procuration, the period therefor shall, notwithstanding paragraph (1) of this Article, be six months from the enforcement date of this Order: Provided, That in cases where there is a manifest reason for which it is deemed that it is difficult to convert into a real name within six months, the period for the obligatory conversion shall be one month from the date on which the same reason disappears.

Article 6 (Special Cases concerning Tax Investigation, etc. of Financial Assets Converted into Real Name)

In cases where the price of any existing non-real name asset which is converted into a real name during a period for the obligatory conversion falls short of the criterion amount as stipulated in following subparagraphs or of the enforcement date of this Order, notwithstanding provisions of Acts relating to taxes, in relation to the conversion into a real name, the sources, etc. of those assets shall not be investigated, and taxes the duty of whose payment occurs on the tax base of those assets before the enforcement of this Order shall not be levied: Provided, That in case where taxes are levied on tax bases other than financial assets concerned, the same shall not apply:

1. In case where a financial trader concerned is less than 20 years old, fifteen million won or less;
2. In case where a financial trader concerned is not less over 20 years, but not more than 30 years old, thirty million won or less; and
3. In case where a financial trader concerned is not less over 30 years old, fifty million won.

Article 7 (Penalty Surcharge against Violators of Obligation to Convert into Real Name)

(1) With respect to traders who convert titles of existing non-real name assets into real names after a period for the obligatory conversion lapses, financial institutions shall withhold an amount calculated by applying the following collection rate to the price of financial assets as of the enforcement date of this Order (in case where it falls under the proviso of Article 5 (2), as of the date on which the relevant reason is vanished: hereinafter the same shall apply in this Article) as a penalty surcharge, and shall pay it to the Government by 10th day of the month immediately after a collection date.

Period calculated from the enforcement date of this Order collection rate

until the date when 1 year lapses 10/100

from the date when 1 years lapses 20/100

to the following day of the date when 2 years lapse

from the date when 2 years lapse 30/100

to the following day of the date when 3 years lapse

from the date when 3 years lapse 40/100

to the following day of the date when 4 years lapse

from the date when 4 years lapse 50/100

to the following day of the date when 5 years lapse

after the date when 5 years lapse 60/100

(2) In case of paragraph (1) of this Article, the Minister of Finance and Economy shall, in case where any financial institution fails to pay the penalty surcharge which it has collected or is obliged to collect within a definite period, or pays an amount less than that penalty surcharge, collect an amount equivalent to 10/100 of that of unpaid the penalty surcharge from that financial institution as additional dues, in addition to said penalty surcharge.

(3) The Minister of Finance and Economy may entrust affairs relating to the collection, payment, disposition for arrears, and refund of the penalty surcharge and additional dues pursuant to paragraphs (1) and (2) of this Article (hereinafter referred to as "collection, etc.") to the Administrator of the National Tax Administration.

(4) With respect to the collection, etc. of the penalty surcharge and additional dues pursuant to paragraphs (1) and (2) of this Article, the National Tax Collection Act, the Framework Act on National Taxes, and the Income Tax Act shall apply mutatis mutandis. In this case, "national taxes" shall be considered as "penalty surcharge".

Article 8 (Withholding of Income Tax on Assets Converted into Real Name)

(1) Notwithstanding Article 6 of this Act, financial institutions shall withhold the income tax which was shortly collected hitherto by applying the graded tariff pursuant to Article 4 (2) of the previous the Real Name Financial Transactions Act and the withholding tax rate pursuant to Article 144 (2) of the Income Tax Act (with respect to the interest and dividend income obtained before December 31, 1990, meaning the withholding tax rate which was applied at the time when such income was made: hereinafter the same shall apply in this paragraph) to the interest and dividend income obtained from existing non-real name assets converted into a real name on and before the date when a title thereof is converted (in case where a title thereof is converted into a real name after a period for the obligatory conversion until the last day of said period), and shall pay it to the Government until the 10th day of the following month immediately after the date when a title thereof is converted: Provided, That in case where existing non-real name assets the income from

which is exempted from taxation or is subject to separate taxation by a low rate pursuant to Articles 4 or 4-2 of the Regulation of Tax Reduction and Exemption Act is converted into a real name, the withholding tax rate pursuant to Article 144 (1) of the Income Tax Act shall apply.

(2) An amount of the income tax withheld pursuant to paragraph (1) of this Article shall be limited to the price of the financial assets concerned at the date when a title thereof is converted into a real name.

(3) In case where a financial institution withhold and pays the income tax pursuant to paragraph (1) of this Article, the provisions of Article 182 (1) of the Income Tax Act shall not apply.

Article 9 (Graded Taxation on Income Accrued from Non-Real Name Assets)

With respect to the income from interests and dividends obtained from non-real assets after a period for the obligatory conversion lapses, notwithstanding Article 144 of the Income Tax Act, the withholding tax rate shall be 90/100. In this case, the interest and dividend income obtained from non-real assets shall not be taken into consideration in the calculation of tax basis of the aggregate income pursuant to Article 15 (2) of the Income Tax Act.

Article 10 (Notification on Contents of Transaction of Withdrawal of Large Amount in Cash or of Bonds, etc.)

(1) In case where a total amount which a financial institution pays in cash to a financial trader, an individual, (including a cheque on drawer himself) by each account during a period for the obligatory conversion exceeds thirty million won, the financial institution shall notify the contents of such transaction to the National Tax Administration within 1 month from the last day of said period.

(2) In case where a financial institution makes a financial transaction with a person who does not deposits financial assets which are transferable by way of the delivery of bond, beneficiary certificate, certificate of deposit, or other certificates or securities and are prescribed by the Ordinance of the Ministry of Finance and Economy (hereinafter referred to as the "bond, etc.") in any financial institutions and directly holds it with the relevant bond, etc. as an object of that financial transaction, when the volume of transaction of the relevant bond, etc. (in case of a certificate of deposit, its par value) exceeds fifty million won, the financial institution shall notify the contents of such transaction to the National

Tax Administration by the final day of a month when the date of transaction belongs: Provided, That in case where it falls under any one of each following subparagraph, the same shall not apply:

1. Where the concerned bond and so on are deposited in any financial institution during a period as prescribed by the Ordinance of the Ministry of Finance and Economy or longer; and
2. Where a trader concerned corresponds to an institutional investor under the Corporate Tax Act.

Article 11 (Performance of Financial Transactions in Real Name and of Aggregate Income Taxation)

The government may establish an organization in exclusive charge of financial transactions in real name for the purpose of securing harmoniously carrying out financial transactions in real name pursuant to Article 3 and preparing the enforcement of aggregate taxation on income from financial assets.

Article 12 (Penal Provisions)

(1) A person who violates each paragraph of Article 4 shall be punished by imprisonment for not more than three years or by a fine not exceeding twenty million won.

(2) Penalty of imprisonment and that of fine pursuant to paragraph (1) of this Article may be concurrently imposed.

Article 13 (Fine for Negligence)

A fine for negligence not exceeding five million won shall be imposed on an officer and employee of a financial institution who violate Article 3. In this case, a fine for negligence is imposed by the Minister of Finance and Economy or a person commissioned by the Minister of Finance and Economy, and is collected according to cases of collection of national taxes.

Article 14 (Joint Penal Provisions)

When a representative of a juristic person, or an agent, servant, or employee of a juristic person or individual violates Article 12 or 13 in relation to any business and duties of the said juristic person or individual, a fine or a fine for negligence stipulated in each concerned Article shall also be imposed on that juristic person or that individual in

addition to the actual offender: Provided, That when the juristic person or individual pays a due diligence to the business and duties concerned or sufficiently supervises them concerned in order to prevent such violative action, the same shall not apply.

Article 15 (Relations with Other Acts)

(1) The Real Name Financial Transactions Act shall hereby be abolished.

(2) In case any where provisions of this Order conflict with provisions of other Acts, this Order shall be applied.

(3) In case where a trader of existing non-real name assets converts a title thereof into a real name during a period for the obligatory conversion, as a result of being subject to penalty or administrative sanctions in violation of any provisions of the Commercial Act, the Securities and Exchange Act, the Monopoly Regulation and Fair Trade Act, or other Acts, if such violation is corrected within 1 year after the enforcement of this Order, provisions concerning said penalty or administrative sanctions shall not be applied.

(4) In case where a person who holds bonds, which are not exceeding an amount designated by the Presidential Decree, as stipulated in Article 144 (1) 1 (e) of the Income Tax Act or a person who is a petty stockholder as stipulated in Article 144 (1) 2 (a) of the said Act (hereinafter referred to as a "petty stockholder, etc.") converts existing non-real name assets under his real name during a period for the obligatory conversion at the time when this Order comes into force, as a result of not being a petty stockholder, etc., that person shall be considered as if he were a petty stockholder, etc. until the date when 1 year expires since the this Order comes into force, and in this case Article 8 of this Order and Article 144 of the Income Tax Act shall be applied to that person.

Article 16 (Extension of Guarantee Limit of Credit Guarantee Fund, etc.)

If deemed necessary to smooth funds distribution of enterprises by extending the guarantee of obligation for enterprises not having the sufficient security capacity, the Minister of Finance and Economy may extend the guarantee limit pursuant to Article 25 (1) of the Credit Guarantee Fund Act and Article 31 of the Financial Assistance to New Technology Business Act up to two times within 6 months after the enforcement of this Order.

ADDENDA

Article 1 (Enforcement Date and Time)

This Order shall come into force as of 20 o'clock on August 12, 1993.

Article 2 (Procedure for Promulgation)

This Order and the Presidential Decree issued by this Order may be promulgated by way of broadcastings or daily newspapers.

Article 3 (Change of Business Hours of Financial Institutions, etc.)

The Minister of Finance and Economy may, if necessary, take necessary measures such as suspension of financial transactions or change of business hours, etc. for financial institutions.

APPENDIX 3

ACT ON REAL NAME FINANCIAL TRANSACTIONS AND CONFIDENTIALITY

[Enforcement Date Nov. 29, 2014.] [Act No.12711, May 28, 2014., Partial Amendment]

Article 1 (Purpose)

The purpose of this Act is to realize economic justice and to facilitate the sound development of national economy by implementing real name financial transactions and ensuring the confidentiality thereof through normalized financial transactions.

[This Article Wholly Amended by Act No. 10854, Jul. 14, 2011]

Article 2 (Definitions)

The definitions of terms used in this Act shall be as follows: <Amended by Act No. 10522, Mar. 31, 2011>

1. The term "financial companies, etc." means:

(a) Banks under the Banking Act;

(b) The Industrial Bank of Korea under the Industrial Bank of Korea Act;

(c) The Korea Development Bank under the Korea Development Bank Act;

(d) The Export-Import Bank of Korea under the Export-Import Bank of Korea Act;

(e) The Bank of Korea under the Bank of Korea Act;

(f) Cooperatives and their federation, and Nonghyup Bank established under the Agricultural Cooperatives Act;

(g) Mutual savings banks and the Federation of Savings Banks under the Mutual Savings Banks Act;

(h) Cooperatives and the National Federation under the Agricultural Cooperatives Act;

(i) Cooperatives and the National Federation under the Fisheries Cooperatives Act;

(j) Credit unions and the National Credit Union Federation under the Credit Unions Act;

(k) Community credit cooperatives and the Korean Federation under the Community Credit Cooperatives Act;

(l) Insurance companies under the Insurance Business Act;

(m) Communications agencies under the Postal Savings and Insurance Act; and

(n) Other institutions as determined by Presidential Decree;

2. The term "financial assets" means cash and securities, such as demand deposits, installment deposits, installments, fraternity dues, depositary receipts, investments, trust property, stocks, bonds, beneficiary certificates, contribution quotas, bills, cheques and debt certificates that are dealt with by financial companies, etc., and other similar items as determined by Ordinance of the Prime Minister;

3. The term "financial transactions" means transactions in which financial companies, etc. receive, sell and purchase, repurchase, mediate, discount, issue, redeem, return, are entrusted with, register, or exchange financial assets, or in which financial companies, etc. pay interest, money discounted, or dividends of those financial assets or carry out such payment as an agent, or other transactions involving financial assets as determined by Ordinance of the Prime Minister;

4. The term "real name" means a name entered in a resident registration card, a name entered in a business registration certificate, or any other name as determined by Presidential Decree.

[This Article Wholly Amended by Act No. 10854, Jul. 14, 2011]

Article 3 (Financial Transactions under Real Name)

(1) Financial companies, etc. shall perform financial transactions with customers under their real names.

(2) Notwithstanding the provisions of paragraph (1), financial companies, etc. may decide not to verify real names of the customers concerned in case of any transactions falling under any of the following subparagraphs:

1. Continuous transactions by accounts in which the real names of the customers have been verified, and transactions such as receipt of public impositions and transfers of not more than one million won, as determined by Presidential Decree;

2. Transactions such as the purchase of foreign currency, receipt of deposits in foreign currency or transfers of bonds in foreign currency, during the period as determined by Presidential Decree;

3. Transactions of bonds that fall under any of the following (hereinafter referred to as "specific bonds") and are issued under the issue terms such as the period of issue, interest rate, and maturity as determined by the Minister of Finance and Economy between the date (December 31, 1997) of entry into force of the Act on Real Name Financial Transactions and Confidentiality, Act No. 5493, and December 31, 1998:

(a) Bonds issued for employment stabilization, improvement of workers' vocational abilities and livelihood stabilization as determined by Presidential Decree;

(b) Bonds in foreign currency that are foreign exchange equalization fund bonds referred to in Article 13 of the Foreign Exchange Transactions Act;

(c) Bonds issued for restructuring assistance to small and medium businesses, as determined by the Presidential Decree;

(d) Corporate bonds issued by a securities finance company under Article 329 of the Financial Investment Services and Capital Markets Act; and

(e) Other bonds issued for the stabilization of people's livelihood and the sound development of the national economy, as determined by Presidential Decree.

(3) No person shall perform financial transactions under the real name of another person for the purpose of concealing illegitimate property under subparagraph 3 of Article 2 of the Act on Reporting and Using Specified Financial Transaction Information, money laundering under subparagraph 4 of the aforementioned Article or financing of terrorism and evading compulsory execution under subparagraph 5 of the aforesaid Article, and other evasions of the law. <Newly Inserted by Act No. 12711, May 28, 2014>

(4) No person that works at a financial company, etc. shall render services for or arrange financial transactions under paragraph (3). <Newly Inserted by Act No. 12711, May 28, 2014>

(5) Financial assets held in the account that is identified under the real name of the account owner pursuant to paragraph (1) or in the account that is identified under the real name of the owner by means similar thereto shall be presumed to be owned by the account owner. <Newly Inserted by Act No. 12711, May 28, 2014>

(6) Any financial company, etc. shall explain the main content referred to in paragraph (3) to customers according to the method prescribed by the Financial Services Commission. <Newly Inserted by Act No. 12711, May 28, 2014>

(7) Methods and procedures for identifying real name transactions, entrustment of the task of identifying real name transactions and other necessary matters shall be prescribed by Presidential Decree. <Amended by Act No. 12711, May 28, 2014>

[This Article Wholly Amended by Act No. 10854, Jul. 14, 2011]

Article 4 (Confidentiality of Financial Transactions)

(1) No person working for a financial company, etc. shall provide or reveal information or data concerning the contents of financial transactions (hereinafter referred to as "transaction information, etc.") to other persons unless he/she receives a request or consent in writing from the holder of a title deed (in case of trust, meaning a truster or beneficiary), and no person may request a person working for a financial company, etc. to provide transaction information, etc.: Provided, That the same shall not apply in any of the following cases in which the said transaction information, etc. is requested or provided to the minimum limit necessary for the purpose of use thereof: <Amended by Act No. 12711, May 28, 2014>

1. Provision of transaction information, etc. by a court order to produce evidence, or by a warrant issued by a judge;
2. Provision of tax data that must be submitted under tax-related Acts, and provision of transaction information, etc. necessary for the heads of the competent agencies to confirm inherited or donated property, confirm evidence to show a suspicion of tax evasion, inquire into the property of taxpayers in arrears, or make inquiries and investigation under tax-related Acts due to the cause falling under any subparagraph of Article 14 (1) of the National Tax Collection Act;
3. Provision of transaction information, etc. by the Governor of the Financial Supervisory Service (referring to the Governor of the Financial Supervisory Service under Article 24 of the Act on the Establishment, etc. of Financial Services Commission; hereinafter the same shall apply) and the President of the Korea Deposit Insurance Corporation (referring to the President of the Korea Deposit Insurance Corporation under Article 3 of the Depositor Protection Act; hereinafter the same shall apply), as necessary for the legislative investigation of state affairs under the Act on the Inspection and Investigation of State Administration, through a resolution by the relevant investigation committee;
4. Provision of transaction information, etc. necessary for the Financial Services Commission (referring to the Securities Futures Commission in the case of investigation of unfair trades in the securities or derivatives markets; hereafter the same shall apply

in this Article), the Governor of the Financial Supervisory Service and the President of the Korea Deposit Insurance Corporation to supervise and inspect financial companies, etc., where it falls under any of the following and where it is to be presented to the relevant investigation committee pursuant to subparagraph 3:

(a) Where it is necessary to investigate inside transactions and unfair transaction practices;

(b) Where it is necessary to detect financial misconduct such as embezzlement of deposits from customers or cash withdrawal after receiving payments without sources;

(c) Where it is necessary to investigate unsound financial transaction practices such as receipt of compulsory deposits and pre-issuance of cashier's checks;

(d) Where it is necessary to investigate the violation of Acts and subordinate statutes such as a violation of real name financial transactions, off-book transactions, loans for contributors, or excessive loans to one person; and

(e) Where it is necessary for the deposit insurance services under the Depositor Protection Act and to carry out the functions of making a list of depositors by the President of the Korea Deposit Insurance Corporation under the Act on the Structural Improvement of the Financial Industry;

5. Provision of transaction information, etc. necessary for business inside any financial company, etc. or between financial companies, etc.;

6. Provision of transaction information, etc. that is necessary for the Financial Services Commission and the Governor of the Financial Supervisory Service to cooperate with foreign financial supervisory institutions (including international financial supervisory bodies; hereinafter the same shall apply), which perform the work equivalent to the Commission's or Service's work, in facilitating their work cooperation on the matters falling under each of the following:

(a) The supervision and inspection of financial companies, etc. and the overseas branches, local corporations, etc. of the financial companies, etc.;

(b) The cooperation in facilitating the exchange, inspection, etc. of information provided for in Article 437 of the Financial Investment Services and Capital Markets Act;

7. Provision of transaction information, etc. that is held by investment traders and investment brokers and is needed by the Korea Exchange that is established pursuant to the Financial Investment Services and Capital Markets Act (hereinafter referred to as the "Korea Exchange") in the case falling under each of the following:

(a) Where the investigation of any abnormal trading or the supervision of members is performed pursuant to Article 404 of the Financial Investment Services and Capital Markets Act;

(b) Where it is necessary to cooperate with any foreign exchange, etc. that performs the work equivalent to the work of the Korea Exchange in connection with the investigation of any abnormal trading or the supervision of members: Provided, That the same shall apply only in cases where prior approval therefor is obtained from the Financial Services Commission;

8. Other provision of transaction information, etc. under Acts that must be disclosed to many and unspecified persons under the relevant Acts.

(2) A person who requests transaction information, etc. pursuant to paragraph (1) 1 through 4 or 6 through 8 shall do so at a specified business place of a financial company, etc. by means of the standard form as stipulated by the Financial Services Commission containing information provided in the following subparagraphs: Provided, That in the event that anyone intends to request the provision of transaction information, etc. under paragraph (1) 1 or transaction information, etc. under paragraph (1) 2, both of which are concerned with a person who is recognized to be suspected of having evaded the income tax or the corporate tax, which is corroborated by indisputable data on his/her holding period of real estate (including any right to such real estate; hereafter in this paragraph the same shall apply), the number of his/her real estate, the scale of his/her transaction of real estate, his/her ways of executing real estate transaction, etc. in connection with the real estate transaction prescribed by Presidential Decree, and are necessary to confirm the fact of his/her evading taxes (including any person who has acted as an agent or a broker for the transaction of the relevant real estate), or to request the provision of transaction information, etc. that is necessary to inquire about the property of any defaulter whose arrearage amounts to not less than 10 million won as prescribed by the Presidential Decree, he/she may request the department that keeps and manages such transaction information, etc. to provide such information, etc.:

1. Personal information on the holder of a title deed;

2. Trade period subject to a request;

3. Legal ground for a request;

4. Purpose of the use of information;

5. Contents of transaction information, etc. requested;

6. Personal information, such as the names, duties, etc., of the person in charge and the responsible person in the institution to be requested.

(3) Where persons working for financial companies, etc. receive a request for the provision of transaction information, etc. in violation of paragraph (1) or (2), they shall refuse it.

(4) No person who comes to know transaction information, etc. pursuant to each subparagraph of paragraph (1) [including Article 5 (1) 1 through 4 of the former Real Name Financial Transactions Act (referring to the Act that had been in force before it was repealed by the Presidential Financial and Economic Emergency Order No. 16) and each subparagraph of Article 4 (1) of the Presidential Financial and Economic Emergency Order on Real Name Financial Transactions and Confidentiality (referring to the Order that had been in force before it was repealed by Act No. 5493; hereinafter the same shall apply)] shall provide or disclose such information, etc. to other persons, or use such information, etc. for other purposes than the original purpose, and no person shall request a person who comes to know such information, etc. to provide such information, etc.: Provided, That the same shall not apply in cases where the Financial Services Commission or the Governor of the Financial Supervisory Service provides any foreign financial supervisory institution with the transaction information, etc. that it or he/she has learned pursuant to paragraph (1) 4 and 6 or the Korea Exchange provides any foreign exchange, etc. with any transaction information, etc. pursuant to paragraph (1) 7. <Amended by Act No. 12711, May 28, 2014>

(5) Persons who have any transaction information, etc. provided or disclosed in violation of paragraph (1) or (4) (including those who have obtained such transaction information, etc. again from them) shall not provide or disclose such information, etc. to others where they come to know such violation.

(6) Where provision of transaction information, etc. is requested pursuant to any of the following Acts, it shall be based upon the standard form as stipulated by the Financial Services Commission under paragraph (2), notwithstanding the provisions of the relevant Acts:

1. Article 27 (2) of the Board of Audit and Inspection Act;

2. Article 52 (2) of the Political Funds Act;

3. Article 8 (5) of the Public Service Ethics Act;

4. Article 50 (5) of the Monopoly Regulation and Fair Trade Act;

5. Article 83 (1) of the Inheritance Tax and Gift Tax Act;

6. Article 10 (3) of the Act on Reporting and Using Specified Financial Transaction Information; and

7. Article 6 (1) of the Act on the Submission and Management of Taxation Data.

[This Article Wholly Amended by Act No. 10854, Jul. 14, 2011]

Article 4-2 (Notice of Fact of Providing Transaction Information, etc.)

(1) Where a financial company, etc. has provided transaction information, etc. with the written consent of the holder of a title deed, or has provided it pursuant to Article 4 (1) 1, 2 (excluding taxable data, etc. that shall be submitted under the tax-related Acts), 3 and 8, the financial company, etc. shall notify in writing the holder of the title deed of the major contents, purpose of use, person provided, date of provision, etc., within 10 days from the date of such provision (where such notice is deferred under paragraph (2) or (3), the date on which the deferred period of notice expires).

(2) Where a financial company, etc. receives a written request for a deferment of notice from a requester for transaction information, etc. subject to notice on the grounds falling under any of the following subparagraphs, the financial company, etc. shall defer such notice for the requested deferment period (6 months where the deferment of notice has been requested for 6 months or longer on the grounds of subparagraph 2 or 3), notwithstanding the provisions of paragraph (1):

1. Where the relevant notice carries a matter of concern about threatening the safety of human life or body;

2. Where the relevant notice carries a matter of obvious concern about obstructing the progress of a fair judicial process such as destruction of evidence or threat to witness; and

3. Where the relevant notice carries a matter of obvious concern about obstructing, or delaying to excess, the progress of administrative procedures such as an interrogation or investigation.

(3) Where a requester for transaction information, etc. presents that the reason falling under any subparagraph of paragraph (2) is continued and repeatedly requests in writing a deferment of notice, a financial company, etc. shall defer such notice for the requested deferment period within the limit of 3 months for each time, limited to only twice from the date of such request (excluding the case of paragraph (2) 1): Provided, That where a requester for transaction information, etc. under Article 4 (1) 2 (excluding taxable data,

etc. that shall be submitted under the tax-related Acts) requests a deferment of notice, it shall defer such notice for the requested deferment period within the limit of 6 months from the date of request each time it is requested.

(4) Expenses spent by any financial company, etc. to notify the title holder of the fact of provision of transaction information, etc. under paragraph (1) shall be borne by anyone who has requested provision of such transaction information, etc. pursuant to Article 4 (1), as prescribed by the Presidential Decree.

(5) Where provision of transaction information, etc. is requested pursuant to any of the following Acts, paragraphs (1) through (4) shall be applicable:

1. Article 27 (2) of the Board of Audit and Inspection Act;

2. Article 52 (2) of the Political Funds Act;

3. Article 8 (5) of the Public Service Ethics Act;

4. Article 50 (5) of the Monopoly Regulation and Fair Trade Act;

5. Article 83 (1) of the Inheritance Tax and Gift Tax Act; and

6. Article 6 (1) of the Act on the Submission and Management of Taxation Data.

[This Article Wholly Amended by Act No. 10854, Jul. 14, 2011]

Article 4-3 (Record and Management of Details concerning Provision of Transaction Information, etc.)

(1) A financial company, etc. shall record and manage, pursuant to the standard form as stipulated by the Financial Services Commission, information containing each of the following subparagraphs, in cases where it has provided transaction information, etc. to other persons than the holder of a title deed with his/her written consent, has received a request for provision of transaction information, etc. from other persons than the holder of a title deed pursuant to Article 4 (1) 1, 2 (excluding taxable data, etc. that shall be submitted under the tax-related Acts), 3, 4, 6, 7 or 8 or has provided transaction information, etc. to other persons than the holder of a title deed: <Amended by Act No. 12098, Aug. 13, 2013>

1. Personal information on a requester (person in charge and responsible person), details and date of such request;

2. Personal information on a provider (person in charge and responsible person) and the date of provision;

3. Details of transaction information, etc. provided;

4. Legal ground for provision; and

5. Date on which the financial company, etc. has notified the holder of the title deed.

(2) Records under paragraph (1) shall be preserved for 5 years from the date of provision of transaction information, etc. (where such provision has been refused, the date of receiving a request for such provision).

(3) Where provision of transaction information, etc. is requested pursuant to any of the following Acts, paragraphs (1) and (2) shall be applicable:

1. Article 27 (2) of the Board of Audit and Inspection Act;

2. Article 52 (2) of the Political Funds Act;

3. Article 8 (5) of the Public Service Ethics Act;

4. Article 50 (5) of the Monopoly Regulation and Fair Trade Act;

5. Article 83 (1) of the Inheritance Tax and Gift Tax Act;

6. Article 10 (3) of the Act on Reporting and Using Specified Financial Transaction Information; and

7. Article 6 (1) of the Act on the Submission and Management of Taxation Data.

[This Article Wholly Amended by Act No. 10854, Jul. 14, 2011]

Article 4-4 (Duties of Financial Services Commission)

The Financial Services Commission shall collect the statistical data on demand for and provision of transaction information, etc. under this Act or other Acts, and at the request of the National Assembly, submit a report thereon to the National Assembly. <Amended by Act No. 12098, Aug. 13, 2013>

[This Article Wholly Amended by Act No. 10854, Jul. 14, 2011]

Article 5 (Differential Taxation on Income Accruing from Non-Real Name Assets)

With respect to the income from interest and dividends accruing from financial assets transacted under non-real names, the withholding tax rate for income tax shall be 90/100 [20/100 (15/100 on and after January 1, 2001) for the income from interest arising from specific bonds], and such income shall not be included in the calculation of tax base for global income referred to in Article 14 (2) of the Income Tax Act.

[This Article Wholly Amended by Act No. 10854, Jul. 14, 2011]

Article 5-2 (Administrative Measures)

(1) Where the Financial Services Commission discovers that a financial company, etc. violates this Act, or orders or gives instructions under this Act, it may take measures falling under any of the followings or require the head of a related administrative agency having the authority to impose administrative sanctions on the business of the relevant financial company, etc. to take such measures:

1. Orders to correct or stop an offense;

2. Orders to officially announce or post a notice of the fact that the financial company, etc. has been subject to measures due to an offense;

3. Warning to an organization; and

4. Caution to an organization.

(2) Where a financial company, etc. falls under any of the followings, the Financial Services Commission may require such financial company, etc. to suspend all or any part of its business or require the head of a related administrative agency having the authority to impose administrative sanctions on the business of the relevant financial company, etc. to take such measures:

1. Where it fails to comply with orders under paragraph (1) 1 and 2;

2. Where it receives a warning to an organization under paragraph (1) 3 at least three time; and

3. Where it is likely to undermine considerably healthy financial transactional order or interest of customers because it violates this Act or orders or instructions under this Act.

(3) Where the Financial Services Commission discovers that an executive or employee of a financial company, etc. has violated this Act or orders or instructions under this Act, it may require the head of the relevant financial company, etc. to take measures in accordance with the following classification:

1. Executive: Measures falling under any of the followings:

(a) Release from office;

(b) Suspension from office within six months;

(c) Reprimand and warning;

(d) Cautionary warning;

(e) caution.

2. Employee: Measures falling under any of the followings:

(a) Dismissal from office;

(b) Suspension from office within six months;

(c) Reduction of salary;

(d) Reprimand;

(e) Caution.

(4) The head of a related administrative agency who receives a request under paragraph (1) or (2) shall comply with such request unless there is justifiable ground.

[This Article Newly Inserted by Act No. 12711, May 28, 2014]

Article 6 (Penal Provisions)

(1) A person that violates the provisions of Article 3 (3) or (4), Article 4 (1) or (3) through (5) shall be punished by imprisonment for not more than five years or by a fine not exceeding 50 million won. <Amended by Act No. 12711, May 28, 2014>

(2) Penalty of imprisonment and fines pursuant to paragraph (1) may be concurrently imposed.

[This Article Wholly Amended by Act No. 10854, Jul. 14, 2011]

Article 7 (Fines for Negligence)

(1) A fine for negligence not exceeding 30 million won shall be imposed on an executive or employee of a financial company, etc. who violates Article 3, 4-2 (1) and (5) (limited to cases where Article 4-2 (1) applies) or 4-3. <Amended by Act No. 12711, May 28, 2014>

(2) Fines for negligence pursuant to paragraph (1) shall be imposed and collected by the Financial Services Commission, as prescribed by the Presidential Decree.

[This Article Wholly Amended by Act No. 10854, Jul. 14, 2011]

Article 8 (Joint Penal Provisions)

If the representative of a legal entity, or an agent, an employee, or any other employed person of a legal entity or an individual commits an act of violation under Article 6 or 7 in connection with the business of the legal entity or the individual, not only shall such an actor be punished accordingly, but also the legal entity or the individual shall be punished by a fine or a fine for negligence under the same Article: Provided, That this shall not apply in cases where the legal entity or the individual has not neglected to supervise that business with due care in order to prevent the act of violation.

[This Article Wholly Amended by Act No. 10854, Jul. 14, 2011]

Article 9 (Relationship to Other Acts)

(1) Where this Act conflicts with other Acts, this Act shall apply.

(2) Notwithstanding the provisions of paragraph (1), at the time the Presidential Financial and Economic Emergency Order on Real Name Financial Transactions and Confidentiality enters into force, Acts applied in preference to the said Presidential Financial and Economic Emergency Order shall apply in preference to this Act.

[This Article Wholly Amended by Act No. 10854, Jul. 14, 2011]

ADDENDA

Article 1 (Enforcement Date)

This Act shall enter into force six months after the date of its promulgation.

Article 2 (Transitional Measures concerning Penal Provisions or Fines for Negligence)

When penal provisions or the provisions on fines for negligence apply to any act performed before this Act enters into force, the former provisions shall apply thereto.

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