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KOREA COMMUNICATIONS COMMISSION

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KCC Approved License Renewals for Terrestrial Broadcasters

- Of 38 applicants, eight including KBS, MBC, SBS, KNN and MBC Gyeongnam were granted a four-year license, while 29 such as Gangneung MBC, KBC, FEBC had to accept a three-year one.
- A decision was postponed on OBS Gyeongin TV due to the insufficient plan and commitment regarding normalization of its business in a deteriorating financial situation.

The Korea Communications Commission (KCC, Chairman Lee, Kyeong-Jae) held the 43rd KCC meeting on December 9, 2013 and renewed the licenses of 261 broadcasting stations owned by 37 operators. The existing licenses are due to expire at the end of December 2013.

Under the framework plan on the renewal of licenses, a deliberative committee was formed comprising 13 experts from the related sectors of society including broadcasting, law, accounting, technology and viewers with KCC Vice Chairman Kim, Choong Seek as the chair. The committee had

deliberations on all the applications and granted four-year licenses to eight operators including KBS, MBC and SBS who scored at least 700 evaluation points, and three-year ones to 29 operators such as Gangneung MBC who obtained 650 points or more but less than 700 points. In the meantime, OBS Gyeongin TV who scored less than 650 points failed to earn any decision.

A hearing was held today at the deliberative committee’s recommendation that the KCC check whether OBS Gyeongin TV has any plan to secure funding to improve its financial situation before deciding on whether to renew its license or not. OBS is in a difficult financial situation where loss has accumulated continuously since its launch in December 2007 and its equity capital has drained considerably (capital impairment ratio rose from 53% in 2009 to 95% in 2013). The KCC meeting decided to postpone a decision on OBS Gyeongin saying it would give a final approval after reviewing the matters presented at the hearing and the documents confirming the largest shareholder’s commitment to additional investment and other supports if submitted, and deliberating on the concreteness and viability of the contents of the submitted documents.

For the increased effectiveness of deliberations, on-site investigations were conducted against the entire qualified broadcasters and their views were collected beforehand. Based on the framework plan on the renewal of licenses stressing public nature and public responsibility of broadcasting and enhancement of viewer rights, KBS was evaluated with the focus on its public responsibility specified in the Broadcasting Act and its Enforcement Decree, while privately-operated broadcasters were examined on their management transparency, regional broadcasters on the management rationalization and materialization of regional nature, and religious broadcasters on their compliance with the laws and regulations governing non-profit entities. Aside from these, operators were imposed additional differentiated conditions and recommendations for a renewed license depending on their evaluation result of either outstanding or unsatisfactory based on their assessed progress in implementing the conditions and recommendations for the previous licenses, and the matters pointed out by the deliberative committee.

Taking into account the opinions presented by the deliberative committee, the KCC imposed common conditions on the applications, i.e. maintaining the investment in production costs-to-revenue ratio (regional broadcasters and regional stations of KBS), announcing programming rules and strengthening the implementation thereof (general-programming and news-only program providers), and ensuring transparency in management such as by maintaining the business professional system and appointing outside directors (privately-run broadcasters). The Commission imposed common recommendations as well such as strengthening self-deliberations, increasing public-nature programming for example for the disabled, coming up with the measures to protect viewer rights, and establishing plans to protect personal data and resolve poor reception. KBS, MBC and SBS were especially recommended to work with small- and medium-sized broadcasters for the development of the broadcasting industry and co-existence of all broadcast operators.

Other conditions were also imposed individually: KBS was advised to rationalize

its management as its financing had turned negative. The company had not taken sufficient voluntary efforts, demonstrated by a deficit budget on the assumption of increased license fees and an increase in personnel expenses. MBC was ordered to ensure an independent operation of its regional stations, since their independent management had been undermined owing to the policy allowing concurrent directorships at the headquarters and regional stations. In the meantime, SBS was imposed a condition to keep returning part of its profits to society, specifically by contributing 15 percent of its pre-tax profits after deducting regular contributions, and by increasing the content profit sharing ratio. Switching to a holding company, SBS has transferred its content-related profits to the affiliated companies.

Regional MBC stations Andong, Jeju, Cheongju and Chungju were advised to enhance their management efficiency, while privately-run regional stations of UBC, JTV, CJB and GI were ordered to set up operational rules for an internal reserve to compensate for potential loss that may be incurred by investing in risk assets. KBC, JTV and CJB were imposed a condition to find a way to change the term of the representative directorship of a business professional for the better, while BBS and WBS were advised to work on the way to stabilize its financing currently relying on contributions.

The recommendations individually imposed on the broadcasters included those for the regional MBCs and privately-operated stations to refrain from paying excessive dividends. Internal transactions with the largest shareholder were banned as for the regional stations, while religious stations were imposed the condition to comply with the laws and regulations related to the operation of non-profit legal entities.

The committee formed to deliberate license renewals voiced a concern that the public nature of the broadcasting business might deteriorate over the long term if terrestrial stations shift gears to the non-broadcasting business as a means to diversify revenue streams and overcome a deteriorating financial situation. Amid the recent three-year trends observed in terrestrial broadcasters of continuously diminishing market share, operating profit ratio, advertising sales and audience share, the multi-platform and multi-channel broadcast environment and competition between platforms have led to declining advertising sales and rising sales of other business areas, changing the revenue structure of terrestrial broadcasters, and these trends have been conspicuous in regional stations. The committee consequently recommended that the KCC strengthen the monitoring of the overall implementation of the business plans, such as on financing submitted with the renewal applications, and the Commission be more aggressive in ensuring broadcasters' public responsibility for program productions is not undermined even under the difficult business conditions. The deliberative committee also advised that the legally allowed maximum term of a license 5 years be not granted, since risk factors undermining a stable operation of broadcasting business are on the rise.

The committee additionally proposed that the license renewal system be changed for an increased effectiveness. Specifically, it said a change was necessary in the license renewal system for public service broadcasters KBS and EBS, and the license terms need to be differentiated from 1 to 5 years depending on the

deliberation result. The proposals also included granting a temporary license when giving out conditional approvals for license renewal applications and making it a rule to assign broadcast facilities when a license renewal is rejected.

The KCC plans to strengthen its monitoring and supervising efforts through periodically checking the implementation progress of the conditions and recommendations attached to the renewed licenses. In addition, it is going to reflect policy recommendations of the deliberative committee in its major tasks for 2014, and to listen to a wide range of people and commission outside research projects to come up with improvement measures.

Attachment: Deliberation Result on Terrestrial Broadcasters' License Renewal Applications

Attachment

Deliberation Result on Terrestrial Broadcasters' License Renewal Applications

☐ Licenses renewed: 37 operators' 261 stations

Points Gained	Name of Station	Valid Term
700 or more 8 operators' 136 stations	o KBS, MBC, SBS o Daejeon MBC, Busan MBC, MBC Gyeongnam o TJB (Daejeon), KNN	4 yrs
650 ~ less than 700 29 operators' 125 stations	o Gangneung MBC, Gwangju MBC, Daegu MBC, Mokpo MBC, Samcheok MBC, Andong MBC, Yeosu MBC, Ulsan MBC, Wonju MBC, Jeonju MBC, Jeju MBC, Cheongju MBC, Chuncheon MBC, Chungju MBC, Pohang MBC o KBC (Gwangju), TBC (Daegu), UBC (Ulsan), JTV (Jeonju), KCTV (Jeju), CJB (Cheongju), G1 o FEBC (Keukdong), CBS, BBS, WBS, PBC o Gyeonggi Broadcast, YTN Radio	3 yrs

☐ Decision postponed: OBS Gyeongin TV

- o The meeting postpones a decision on OBS Gyeongin TV scoring less than 650 points, since the operator does not have a sufficiently specific plan to normalize its business. Thus, a decision on its license renewal will be made only after confirming its specific plan for and commitment to enhancing its financial structure.

- o By December 20, 2013, OBS Gyeongin TV is required to submit to the Korea Communications Commission a specific plan that can bring its business to a normal condition, including ① a detailed plan to enhance its financial condition including an increase in capital, ② the largest investor's plan and memorandum on investment and other supportive measures, and ③ other shareholders' letters of intent to invest more in the company.