Financial Services Commission
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Press Release
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Global Financial Regulatory Reforms

-Establishment of stable and resilient financial system-

1. Background of the G20 discussions on financial regulatory reforms

On November 15, 2008 in the midst of the global financial crisis, the Leaders of the G20 met for the first time in Washington to enhance international cooperation to restore global economic growth and achieve needed reform in the world's financial systems. In Washington, the Leaders agreed on five principles for reform[1] and the Action Plan to avoid future crises. The forty seven actions set forth in the Action Plan were mostly targeted to strengthen financial markets and regulatory regimes.

Subsequently, at the London Summit on April 2, 2009, the Leaders monitored progress of implementation of the Action Plan agreed in Washington and declared eight major reform agenda[2]. In particular, the Leaders gave a mandate to the Financial Stability Board (FSB) to coordinate global efforts on financial regulatory reforms.

At the Pittsburgh Summit on September 25, 2009, the Leaders designated the G20 as the premier forum for international economic cooperation, fully endorsed the implementation standards of the compensation practices proposed by the FSB, and discussed main reform agenda[3] including addressing systemically important financial institutions (SIFIs). The Leaders also agreed on a concrete implementation timeline.

At the Toronto Summit in June this year, the Leaders pledged to act together to fulfill the

[1] 1)Strengthening transparency and accountability, 2)Enhancing sound regulations, 3)Promoting integrity in financial markets, 4)Reinforcing international cooperation, and 5)Reforming international financial institutions

[2] 1)Financial Stability Board, 2)International cooperation, 3)Prudential regulations, 4)The scope of regulations, 5)Compensation, 6)Non-cooperative jurisdictions, 7)Accounting standards, and 8)Credit rating agencies

[3] 1)Building high quality capital and mitigating pro-cyclicality (end of 2010), 2)Reforming compensation practices, 3)Improving OTC derivatives markets (end of 2012), 4)Addressing cross-border resolutions and SIFIs (end of 2010), 5)Achieving a single set of high quality global accounting standards (June 2011), 6)Fighting non-cooperative jurisdictions, and 7)Making a fair and substantial contribution toward paying for any burdens associated with government intervention to repair the banking system

commitment within the timelines agreed to at the Washington, London, and Pittsburgh Summits. In particular, the Leaders agreed to accelerate the original timelines and complete discussions on a new bank capital and liquidity framework and policy recommendations to effectively address problems associated with SIFIs by the Seoul Summit.

In accordance with the Leaders' agreement, the FSB, collaborating with international standard setting bodies such as the Basel Committee on Banking Supervision (BCBS), has developed a detailed financial regulatory reform package with concrete implementation timelines, which is expected to be discussed by the Leaders at the Seoul Summit.

- The new bank capital and liquidity framework
- The FSB's recommendations to increase supervision intensity and effectiveness
- The policy framework, work processes and timelines proposed by the FSB to mitigate the risks posed by SIFIs and address the 'too-big-to-fail' problem
- Implementation of all aspects of the G20 financial regulation agenda*, in an internationally consistent and non-discriminatory manner

  * OTC derivatives, compensation practices, accounting standards, and reducing reliance on credit rating agencies

- Further work for agenda* for post-G20 Seoul Summit

  * macro-prudential policy framework, reflection of the perspective of emerging market economies in financial regulatory reforms, commodity derivative markets, shadow banking, and market integrity

- Decisive work to tackle Non-Cooperative Jurisdictions

* The above are excerpts from the Communique of the Meeting of Finance Ministers and Central Bank Governors in Gyeongju on October 23, 2010.

The G20 Seoul Summit, which begins today, is expected to wrap-up discussions on the major financial reform agenda, including the new bank capital and liquidity framework and strengthened regulations and supervision of SIFIs. The meeting will also be an important turning point in establishing a new paradigm for global financial regulations that will govern financial markets in the future. It will also contribute to sustainable growth in the real economy by establishing a more stable and resilient global financial system.

Finalizing global financial regulatory reforms of this global scale within a two year timeline is challenging. However, with the benefit of strong leadership of the G20 Leaders and tremendous efforts by the FSB and the international standard setting bodies, such as the BCBS, we are expecting to successfully carry out all the key reform agenda as called for by the G20 Leaders. As the chair of the Seoul Summit, we wish to express our sincere appreciation for their hard work and contribution to the reform efforts.

2. Major financial regulatory reforms to be discussed at the G20 Seoul Summit

The following are details of the major regulatory reform agenda that the Leaders are expected to discuss during the G20 Seoul Summit[4].

2-1. The new bank capital and liquidity framework

The new bank capital and liquidity framework introduces higher levels of capital. The minimum requirement for common equity will be raised from the current 2% level to 4.5%. Banks will be required to hold a capital conservation buffer comprising common equity of 2.5% to absorb losses during the periods of financial and economic stress. In addition, a countercyclical buffer within a range of 0~2.5% comprised of common equity or other fully loss absorbing capital will be implemented to achieve the broader macro prudential goal of protecting the banking sector in periods of excess aggregate credit growth. The greater focus will be put on common equity, the highest quality component of a bank's capital which will be based on stricter adjustment. The liquidity coverage ratio (LCR)[5]and the net stable funding ratio (NSFR)[6] will be newly adopted for banks. BCBS is proposing to test a minimum Tier 1 leverage ratio[7] of 3%. National implementation of the new bank capital and liquidity framework by member countries will begin on January 1, 2013. From the point forward, the capital standards rise each year, reaching their final level by January 1, 2019.

2-2. Strengthening regulations and supervision for SIFIs

To address the so called 'too-big-to-fail' problem, the FSB agreed a policy framework, work processes and timelines associated with SIFIs. In particular, global SIFIs and national SIFIs will be differentiated based on their systemic importance in the global financial systems. Each jurisdiction will be required to have the capacity to effectively resolve SIFIs, ensuring that supervisors have unambiguous mandates, appropriate resources and the full suite of powers necessary for effective early intervention. The framework calls for jurisdictions to put in place the following:

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[4] Sources: 1)BCBS, Basel Committee's response to the financial crisis: report to G20 on October 19, 2010,
2)FSB, Press Release on October 20, 2010

[5] LCR = stock of high liquid asset/net cash outflows over 30-days $\geq$ 100% (LCR will require banks to have sufficient high-quality liquid assets to withstand a stressed funding scenario)

[6] NSFR=available amount of stable funding/required amount of stable funding $\geq$ 100% (LCR is complemented by NSFR which covers the entire balance sheet and provides incentives for banks to use stable sources of funding)

[7] leverage ratio = Tier 1(common equity capital + other equity) capital/nominal asset exposure $\geq$ 3% (a supplementary leverage ratio will help contain the build-up of excessive leverage in the system)

SIFIs(Global + National)	Global-SIFIs
▪ A requirement that SIFIs have higher loss absorbency capacity to reflect the greater risks that SIFIs pose to the global financial system ▪ Capacity to resolve SIFIs without disruption to the financial system and without taxpayer support ▪ Increased intensity of SIFI supervision ▪ Supplementary prudential and other requirements to reduce the probability and impact of SIFI failure ▪ Updated standards for more robust core financial infrastructures, including central counterparties in the OTC derivatives market	▪ Initially, in particular, Global-SIFIs have higher loss absorbency capacity ▪ The effectiveness and consistency of Global-SIFI policy measures for Global SIFIs will be subjected to review by an FSB Peer Review Council

2-3. Consistent implementation of other financial regulatory reforms agreed by the G20

i) Implementing central clearing and trade reporting of OTC derivatives

Each jurisdiction will be required to increase the proportion of the market that is standardized, and ensure that OTC derivatives transactions are reported to trade repositories. It will also be required to strengthen oversight and regulation of central counterparties (CCPs) and introduce robust risk management requirements for the remaining non-centrally cleared markets.

ii) Reducing reliance on credit rating agencies (CRA) ratings.

Each jurisdiction will be required to remove or replace references to CRA ratings in laws and regulations, wherever possible, with suitable alternative standards of creditworthiness assessment. Market participants and institutional investors will be expected to make their own credit assessments, and not rely solely or mechanistically on CRA ratings.

iii) Accounting convergence

The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) are urged to increase their efforts to complete their convergence of accounting standards by the end of 2011. The FSB recognizes progress toward improved, converged accounting standards including in respect of fair value measurement.

iv) Outreach to the FSB non-members

The FSB will establish regional consultative groups to strengthen the involvement of non-member in its work. The groups will bring together financial authorities from member and non-member countries to exchange views on vulnerabilities affecting financial systems and on initiatives to promote financial stability.

3. Korea's role as a chair country for the G20 Summit

3-1. Meetings[8] hosted to finalize financial regulatory reforms in advance of the G20 Seoul Summit

The meetings held ahead of the Seoul Summit highlights Korea's active role as the Chair to the upcoming Summit and its contribution to global financial regulatory reforms. At the BCBS Seoul meeting, the members finalized the "*Basel Committee's response to the financial crisis: report to G20*" regarding new bank capital and liquidity framework which will be reported to the Seoul Summit. At the FSB Seoul Plenary meeting, discussions on major financial reform agenda were concluded, including enhancing regulations and supervision of SIFIs, improving the OTC derivatives market, and reducing reliance on external credit ratings to report to the Seoul Summit. At the Finance Ministers and Central Bank Governors meeting in Gyeongju, the progresses made by the FSB and the BCBS were confirmed. Building on the success of those three meetings, financial regulation reform agenda are expected to be completed at the Seoul Summit after discussion by the G20 Leaders.

3-2. Strategies to maintain the momentum for reform and implementation

As the chair country for the G20, we have put strategic emphasis on the following three major areas of the financial regulatory reforms:

i) Completing without any delay in financial reforms on new bank capital and liquidity framework, and regulations and supervision of SIFIs.
ii) Playing a bridging role between advanced and emerging countries
iii) Developing new agenda to be addressed after the Seoul Summit

[8] BCBS meeting (October 19, 2010), FSB Plenary meeting (October 20, 2010), Finance Ministers and Central Bank Governors meeting (October 22~23, 2010)

First, we are aiming to reach an agreement on the new bank capital and liquidity framework with its implementation timelines at the Seoul Summit.[9] To deliver a firm and clear reform message to the market, we have made efforts to accelerate timelines for the new bank capital and liquidity framework, and regulations and supervision of SIFIs, which were originally scheduled for the end of 2010.

To this end, we have continuously emphasized the need to develop policy recommendations that include concrete implementation timelines on strengthening regulations and supervision of SIFIs, and made various proposals accordingly.[10]

Secondly, we are playing a bridging role between advanced and emerging countries. For most of the financial regulatory reform issues, we have continuously voiced the opinions of emerging countries, and reflected their perspectives in reform deliberations.[11]

Furthermore, we have made efforts to create an international understanding on the position of emerging markets by hosting the "Korea-FSB Financial Reform Conference: an Emerging Market Perspective" on September 3, 2010.

Thirdly, at the FSB Seoul Plenary meeting and the Finance Ministers and Central Bank Governors meeting in Gyeongju, we have proposed new agenda for further work after the Seoul Summit on both macro-prudential policy frameworks and emerging market perspectives in financial regulatory reforms.

In conclusion, in light of the expected finalization of the reform packages at the G20 Seoul Summit, full implementation and ongoing monitoring will be of paramount importance. Also, we very much look forward to active discussions on the proposed new agenda.

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[9] It took 8 years to move from Basel I to Basel II, but, it took 2 years to reach an agreement on Basel III.

[10] Korea actively shared experiences and lessons learned during the 1997 Asian financial crisis on resolving insolvent financial institutions.

[11] For example, we have raised the following: 1)improving soundness of FX market, 2)further involvement of emerging countries in the IASB, 3)information sharing between home and host countries, 4)differentiation of global SIFIs and national SIFIs, differentiated policy approach for large and small sized financial institutions regarding reducing reliance on CRA ratings.