FINACIAL SERVICES COMMISSION

Press Release

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PREEMPTIVE INITIATIVES TO SAFEGUARD THE SOUNDNESS OF FINANCIAL INSTITUTIONS

1. Background

Amid deteriorating financial climate in the global economy, much uncertainty in global financial markets has also escalated. Thus, the Korean economy is likely to suffer a prolonged recession, potentially triggering an economic vicious circle starting with corporate and house-hold loan defaults which may hurt the financial sector's soundness and weaken their lending and overall financial intermediary functions, consequently exacerbating the overall economic basis.

Meanwhile, major economies are in the process of preparing or already implementing preemptive measures to support their financial industries by cleaning up non-performing loans and recapitalizing so as to strengthen its intermediary role of supporting the real economic sectors.

Notwithstanding Korea's economy's relatively strong position, in order to be better prepared for potential risks in case of further deterioration of global market conditions, the government has decided to take preemptive initiatives to strengthen financial institutions' intermediary functions and to eliminate any potential sources for systemic risks.

To do so, early resolution of NPLs in the financial industry has to be preceded to help ascertain its overall soundness. For this, the government already announced its plan to set up a Restructuring Fund under KAMCO in February. On March 13, the government unveils its additional plan to enhance existing regulations to facilitate the government's rendering greater support to financial institutions in need of further recapitalization. Improved regulations will also allow for launching a government-guaranteed KAMCO bonds in the total amount of KRW 40 trillion. The bills proposing these initiatives will be submitted to the National Assembly in April.

Under these new initiatives, financial institutions' soundness will greatly improve and their ability to shore up real economic sectors will also be strengthened.

For the same purpose, the Bank Recapitalization Fund has already been launched totaling KRW 20 trillion. Under the current regulatory regime, however, the government can recapitalize banks with materialized and potential defaults only. Thus, the government needs expanded legal basis on which it can offer preemptive supports to even sound financial institutions whose NPL ratios are over the 8% threshold.

2. Detailed Plans

A. Launch of KAMCO Bond

- To launch the KAMCO bonds, the government is to draft a bill proposing a new law necessary to pursue NPL sell-offs and to capacitate KAMCO to lead the process.

- The main provisions of the bill will be:

  i. Calling for the endorsement on a government guarantee of the bond to be issued by KAMCO whose maximum amount will be KRW 40 trillion
  ii. Its main usage will be to purchase NPLs and troubled assets of financial institutions and companies under restructuring, respectively.
  iii. It will be operated for a limited period of time, maturing in 2014.
  iv. Any retained gains from the KAMCO bond upon its maturity will belong to the government.

- Once the bill is passed in April by the National Assembly with its endorsement on the government guarantee granted on the KAMCO bond, actual details as to the initial date and size will be decided by taking into account the overall development in the market such as the current NPL size in the financial industry and the bond IPO market conditions.

B. Financial Market Stabilization Fund

- The government will also propose to set up a new law to enhance the overall financial industry and to allow for the launch Financial Market Stabilization Fund. The main provisions are:

  i. The fund will be appropriated by issuing government-guaranteed bonds.
  ii. Eligible beneficiaries are all deposit-guaranteed (banking) and non-guaranteed (non-banking) financial institutions including credit financing agencies and financial holding companies.
  iii. The main usage of the fund will include equity investments, loans, and loan guarantees.
  iv. Actual support details will be determined based on the need expressed by the financial industry on a voluntary basis.
  v. A follow-up monitoring system will be set up to oversee and report to the lawmakers the progress with the fund as to the implementation of MOU which stipulates banks' commitment to providing liquidity support to real economic sectors including SMEs.

- Meanwhile, further details for the proposal for legislation in terms of the scale and time-frame will be determined based on the developments with the Bank Recapitalization Fund and in the overall financial industry.

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