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## Press Release

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### Korea's Financial Regulator to Tighten Rules on Commercial Paper

#### Background

Commercial paper (CP) is an unsecured promissory note issued by companies, based only on corporate credits with no collateral backed. It is widely sold by firms for short-term funding needs as the paper requires simpler selling process than corporate bonds.

CP issuance shrank temporarily after the Asian financial crisis and the credit card turmoil, but it resumed its growth trend since 2005.

However, loose disclosure regulations and lack of transparency in the CP market boosted concerns over risk management and investor protection, as well as improper CP sales.

The financial regulator recognized the need to find vulnerabilities in the CP market and develop measures to improve transparency and investor protection.

#### CP Issuance (End of period)

(KRW in trillions)

	'04	'05	'07	'09	'10	'11	Jul.'12
CP total	19.4	21.5	55.6	62.8	73.6	89.0	113.9
- Ordinary CP	16.0	13.3	28.8	31.6	33.4	41.8	51.9
(Industrial companies)	9.2	6.8	13.0	20.1	19.8	23.9	34.1
- ABCP	3.4	8.1	26.8	31.2	40.2	47.2	62.0

#### Tighter Rules on CP

The financial regulator will tighten rules on disclosure requirement for CP in a bid to improve transparency in the CP market. It will also strengthen regulation and supervision of CP issuance and support fully-disclosed electronic trading in CPs.

Currently, an asset-backed commercial paper (ABCP) issuer discloses trade data and credit rating on the homepage of Korea Financial Investment Association on the day of issuance.



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From October, an ABCP issuer will be required to disclose more information on the paper, including financial soundness of issuers, collateral assets and specification on product structuring as well as credit ratings.

The regulator will push for amendments to Financial Investment Services and Capital Markets Act, which will make it mandatory to disclose the credit rating summary on the FSS's DART.

Currently, brokerages have no reporting obligations for ABCP transactions and the regulator is limited in its ability to monitor the CP market and respond immediately. From next year, brokerages will be required to report details on ABCP transactions.

In addition, one-stop inquiry system for CP issuance will be up and running from October to provide investors information including CP's credit ratings, collateral assets and product structuring.

CPs are usually offered privately, and not subject to registration. However, CPs with maturities of one year or more and sold to multiple investors through trusts will be required to register with the regulator from next year.

ABCP issuance by brokerages to seek returns is on the rise, regardless of corporate financing, and this raised worries over unfair trading and improper sales. The regulator will strengthen the investigation of unfair trading practices of brokerages from October.

In order to incentivize the issuance of electronic commercial paper, the regulator will differentiate the MMF investment limit by a single individual. The current regulation applies the same limit that MMFs are allowed to invest in CPs and electronic CPs.

However, the investment limit in CP will be reduced, while the investment limit in electronic CPs will be phased up.

CPs with maturities less than three to six months will be exempt from registration requirements. Tax incentives including the exemption of income tax will be discussed with the relevant government ministries.

## **Timeline**

Measures that can be implemented immediately such as best practices and IT system will be pushed ahead with in October.

For actions requiring amendments to the relevant regulations, the amendments will be completed by this year and implemented from next year with the launch of an electronic commercial paper trading system.



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However, the regulator will crack down on a rise in issuance prior to new tighter rules in a bid to avoid regulations.

After taking into consideration of the effect of these measures and trends since the launch of an electronic CP trading system in January 2013, the regulator will find ways to encourage electronic CPs.

Task	Action needed	Timeline
Tighter rules on ABCP disclosure requirement	FSS’s best practices	October
Strengthened supervision of ABCP sales by brokerages	FSS administrative guidance	
One-stop inquiry system for CP	Korea Securities Depository’s IT system improvement	
Registration requirement for CP	Amendment to Regulation on Issuance and Disclosure of Securities	~‘12
Exemption for electronic CPs from registration requirement		
Differentiation of MMF investment limit	Amendment to Regulation on Financial Investment Business	
Reporting requirement on ABCP sales		



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