



## Press Release

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### PLAN TO IMPROVE PRUDENTIAL REGULATIONS ON THE ASSET MANAGEMENT INDUSTRY

The FSC set out its plan to improve prudential regulations on the asset management industry. The plan includes the abolishment of the NCR rules and management evaluation and the reform of prompt corrective action scheme.

#### DETAILED PLAN

#### 1. Replace the NCR with ‘minimum capital requirement’

The net capital ratio(NCR) has been used as standards for prompt corrective action to asset management firms as well as securities firms since the rules were first introduced in April 1997. There have been, however, claims by market participants that the NCR rules are less effective to asset management companies as the NCR regime is better suited to securities firms’ business model and environment.

The FSC plans to replace the NCR rules with the ‘minimum capital requirement’. Asset management companies will be required to hold equity capital that exceeds the ‘minimum capital requirement.’

The minimum capital requirement is the sum of ①**regulatory capital requirement**, ②**capital requirement for client asset management**, and ③**capital requirement for proprietary investments**.

- **(Regulatory capital requirement)** An asset management company is required to meet the minimum capital requirement need to maintain its business license.
- **(Capital requirement for client asset management)** An asset management company is required to accumulated reserve money in proportion to clients’ deposit to be used for compensations in case of clients’ damages.<sup>1</sup>
- **(Capital requirement for proprietary investments)** An asset management company is required to accumulate a certain proportion (e.g. 5~10%) of its proprietary investments in capital buffer against investment risks.

#### 2. Abolish management evaluation

The current management evaluation system will be abolished for the asset management industry. Instead, operational risk evaluation will be introduced to evaluate asset management companies’ internal control and risk management. Evaluation results will be used only as

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<sup>1</sup> 0.02%~0.03% of trust deposit for fund and investment service of a respective asset management company

reference for supervision, not for prompt corrective actions.

### **3. Revise Prompt Corrective Action scheme**

The NCR will be replaced with minimum capital requirement when determining whether an asset management company is subject to prompt corrective action. Prompt corrective action scheme will be phased out considering the current global trend. However, considering that revising related act<sup>2</sup> takes time, conditions for issuing prompt corrective action will be simplified first and will be eventually abolished.

#### **FUTURE SCHEDULE**

Public hearing session will be held in October to discuss the details. Preliminary announcement on the revision to the related acts will be made in November. The plan will be put into force in April, 2015.

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For any inquiry, please contact Foreign Press & Relations Team at [fsc\\_media@korea.kr](mailto:fsc_media@korea.kr)

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<sup>2</sup> Act on the Structural Improvement of the Financial Industry