Three-Year Plan for Economic Innovation Brighter Future

Financial Reform
Now, Finance leads Korea

Financial Services Commission

Press Release

October 29, 2015

Creative Finance
Financial Inclusion
Solid Financial System

FSC IMPROVES PRUDENTIAL STANDARDS ACROSS FINANCIAL SECTORS

The FSC plans to implement prudential regulations in accordance with global standards, while streamlining prudential standards for each sector to prevent regulatory arbitrage across financial services sectors.

PRUDENTIAL REGULATIONS IN ACCORDANCE WITH GLOBAL STANDARDS

- (BANKS)
Regulatory regimes for Domestic Systemically Important Banks (D-SIBs), capital buffers, and Basel Pillar 2 will be implemented from 2016 and gradually strengthened over time. Detailed plans will be set out to adopt Recovery and Resolution Plans (RRP) from the end of 2017. Leverage ratios and Net Stable Funding Ratios (NSFR) are scheduled to be implemented from 2018.

	current status	implementation schedule
D-SIBs	Notice of regulatory amendments	Scheduled to be implemented in 2016
Capital conservation buffer	Regulatory amendments were completed	
Countercyclical capital buffer	Regulatory amendments in process	
Basel Pillar 2	Regulatory amendments in process	
RRP	Detailed plans for domestic implementation in process	Scheduled to be adopted by the end of 2017
Leverage ratios	Public disclosure of leverage ratios started from 2015	Scheduled to be adopted in 2018
NSFR	Domestic implementation under consideration	Scheduled to be implemented in 2018

- (INSURERS)
Consolidated Risk-Based Capital (RBC) and Own Risk & Solvency Assessment (ORSA) are scheduled to be implemented in 2016 and 2017 respectively. The FSC is also considering recapitalization plans for insurers in preparation for IFRS4 phase 2 and measures to strengthen credit risk management for off-balance-sheet exposures.

	current status	implementation schedule
Consolidated RBC	Regulatory amendments in process	Scheduled to be implemented in 2016
ORSA		Scheduled to be implemented in 2017
Recapitalization plans		To be implemented in 2016 (under consideration)
Strengthened credit risk management for off-balance-sheet exposures		Scheduled to be implemented in 2016

- (FINANCIAL GROUPS)
The FSC plans to establish a best practice guideline for consolidated supervision over financial groups[1] in 2016 to assess and manage risks by group unit, as the current system is much focused on sector-wide supervision.

PRUDENTIAL STANDARDS BY SECTOR

> The FSC will ease regulations deemed excessive given the purpose of such measures.

- (BANKING)
Loan-to-deposit (LTD) regulations will be maintained for now[2], while LTD regulations on foreign banks' branches will be partially eased. Foreign branches will be allowed to include their long-term borrowings with a maturity longer than one year from headquarter offices in calculation of deposits. The "legal reserve" requirement will be abolished as its regulatory effectiveness has diminished with the introduction of Basel III.

- (INSURERS)
When deemed necessary preemptive measures for financial soundness, insurance companies will be allowed to issue subordinate bonds. Issuance of hybrid bonds will be permitted whenever necessary to secure solvency margin.

- (NON-BANKING)
LTD ratios for mutual finance businesses will be gradually increased from the current 80% up to 100%, the equivalent level applied to banks.

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[1] Currently, only financial holding companies are subject to consolidated supervision under the Act on Financial Holding Companies. The guideline is for consolidated supervision over other financial groups besides financial holding companies such as affiliated companies of financial services groups, financial affiliates of conglomerates, etc.

[2] Whether to maintain LTD regulation will be reviewed when the FSC sets out details to implement NSFR in 2018.

Prudential standards for each sector will be streamlined to prevent regulatory arbitrage across financial services sectors.

- (Criteria for Asset quality classification)

Forward Looking Criteria(FLC) according to delinquency period on loans given out by large savings banks and credit businesses will be gradually strengthened to the level of other financial services sectors including banks and insurers..

FLC	Savings bank	Credit business	Bank, mutual finance, insurance, financial investment
Normal	> 2 months	> 3 months	> 1 month
Precautionary	> 4 months	> 6 months	> 3 months
Substandard or below(SBL)	≤ 4 months	≤ 6 months	≤ 3 months

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