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Financial Services Commission

Press Release

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FOREIGN CURRENCY LIQUIDITY COVERAGE RATIO (LCR) WILL APPLY TO BANKS STARTING 2017

The FSC will introduce foreign currency liquidity coverage ratio (LCR) rule starting 2017, which requires commercial banks to hold 60% of their foreign exchange debt in high-quality liquid assets (HQLA) to withstand a 30-day net cash outflow in systemic risks.

The FSC/FSS adopted the foreign currency LCR in 2015 as a guideline to monitor banks' foreign exchange liquidity risks, in accordance with the Basel III recommendation. Since then, commercial banks have been advised to maintain the foreign currency LCR of at least 40% in 2015 and 50% in 2016. From next year, banks will be required to comply with the foreign currency LCR rule.

- The foreign currency LCR rule will apply to all banks *with the exception of:*

  (i) commercial banks with foreign exchange debt of less than 5 % of their total debt and USD500 million or less in foreign exchange debt;
  (ii) Export-Import Bank of Korea (KEXIM); and
  (iii) branches of foreign banks operating in Korea.

- The foreign currency LCR for commercial banks will be set at 60% in 2017, increased gradually to 70% in 2018 and 80% in 2019.

  * Specialized banks – IBK, Nonghyup Bank and Suhyup Bank – will be applied the foreign currency LCR of 40% in 2017, 60% in 2018 and 80% in 2019.
  * KDB will be subject to less stringent LCR requirement, given its special role as a state lender. (40% in 2017, 50% in 2018, 60% in 2019)

- Banks will be required to calculate their foreign currency LCR each business day and maintain a monthly average of the ratios above the minimum requirement.

- The ratio may be lowered by FSC approval for a temporary period of time in a crisis in order to prevent banks from reducing their foreign exchange liquidity provision.

- Overlapping regulations – e.g. seven-day and one-month maturity mismatch ratio requirements, three-month foreign exchange liquidity requirement – will be abolished or replaced by the foreign currency LCR.

For the next six months, the FSC will gather opinions from the banking sector about the proposed rule and amend relevant rules including *Regulation on Supervision of Banking Business.*

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