



「ENFORCEMENT DECREE OF THE SPECIAL ACT ON THE ESTABLISHMENT AND OPERATION OF ONLINE-ONLY BANK」

The FSC enacted the 「Enforcement Decree of the Special Act on the Establishment and Operation of Online-only Bank」 (hereinafter referred to as 'enforcement decree'). The special bill, scheduled to take effect on January 17, 2019, raised a ceiling of shareholdings by non-financial companies in an online-only bank from 10% to 34%. As delegated by the special act, the enforcement decree is to specify non-financial companies qualified for an exception to the ownership cap of 10% in an online-only bank. The enforcement decree is open for public comments from October 17 to November 26.

KEY PROVISIONS

▶ **Non-financial companies qualified for an exception to the ceiling of 10% on shareholdings in an online-only bank**

Conglomerates subject to cross-shareholding restrictions under the 「Monopoly Regulation and Fair Trade Act」 are not allowed to own a stake in an online-only bank in excess of 10%. However, the enforcement decree allows an exception to the 10% cap for a conglomerate whose assets of ICT business accounting for 50% or more of assets of the group's non-financial business.

▶ **Exception to restriction on credit granting to same borrower**

The special bill limits credit granting by an online-only bank to the "same borrowers" to 20% of its equity capital, stricter than the restriction of 25% under the Banking Act. The enforcement decree provides that exceptions are allowed when such exceptions are deemed important for the national economy or would not affect the bank's soundness.

¹⁾ ICT business is defined as a company operating information and communication related activities under the Korean Standard Statistical Classification (except publishing, broadcasting, and postal activities)

²⁾ The 'same borrower', sharing credit risks, refers to conglomerates under the Monopoly Regulation and Fair Trade Act.

▶ **Exception to restriction on transaction with large shareholders**

The special bill basically prohibits online-only banks from extending credit to large shareholders and acquiring stocks issued by large shareholders. The enforcement decree allows exceptions when credit granting or acquisition of stocks, originally irrelevant with large shareholders, later became transaction with large shareholders through M&As, exercise of rights to collateral, or transfer of business.

▶ **Exception to non face-to-face business operation**

In principle, online-only banks should operate non-face-to-face. Face-to-face operation is allowed only for exceptional cases when it is deemed necessary for convenience of customers with disabilities or aged over 65; or when it is deemed impossible to complete financial transaction through electronic method due to legal or technical problems.

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