

VICE CHAIRMAN HOLDS MEETING ON MEASURES TO IMPROVE ASSET-BACKED SECURITIES MARKET

FSC Vice Chairman Sohn Byungdoo held a meeting with industry officials and experts on May 18 to discuss ways to improve the asset-backed securities market.

The following is a summary of Vice Chairman Sohn's remarks.

(IMPORTANT ROLE OF ASSET-BACKED SECURITIES) The asset-backed security (ABS) provides businesses with a great means to raise funds and offers more favorable terms than credit-based financing. Businesses are able to treat securitized assets off-the-book for accounting purposes, which helps to improve their financial structure. The ABS allows businesses to securitize diverse assets including future assets and intellectual property rights to generate funds needed for now. In Korea, the enactment of the Asset-backed Securitization Act in 1998 contributed to clearing troubled assets and helped ride out the foreign exchange crisis. Since then, the ABS has been used as an innovative means to raise funds by enterprises and financial companies.

(IDENTIFYING PROBLEMS) (a) With regard to risk management, the rapid expansion of the unregistered securities market¹ can be a risk factor as it is difficult to identify the issuing entity, records of underlying assets and securitization structure. In particular, the real estate project financing asset-backed commercial paper (ABCP) poses problems for securities firms as they have to take the burden of refinancing risk due to a duration mismatch between fund raising and fund management.²

(b) The role of ABS in corporate financing has also been in decline. Over the years, the ABS market's focus has been shifting toward transactions that follow interest margins. Due to the delayed reforms in the registered securities system, the current ABS market has been unable to fully accommodate diverse securitization demand in the market.

(MEASURES FOR IMPROVEMENT) (a) To enhance risk management, the government will introduce the risk retention rule, requiring asset holders to possess about 5 percent of credit risk to prevent conflict of interests in asset securitization. The government also plans to establish a consolidated information system for both registered and unregistered securities to allow more transparency in data management while working on improvements for the ABS-specific credit evaluation system.

¹ In 2019, total issuance of unregistered securities (KRW161 trillion) largely surpassed that of registered securities (KRW52 trillion).

² Long-term (2~3 years)maturity of underlying assets vs. short-term (3~12 months) maturity for securities issuance

(b) To facilitate corporate financing through the ABS market, the government will remove the current BB rated credit requirement for businesses when issuing ABS, which will encourage more innovative start-ups and SMEs to use the ABS. The government will also work to include intangible property rights and future assets to be used as ABS while allowing multi-seller programs to facilitate securitization of receivables and corporate bonds from multiple bondholders. In order to promote intellectual property (IP) royalty financing, the government will recognize patent and copyright royalty as securitized assets. The government also plans to test run IP backed securitization by establishing a KRW20 billion IP investment fund.

The FSC will work on amendments to the Asset-backed Securitization Act while taking into account comments from today's meeting. The amendments are expected to be announced in the first half of this year.

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