

## FSC TO SEEK GRADUAL NORMALIZATION OF TEMPORARY DEREGULATORY MEASURES IN FINANCIAL SECTORS

The FSC held discussions on the current status and further plans for the temporary easing of financial regulations during its regular meeting held on March 30. The FSC reviewed the status on the 25 deregulatory measures and decided to grant a three-month grace period on the 7 deregulatory measures that are scheduled to expire at the end of March.<sup>1</sup> After a review, considering the recently extended availability of the loan maturity extension and payment deferment program for SMEs and small merchants, the FSC decided to provide a three-month grace period on all 7 deregulatory measures and to take a two-pronged approach to normalization after the grace period expires by carrying out (a) a step-by-step normalization of the total liquidity coverage ratio (LCR) in the banking sector<sup>2</sup> and (b) an immediate rollback on the other 6 measures that are expected to place not much compliance burden on the financial sector.

### **BACKGROUND**

The FSC and the FSS have introduced the measures for temporary easing of financial regulations in response to COVID-19 in April 2020.<sup>3</sup> The FSC has held decisions on these 25 temporary deregulatory measures including regulations on capital requirement, liquidity requirement and those relating to business operation over four regular meetings.<sup>4</sup> Thus far, the temporary deregulatory measures have provided the financial industry with the capacity to actively implement the loan maturity extension and payment deferment for SMEs and small merchants hit by the COVID-19, while making a contribution both directly and indirectly to the expansion of capital flows to support the real economy via corporate lending.

### **NEED FOR GRADUAL ROLLBACK & KEY DETAILS**

The FSC decided that it is time to begin a gradual normalization of the temporary deregulatory measures as the size of total credit<sup>5</sup> has grown and in order to be prepared for a potential default with these measures being in place for about two years. In its decision, the FSC also considered factors such as global interest rate hikes, accumulation of additional capital requirements and regulatory normalization

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<sup>1</sup> Currently, 17 deregulatory measures have either went into force already (13 measures) or have been rolled back (4 measures) and 8 others are set to expire at the end of March (7 measures) and at the end of June (1 measure) 2022.

<sup>2</sup> Quarterly upward adjustment of LCR in gradual manner

<sup>3</sup> Please click [here](#) to see the press release dated April 20, 2020.

<sup>4</sup> Apr. 16, 2020 (1st), Aug. 26, 2020 (2nd), Mar. 8, 2021 (3rd), Sep. 29, 2021 (4th)

<sup>5</sup> Total credit growth rate (y-o-y): 6.3% (Jun. 2019) → 8.0% (Jun. 2020) → 9.8% (Jun. 2021)

moves taken by major economies globally. At the 4<sup>th</sup> such meeting on deregulatory measures held on September 29, 2021, the FSC announced a plan to actively seek an orderly normalization of the temporary deregulatory measures after March 2022.<sup>6</sup> However, the availability of loan maturity extension and payment deferment for SMEs and small merchants has been extended recently for another six-month period until the end of September 2022 and it needs to be considered that there are concerns about potential shock to the market if some of the deregulatory measures are rolled back too abruptly. Therefore, the FSC decided to provide a three-month grace period on all 7 deregulatory measures while taking a two-pronged approach to normalization after the expiration of the grace period via (a) a step-by-step normalization of the measure that may cause a shock to the market and (b) an immediate rollback after the three-month period of the other measures that are expected to impose no significant compliance burden on the financial sector.

**(GRADUAL ROLLBACK)** An immediate rollback of the total LCR in the banking sector may cause a shock to the banking sector<sup>7</sup> and bond market. Thus, the authorities decided to extend the grace period of the deregulatory measure for three months until June 2022 and apply a gradual upward adjustment quarterly thereafter.

< Step-by-Step Normalization Plan for Total LCR in Banking Sector >

	Until Jun. 2022	Jul. to Sep. 2022	Oct. to Dec. 2022	Jan. to Mar. 2023	Apr. to Jun. 2023	From Jul. 2023
LCR requirement	85% (-)	90% (+5%p)	92.5% (+2.5%p)	95% (+2.5%p)	97.5% (+2.5%p)	100% (+2.5%p)

**(IMMEDIATE ROLLBACK)** For the other 6 deregulatory measures<sup>8</sup> including the foreign currency LCR and loan-to-deposit (LTD) ratio in the banking sector and the liquidity ratio in the nonbank sector, the authorities have decided to let them expire immediately after the three-month grace period as doing so will not impose significant burden on the market.

## **SCHEDULE ON TEMPORARY DEREGULATORY MEASURES**

- a) **(Banks)** Temporary lowering of total LCR from 100% to 85%: Scheduled to expire at the end of March 2022 → Step-by-step normalization planned after the end of June 2022
- b) **(Banks)** Temporary lowering of foreign currency LCR from 80% to 70%: Scheduled to expire at the end of March 2022 → 3-month grace period and expiration after the end of June 2022
- c) **(Banks)** Temporary lifting of LTD ratio:<sup>9</sup> Scheduled to expire at the end of March 2022 → 3-month grace period and expiration after the end of June 2022
- d) **(Savings banks & credit finance)** Temporary lifting of liquidity ratio:<sup>10</sup> Scheduled to expire at the end of March 2022 → 3-month grace period and

<sup>6</sup> Please click [here](#) to see the press release dated September 29, 2021.

<sup>7</sup> At the end of 2021, the average LCR in the banking sector was 105.1% and four banks were in compliance with the eased LCR requirement (85%).

<sup>8</sup> Most financial companies are currently in compliance with the pre-pandemic requirement levels.

<sup>9</sup> Temporary lifting of sanctions on violation of LTD ratio (100%) within 5%p.

<sup>10</sup> Temporary lifting of sanctions on violation of liquidity ratio (100%) within 10%p.

expiration after the end of June 2022

- e) **(Savings banks & mutual finance)** Temporary lifting of LTD ratio:<sup>11</sup> Scheduled to expire at the end of March 2022 → 3-month grace period and expiration after the end of June 2022
- f) **(Savings banks)** Temporary lifting of credit extension requirement within the business operating region:<sup>12</sup> Scheduled to expire at the end of March 2022 → 3-month grace period and expiration after the end of June 2022
- g) **(Insurance companies)** Temporary easing of liquidity standards: Scheduled for review in December 2021 → 3-month grace period and expiration after a review in March 2022

### **FURTHER PLAN**

The FSC plans to closely monitor relevant trends to ensure a seamless management of financial soundness by financial companies as the authorities pursue a gradual normalization of temporary deregulatory measures. Meanwhile, the FSC will review and decide later whether to extend the period of the temporary easing of net stable funding ratio for the Korea Development Bank, which is scheduled to expire in June 2022, after considering the status of COVID-19 liquidity provision by the KDB.

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<sup>11</sup> Temporary lifting of sanctions on violation of LTD ratio (100% for savings banks and 80% to 100% for mutual finance) within 10%p.

<sup>12</sup> Temporary lifting of sanctions on violation of the credit extension duty in the business operating region (30% to 50%) within 5%p.