

FSC HOLDS 2ND FINANCIAL RISK TASKFORCE MEETING

FSC Vice Chairman Kim So-young held the 2nd financial risk taskforce meeting on June 23 jointly with the other relevant institutions.¹ The meeting discussed the following three issues—(a) expanded operation of the emergency response review system,² (b) preparing ten major financial risk response tasks and focusing review on these issues and (c) working on preemptive support measures to prevent default risk of financial companies.

In his opening remarks, Vice Chairman Kim stated that volatility has been expanding in global financial markets and there are growing concerns about economic slowdown amid a prolonging war in Ukraine and an acceleration of monetary tightening in the U.S. and other major economies. As such, Vice Chairman Kim emphasized that it is necessary to more closely and comprehensively check market risks with a strong sense of urgency as if a complex crisis situation may surface anytime. In addition, Vice Chairman Kim said that while maintaining a daily financial market monitoring system, the authorities have strengthened the emergency response review system through an expanded operation of the financial risk response taskforce and that the authorities will carry out monitoring focused on ten major response tasks.³

Vice Chairman Kim said that the government will promptly implement the financial support programs to help with people's living conditions⁴ that have been included in this year's second supplementary budget.⁵ Along this line, in order to identify and alleviate the hardship experienced by vulnerable groups, Vice Chairman Kim said that the authorities will set up and operate a taskforce to help relieve financial difficulties of vulnerable groups and prepare specific support measures in advance.

While reviewing the risk factors and the liquidity and soundness conditions across the financial system, Vice Chairman Kim talked about the need for a plan to manage excessive leverage of specialized credit finance companies as their high dependence on the issuance of corporation bonds to raise funds leads to liquidity risk time and again. In this regard, Vice Chairman Kim emphasized the need to revamp the nonbanking sector's liquidity rules in a more systematic way alongside a regulatory overhaul for the financial industry. Moreover, Vice Chairman Kim urged the authorities to closely look into the recently arising problem of bypassing rules on household loans with a business loan from a savings bank.

¹ Financial Supervisory Service (FSS) and Korea Deposit Insurance Corporation (KDIC)

Please click [here](#) to see the press release on the 1st taskforce meeting held on May 18, 2022.

² Reviewing financial market conditions regularly + financial risk taskforce meetings

³ Details shown in the table attached at the bottom of this document.

⁴ Debt adjustment for the self-employed and small merchants (KRW30 trillion), low interest rate refinancing program (KRW8.5 trillion), relief conversion loan (maximum KRW40 trillion)

⁵ Please click [here](#) to see the press release dated May 31, 2022.

Along this line, today’s meeting discussed ways to improve rules⁶ to enable preemptive provision of funding support to financial companies in order to prevent the risk of default amid expanding financial market volatility. To prepare for a condition of liquidity crunch amid a slowdown in the corporate bond market, the authorities reviewed the operating status of the existing corporate financing support programs⁷ and agreed to consider a way to expand the support.

The next meeting will be held around July 21, and in the meantime, the authorities will reassess the effectiveness of the market stabilization measure and prepare supplementary measures while working on detailed plans for improving the system to preemptively provide funding support for financial companies.

10 MAJOR FINANCIAL RISK RESPONSE TASKS

	Major risk	Response status
Financial market-related	※ Regularly monitor financial market risks through emergency response review system	
	(1) Tightening of corporate capital markets	▶ Checked regularly through daily financial market monitoring and financial risk response TF
	(2) Expanding volatility in stock markets	
Specific financial sector-related	※ Targeted monitoring of vulnerable issues by sector through financial risk response TF	
	(3) FX liquidity shortage in nonbank sector	▶ Financial risk response TF in May and June ▶ Continued monitoring trends and status of regulatory compliance
	(4) Refinancing risk in nonbank sector	▶ Financial risk response TF in May ▶ Continued sector-based monitoring
	(5) Risk of falling RBC levels of insurers	▶ Financial risk response TF in May ▶ Prepared a measure providing a buffer for RBC ratios (insurance sector risk review meeting held on June 9)
	(6) Declining capital capacity of financial companies and risk of liquidity shortage	▶ Measures to preemptively provide funding support to prevent default of financial companies and risk transfer currently being developed. * Expected to be discussed in financial risk response TF in July
	(7) Risk of loss accumulation from real estate exposure of financial companies	▶ Financial risk response TF in June
	※ Response measures currently being prepared or implemented through coordinated efforts from relevant ministries and institutions	
Real economy-related	(8) Household debt risk	▶ Included in the new administration’s economic policy agenda announced on June 16 * Provide housing ladder for non-speculative homebuyers
	(9) Small merchant and self-employed debt	▶ Included in the 2nd supplementary budget announced on May 29 * Debt adjustment for small merchants and the self-employed, low interest rate refinancing program, etc. ▶ Program details in development (expected to be implemented in H2)
	(10) Growing number of at-risk SMEs and middle market enterprises	▶ Included in the new administration’s economic policy agenda announced on June 16 * Promoting market-oriented restructuring of insolvent companies ▶ Follow-up measures in place

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For press inquiry, please contact Foreign Media Relations at fsc_media@korea.kr.

⁶ KDIC’s function: (Currently) limited to resolution of insolvent financial companies → (To be changed) Supplemental role of providing preemptive support in order to prevent insolvency or risk transfer of financial companies to be allowed

⁷ P-CBOs (Korea Credit Guarantee Fund), corporate bond and CP refinancing support program (KDB)