Financial Services Commission

Press Release

September 1, 2022

FSC HOLDS 4TH FINANCIAL RISK TASKFORCE MEETING

FSC Vice Chairman Kim So-young held the 4th financial risk taskforce meeting[1] on August 31 jointly with other relevant institutions.[2] The 4th taskforce meeting discussed the following two agenda—(a) measures for improving the loss absorbing capacity of financial sectors in response to financial market uncertainties and (b) detailed implementation plans of various market stabilization measures which had been deployed in past financial crises.

SUMMARY OF VICE CHAIRMAN'S REMARKS

In his opening remarks, Vice Chairman Kim assessed that volatility in financial markets has increased due to concerns about the prospect of the Fed's aggressive monetary tightening, Europe's economic recession, and potential economic slowdown in China, etc. Given the increased uncertainty in financial markets such as rising debt servicing burden of borrowers and a potential collapse in major asset prices, Vice Chairman Kim emphasized that it is necessary to strengthen monitoring of risk factors in the financial sector and prepare response measures preemptively.

In order to proactively respond to the accumulated risks such as an increase in lending to vulnerable borrowers and real estate project finance (PF) loans, Vice Chairman Kim stated that the financial authorities will examine the level of loan loss provisions of banks and nonbanks to make sure that they have sufficient capacity to absorb potential losses. He said that the authorities are planning to (a) raise the loan loss provision coverage ratio for the nonbank sector such as savings banks, mutual finance companies and specialized credit finance businesses and (b) introduce a regulatory ground to allow the finical authorities to require banks to set aside additional "special loan loss reserves." In particular, for the nonbank sector whose assets have been rapidly increased, Vice Chairman Kim said that the authorities will ensure that they hold a sufficient level of capital while bolstering risk management.

In addition, considering the close-knit nature of financial markets, Vice Chairman Kim said that the financial authorities will closely examine the possibility of capital outflows from money market funds (MMFs) due to changes in interest rates. With regard to the growing volatility in the exchange rate, Vice Chairman Kim assessed that financial companies are capable of dealing with it on their own for the time being, but the financial authorities will consider preemptive measures to ensure sufficient availability of FX liquidity in preparation for the potential risk of further

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1 For the agenda of previous taskforce meetings, please see the press release dated May 18 (1st), June 23 (2nd), and July 26, 2022 (3rd).

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

fluctuations.

Lastly, with regard to the market stabilization measures that had been discussed at the last meeting, Vice Chairman Kim said that the authorities will prepare detailed plans for implementation so that the measures can be immediately put into operation when it becomes necessary.

DISCUSSION TOPICS

I. MEASURES TO BOOST LOSS ABSORBING CAPACITY OF FINANCIAL SECTORS

In response to uncertainly in financial markets, the meeting examined vulnerable factors of financial sectors such as heavy debtors with multiple debt accounts, lending to the real estate sector, etc. and discussed measures to improve the loss absorbing capacity of financial sectors.

a) For high-risk debtors with loans from multiple lenders in the nonbank sector such as savings banks, mutual finance and specialized credit finance companies, the financial authorities plan to raise the loan loss provision coverage ratio.[3]

b) Along this line, the regulatory ceiling on credit lending to the construction and real estate sectors, currently in place for savings banks and mutual finance companies,[4] will also be extended to specialized credit finance businesses.[5]

c) For the banking sector, the authorities will establish an assessment system to examine the appropriateness of banks' loan loss provisioning model and introduce a regulatory ground to require banks to set aside "special loan loss reserves" in addition to the general loan loss provisions and reserves.

- **(ASSESSMENT SYSTEM FOR EVALUATING BANKS' EXPECTED LOSSES)** When banks submit their own evaluation of loan loss provisioning model to the FSS at the end of every year, the FSS will then examine the result of self-evaluation and demand improvement if found unsatisfactory.
- **(REGULATORY GROUND FOR SPECIAL LOAN LOSS RESERVES)** The financial authorities will introduce a regulatory ground to require banks to set aside additional loan loss reserves if their loan loss provisions and reserves are deemed insufficient to cover expected future losses.

II. DETAILED IMPLEMENTATION PLANS FOR MARKET STABILIZATION MEASURES

The financial authorities have re-examined financial sectors' contingency plans and prepared detailed implementation plans to ensure that market stabilization

[3] For example, savings banks will be required to set aside (a) 130% of the required loan loss coverage ratio for high-risk borrowers who have borrowed from 5 to 6 financial institutions; and (b) 150% for those who have borrowed from 7 or more financial institutions.

[4] (Savings banks) Real estate PF (within 20% of total credit lending), construction & real estate sectors (within 30% for each and 50% combined)
(Mutual finance) Construction & real estate sectors (within 30% of total loans for each and 50% combined)

[5] (Specialized credit finance business) Currently subject to a regulatory ceiling only on real estate PF loan obligations and debt guarantees which should be kept within 30% of its credit assets.

measures can be put into action when it becomes necessary.

a) To promptly resume the operation of bond market stabilization fund if market conditions deteriorate, the authorities have taken necessary steps such as gathering opinions from relevant stakeholders, etc.

b) With regard to the corporate bond and CP purchase programs, the authorities will integrate their purchase caps and make additional purchases in the amount of KRW6 trillion.[6] Depending on market situations, the authorities will consider an additional extension of the operational period as well as an expansion in the purchase amount.

c) For the introduction of the so-called "financial stability account,"[7] a revision bill to the relevant law has gone through a coordination with related institutions and will be open for public comment starting from today.

III. Plans for Next Meeting

In the next meeting expected to be held at the end of September, the financial authorities plan to discuss potential risk factors of digital financial services and draw up measures for risk management as shown below.

a) Examine risks of expanded availability of digital financial services on financial stability
b) Potential risk factors of financial companies engaging in subcontracting or partnership relationship with nonfinancial companies (platform service providers, etc.)
c) Expanded availability in digital payment mechanisms and the task of managing payment-related risks

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

6 Please click here to see the press release dated July 13, 2022.
7 Please click here to see the press release dated July 26, 2022.