

FSC ANNOUNCES ADDITIONAL MEASURES TO STABILIZE PROJECT FINANCE ABCP AND CP MARKETS

FSC Vice Chairman Kim So-young presided over a meeting on November 11 with officials from the FSS, the Bank of Korea, financial industry groups and policy financial institutions to review current market situation. At the meeting, authorities discussed recent trends in financial markets, progress of the government's market stabilization measures announced earlier on October 23 and additional measures to help stabilize the CP (commercial paper) market.

At the meeting, participants assessed that since the government's market stabilization programs were first announced on October 23, concerns about a severe credit crunch in bond and money markets have eased somewhat. However, relative to the corporate bond market, there are continuing challenges in short-term money market. Financial investment businesses said that thanks to clear regulatory interpretation offered by financial authorities last week to allow securities firms to purchase ABCPs (asset-backed commercial papers) guaranteed by their own companies, there is less burden of having an oversupply of ABCPs guaranteed by securities firms in the market. However, they indicated that refinancing of ABCPs (especially A2 grade) guaranteed by small- and medium-sized securities firms continues to be difficult, which has led to liquidity problems of securities firms and high levels of their CP spreads.

Moreover, authorities reviewed the progress of both the public and private sector efforts to stabilize the bond market's supply and demand situation. The government has reduced the volume of government bond issuance this year. The Ministry of the Interior and Safety and local governments plan to pay back debt on municipal bonds and public corporation bonds scheduled to mature before early 2023 and preemptively prepare for portions of guaranteed debt expected to turn into determinate liabilities (total KRW3.4 trillion) through budgeting. In addition, the government is closely working with public institutions to spread out issue dates of their bonds and the banking sector is also committed to minimizing the volume of bond issuance. To help alleviate the burden of oversupply in bond market, authorities will continue to make efforts to coordinate the public sector and financial institutions' bond issuance in the future.

To help ease difficulties in current money market and promptly stabilize bond market, the government and the financial industry agreed to collectively step up efforts. In particular, authorities decided to prepare and carry out additional measures to support the project finance ABCP and CP markets that are considered to be the weakest link in current money market situation.

ADDITIONAL MEASURES TO SUPPORT ABCP AND CP MARKETS

a) Liquidity support for ABCP and CP markets

The banking sector plans to more actively supply liquidity to help stabilize the ABCP and CP markets as previously announced at the meeting with authorities on November 9 while bolstering communication with authorities about the progress of their liquidity provision. The bond market stabilization fund's steering committee will also speed up the pace of purchasing support through a more flexible application of the CP purchasing requirements.

b) Support for project finance ABCPs

A two-track purchasing support program will be provided for project finance ABCPs.

For project finance ABCPs guaranteed by construction companies, KRW1 trillion-plus in purchasing support will be provided via the KDB (Korea Development Bank) and KODIT (Korea Credit Guarantee Fund)'s CP purchasing program (for A2 grade). An SPC (special purpose company) set up by the KDB will purchase project finance ABCPs guaranteed by construction companies while the KODIT will guarantee 80 percent of the purchase amount.

For project finance ABCPs guaranteed by securities firms, combined efforts made by both financial investment businesses and policy financial institutions will help expand the availability of support to KRW1.8 trillion. A separate SPC will be established for this purpose and its purchasing support will be provided starting from today. The SPC will purchase project finance ABCPs with A2- grade or above first, while it is expected to purchase some with A1 grade probably facing difficulties of refinancing amid year-end liquidity shortage in fund market.

c) Support for CPs issued by securities firms

For KDB's CP purchasing program for CPs issued by securities firms, which has been operating for the past two weeks to set up a process for screening self-restructuring plans in place, authorities will speed up the purchasing process by shortening the screening period from 10 business days currently to 5 business days. If needed, authorities will expand the operation of this CP purchasing program and will preemptively prepare assistance through the bond market stabilization fund.

<Overview of CP and PF-ABCP Support Programs>				
	Non-financial companies		Securities firms	
	A1	A2 or lower	A1	A2 or lower
CPs	Bond market stabilization fund	KDB & IBK's CP purchasing program	KDB's purchasing program for CPs issued by securities firms	
PF-ABCs	Bond market stabilization fund (guaranteed by construction companies)	KDB & KODIT's purchasing program for ABCPs guaranteed by construction companies (New)	Purchasing program set up by financial investment businesses, KDB and securities firms (New)	

Participants also shared a common view on the importance of pension funds' role in helping to stabilize financial markets as they have significant market influence as institutional investors.

As financial markets both at home and abroad have recently shown rather sensitive reaction to unexpected market events, with heightened market volatility, FSC Vice Chairman Kim So-young directed authorities to closely monitor market situations and to react swiftly by keeping close communication with financial sectors and relevant institutions. In particular, Vice Chairman Kim said that it is crucial to preemptively identify individual events that may create more market anxieties other than those situations occurring unavoidably due to an economy-wide shrinkage of credit. Moreover, Vice Chairman Kim emphasized the need for rapid follow-up actions to ensure that the additional CP market support measures introduced today will help improve the effectiveness of the government's market stabilization programs announced on October 23. Also, as there is a consensus among participants on the important role of pension funds in stabilizing markets, Vice Chairman Kim said that authorities will discuss the matter with relevant ministries such as the Ministry of Economy and Finance and the Ministry of Health and Welfare.

#

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