

FSC PROPOSES RULES CHANGE INTRODUCING RESPONSIBILITIES MAP TO BOLSTER INTERNAL CONTROL OF FINANCIAL COMPANIES

- Revision proposal for the enforcement decree of the Act on Corporate Governance of Financial Companies and its supervisory regulation to enter comment period between February 13 and March 25 for implementation from July 3, 2024.
 - Financial businesses and industry associations will set up and operate a support center to help financial companies make a smooth transition.
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The Financial Services Commission issued a preliminary notice regarding a revision proposal for the enforcement decree of the Act on Corporate Governance of Financial Companies and its supervisory regulation on February 13.

In December last year, a partial revision to the Act on Corporate Governance of Financial Companies (“the Act” hereinafter) was passed by the National Assembly, paving the way for financial companies to adopt responsibilities maps and have their executive officers manage internal control duties in their lines of work. As a follow-up to this, the revised enforcement decree and supervisory regulation being announced today specifically deal with the issues delegated by the Act, such as how to prepare for a responsibilities map and when and how to submit it, as well as details about the internal control oversight duty of chief executive officers.

First, the revision proposal deals with specific details concerning how to write and submit responsibilities maps. A responsibilities map should be written with details about the scope of internal control responsibilities of each executive officer demonstrating a well-balanced division of responsibilities. Financial companies will be required to submit “responsibilities statements,” detailing each executive officer’s duties and responsibilities, as well as “responsibilities diagrams,” mapping out responsibilities of their executive officers in relation to one another in a visual manner. The responsibilities maps should be submitted to the financial authority within seven business days from the time of approval from their boards.

The term “responsibilities” refers to the internal control and risk management duties relating to the business operations of a financial company. The business operations of a financial company are categorized into (a) the company-wide oversight functions, such as internal audit, compliance, and risk management, (b) the authorized sales and marketing related functions, such as lending and deposit-taking, sales and brokerage of investment products, and credit card business, and (c) management related functions, such as human resources and job training, prudential management and management of business subsidiaries.

Financial company executives should establish standards for internal control and risk management and check whether their internal control mechanisms are operating effectively and whether their employees are complying with internal control standards

on an ongoing and continuing basis.

Second, the revision proposal establishes specific timelines for each financial sector in preparing and submitting responsibilities maps. Based on the different needs and sizes of financial companies, different timelines for submitting responsibilities maps will be applied. Under the revised Act, all banks and financial holding companies are required to submit responsibilities maps within six months from when this revised Act becomes effective. The revised Act also specifies that financial investment businesses and insurance companies with assets worth KRW5 trillion or more will be required to submit responsibilities maps within one year from the date of this taking effect. For financial investment businesses and insurance companies with assets below KRW5 trillion, specialized credit finance businesses with assets worth KRW5 trillion or more and savings banks with assets worth KRW700 billion or more, they will be required to submit responsibilities maps two years from when this revised Act becomes effective. And for all others, such as specialized credit finance businesses with assets below KRW5 trillion and savings banks with assets below KRW700 billion, they will have three years from the time this revision goes into effect. Meanwhile, the internal control management duty of executive officers and the verification, disclosure and reporting of the qualification of executives will take effect from after submitting responsibilities maps.

Third, the revision proposal deals with specific details concerning the internal control oversight duty of chief executives. CEOs need to examine the possibility of conflict of interests between executive officers concerning their lines of work or between employees and their business subsidiaries. To prevent a recurrence in the violation of their internal control standards, CEOs should also check the possibility of other similar types of violations taking place.

With the implementation of the revised Act from July this year, the FSC expects to see a fundamental shift in attitude from financial company executives as they will be encouraged to treat internal control affairs as their own responsibilities. In addition, from compliance to consumer protection to prudential management, authorities expect that the responsibility of financial companies will be enhanced across the board.

The revision proposal for the enforcement degree of the Act on Corporate Governance of Financial Companies and its supervisory regulation will be put up for public comment from February 13 until March 25. The revised measures will go into effect on July 3, 2024 after having a deliberation by the FSC, a legislative review process and an approval from the cabinet meeting.

The financial authorities along with industry associations and financial companies will set up a support center to help make a smooth transition. Authorities will regularly hold meetings with related stakeholders to collect opinions and provide information needed to ensure a seamless adoption of the new internal control system in the financial industry. For issues that cannot be addressed in subordinate statutes, authorities will consider preparing best practice guidelines for dissemination.

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