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Press Release

March 18, 2008

Domestic Financial Institutions' Bear Stearns-Related Credit Exposures and Supervisory Authorities' Assessment

The Financial Services Commission and the Financial Supervisory Service held a joint meeting on March 18 to take stock of domestic financial institutions' Bear Stearns-related credit exposures and appraise the ongoing financial market developments at home and abroad. The meeting was chaired by FSC Vice Chairman Rhee Chang-Yong and concluded with an action plan to step up market monitoring.

Bear Stearns-related exposure

Domestic financial institutions' Bear Stearns-related exposure was estimated at KRW443.1 billion (approximately US$434 million). Bank exposures totaled about KRW40.0 billion, which included KRW30 billion in Bear Stearns's debt securities, KRW7 to 10 billion in synthetic CDOs, and KRW400 million in derivatives (futures and options). Securities companies' investment in ELS by Bear Stearns was estimated at KRW211.1 billion. For insurance companies, the total exposure was put at KRW192.0 billion—KRW122.0 billion in debt securities and KRW70.0 billion in securitized assets including CDOs and CLNs.

Assessment and response

With J.P. Morgan Chase's assumption of Bear Stearns' liabilities, losses to be incurred by domestic financial institutions from exposure to Bear Stearns are expected to be immaterial. The affirmation of the credit ratings of J.P. Morgan Chase by Moody's on March 17 following the Bear Stearns takeover is also expected to boost the prospect for minimal losses for domestic financial institutions. In response to the ongoing turmoil in the global credit markets and its likely adverse impact on domestic financial institutions, the FSC and the FSS agreed to form a joint market monitoring task force to keep a close watch on financial market developments and step up monitoring of sector-specific risks. This will include identifying domestic financial institutions' exposure to non-Bear Stearns assets, funding conditions for foreign currencies, unwinding of yen-carry trades, asset-liability maturity mismatch, and roll-over ratios.

Contact Person:

Douglas Kim
Foreign Spokesperson
International Cooperation Office
Financial Supervisory Service
(02) 3786-7915