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Press Release

October 1, 2005

Amended Regulation on Indirect Investment Asset Management Business to Take Effect October 7, 2005

The FSC/FSS amended Regulation on Indirect Investment Asset Management Business and the accompanying enforcement rules on September 30. The amended regulations, which take effect October 7, are intended to strengthen prudential oversight of asset management companies (AMCs) and ease restrictions on asset management activities. The following is a summary of the amended regulations.

Prudential Oversight of AMCs

Amended Investment Risk Weights on Net-Asset Basis
(To take effect after six months from October 7, 2005)

The risk weight for mark-to-market funds for the purpose of regulatory capital is to be differentiated according to the funds' asset holdings in order to lower capital burden on AMCs with large funds. Prior to the amendment, 0.1% was uniformly applied as risk weight to all mark-to-market funds. Below is a table of amended new risk weights to be applied to mark-to-market funds on net-asset basis.

Investment Risk Weight for Mark-to-Market Funds on Net-Asset Basis

Net Asset Amount (NAA)	Funds with 50% or more in equity securities	Other funds
Up to KRW10 billion	0.12% of NAA	0.14% of NAA
KRW10–50 billion	KRW12 million + 0.1% of (NAA–KRW10 billion)	KRW14 million + 0.12% of (NAA–KRW10 billion)
KRW50–100 billion	KRW50 million + 0.09% of (NAA–KRW50 billion)	KRW62 million + 0.1% of (NAA–KRW50 billion)
KRW100–500 billion	KRW95 million + 0.08% of (NAA–KRW100 billion)	KRW100 million + 0.09% of (NAA–KRW100 billion)
KRW500–1,000 billion	KRW415 million + 0.07% of (NAA–KRW500 billion)	KRW460 million + 0.08% of (NAA–KRW500 billion)
Over KRW1,000 billion	KRW765 million + 0.06% of (NAA–KRW1,000 billion)	KRW860 million + 0.07% of (NAA–KRW1,000 billion)

The risk weight for book-value funds is to remain unchanged at the current uniform level of 0.2%. The same risk weight is to be applied to private equity funds managed by AMCs. For AMCs with outside directors and an audit committee in place, 10% of the risk amount determined is to be additionally deducted. In determining risk amount, borrowed funds for investment purposes are to be included in the net asset amount.

Amended Management Status Evaluation
(To take effect after six months from October 7, 2005)

For assessment of capital adequacy of AMCs, the ratio of capital impaired is to be newly added to the quantitative capital assessment criteria so that undercapitalized AMCs do not receive a quantitative rating higher than the third (fair) grade. The effective capital adequacy ratio, which had varies little among AMCs, was eliminated from the quantitative capital assessment criteria.

Prompt Corrective Action for AMCs

Where an AMC subject to prompt corrective action (PCA) satisfies the mandatory soundness standards with capital restoration or other necessary measures, the basis for the PCA or deferring it is terminated. Thus, the amended regulation provides that AMCs will be promptly excluded from PCA or deferred PCA when the mandatory soundness standards are satisfied.

Deregulation of Asset Management

Money Market Funds

Prior to the amendment, investment ceiling applicable to money market funds (MMFs) for debt securities issued by any single issuer was 5%. Under the amended regulation, the ceiling for debt securities issued by Korea Development Bank, Industrial Bank of Korea and Export-Import Bank of Korea is raised to 30%, the same ceiling applicable to other government-invested institutions[1].

The amended regulation also allows a wider range of debt securities MMFs may invest in. The restriction that barred MMFs from investing in floating-rate notes whose base interest rates were linked to debt securities with longer maturity was

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[1] Under the Framework Act on the Management of Government-Invested Institutions, an entity to which the government contributed 50% or more of the paid-in capital is defined as a "government-invested institution." Although the three banks are government-invested institutions, they are also subject to the Banking Act and are thus treated differently from other government-invested institutions.

lifted so that MMFs may include in their portfolio floating-rate notes whose base interest rates are linked to longer-term debt securities such as the government-issued treasury bonds.

The provisions on valuation of MMFs were also clarified to state that the valuation method used for mark-to-market funds are to be used for MMF valuation when AMCs determine valuation difference between the fair market value and the book value of an MMF. Under the valuation rules for MMFs, fair market valuation must be used when the book value exceeds the fair market value by certain percent.

Risk Amount for Derivatives Transactions

The new regulation excludes the amount of margin payments from the computation of risk amount for derivatives transactions; prior to the amendment, both the nominal contract amount and the margin payment amount were counted in the risk amount computation.

Debt Rating by Foreign Credit Rating Companies

Because investment in unsecured or unguaranteed debt securities (of domestic or foreign issuers) required debt ratings by at least two different credit rating companies recognized under the Act on Utilization and Protection of Credit Information, domestic funds had been effectively barred from investing in unsecured or unguaranteed debt by foreign issuers. Under the amended regulation, domestic funds may invest in unsecured or unguaranteed debt securities of foreign issuers with credit ratings from Moody's Investors Service, Standard & Poor's, or Fitch Ratings.

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