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## Press Release

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### 2010 FINANCIAL POLICY AGENDA

The Financial Services Commission, the Fair Trade Commission and the Ministry of Strategy and Finance have jointly made a publicly open presentation of their policy objectives for 2010 to the President, Myung-Bak Lee today at the Korea Chamber of Commerce and Industry.

Following the presentations from the three agencies, an open discussion took place on two main issues; job creation through active investments and sufficient support for low-income households.

The Chairman, Dong-Soo Chin unveiled the FSC's 2010 financial policy agenda on revitalizing the economy and improving the competitiveness of Korea's financial markets.

#### **Five Key Objectives**

##### **I. Funding Economic Revitalization**

Supply sufficient funds to companies through policy financial institutions and the capital markets and invigorate green finance while strengthening corporate structures through restructuring

##### **1. Supply sufficient funds to companies through policy financial institutions**

- Supply a total of 23 trillion won for facility investment through the KDB (9.5tn); IBK (8.0tn); KFC (1.35tn); KoDIT and Kibo (3.7tn)
- Supply a total of 94 trillion won to the small and medium enterprises through the IBK (29.0tn); KDB (10.0tn); KFC (2.1tn); KoDIT (36.7tn); Kibo (15.9tn)

\*The Korea Development Bank (KDB); the Industrial Bank of Korea (IBK); the Korea Finance Corporation (KFC); the Korea Credit Guarantee Fund (KoDIT) and the Korea Technology Finance Corporation (Kibo).

- In principle, the maturity extensions which were planned to end at the end of the year will be extended throughout the first half of next year while the upgraded guarantee ratio of 95% will be downgraded gradually; 90% in January; and 85% in



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July 2010. Newly applied guarantees in 2010 will be guaranteed within the range between 50% to 85%, the pre-crisis level.

- The burden will be alleviated on joint guarantees when venture companies raise capital from institutional investors.
2. Supply sufficient funds to companies through the capital markets
    - Establish an exclusive bond trading system; implement a Qualified Institutional Buyer (QIB) system; and improve on the process of issuing stocks.
    - Ease the requirements to go public for companies deemed a new source of potential growth, enabling them to be funded sufficiently.
    - Supply funds to SMEs through incorporating corporate finance stabilization investment companies, and alleviating issuance requirements for ABSs.
  3. Expand support for green finance up to 5 trillion won, up from 4.3 trillion in 2009, and broaden the spectrum of businesses for support from green technology related companies to energy and carbon reduction related companies.
    - Establish a systematically sound system of risk management and company selection.
  4. Enhance corporate structures through on-going corporate restructuring efforts by creditor financial companies.
    - Revitalize corporate finance stabilization PEFs, keep the Corporate Promotion Act in effect, and strengthen the role of Creditor Financial Companies Mediation Committee to keep various systemic supports in effect.

## II. Establishing a Robust Financial System

Establish a robust financial system by reinforcing weaknesses found in the financial system during the process of the financial crisis and bolster the supervision on financial soundness in congruence with the international discussions at the G20 and the FSB.

1. Strengthen preemptive response measures to latent weaknesses
  - Bolster the regulation on banks' loan-to-deposit (LTD) ratios to minimize liquidity risks and restrain competitions of excessive external expansions. Review the possibility of enforcing a minimum 100% LTD ratio requirement as of 2010 with a grace period of 4 years.



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- Enforce FX soundness improvement measures\* to banks at first, then review the outcome to consider widening the enforcement target to non-banks as well.

\*Increased FX liquidity requirement, gradual increase in proportion of mid- to long-term funding requirement, strengthened credit risk management on FX related derivatives, minimum holding requirement of safe foreign currency assets, etc.

- Maintain appropriate speed of increase in household debts through preemptive measures to control residential mortgages such as bolstering regulations on the loan-to-value (LTV) ratios and debt-to-income (DTI) ratios.
2. Closely follow international discussions and enhance supervisory standards on soundness through raising banks' capital requirements and managing systemic risk.
    - Based on the FSB's suggested standards for sound compensation system, reform financial companies' compensation system for executives to reflect risk-taking and long-term prospective of the company.
  3. Bolster risk monitoring of potentially insolvent financial companies and induce participation of timely settlement to minimize restructuring cost while preventing the spread of insolvency through the Korea Deposit Insurance Corporation (KDIC).
    - Improve on the coverage of deposit insurance through the KDIC on newly introduced financial instruments.
  4. Alleviate systemic risk in concentrated Call market for short-term funding while improving on the overall balanced short-term funding structure by fostering RPs and short-term borrowing market rather currently focused Calls and CP market.
    - Revitalize the RP market by improving on the RP trading infrastructure and easing RP regulations for asset management companies to resolve the issue of excessively active Call trading.
    - Reform the CP market by adopting an electronically traded short-term borrowing market under the Short-term Borrowing Act currently being evaluated by the Regulatory Reform Committee and the Ministry of Government Legislation.

### III. Improving the Competitiveness of the Financial Industry

Improve the competitiveness of the financial industry by inducing financial soundness and better internal management; enhancing governance structure; relaxing irrational business regulation; privatizing public financial institutions; expediting asset sales of companies



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under restructuring; enhancing financial infrastructure; and devising mid- to long-term visions for the industry.

1. Encourage financial companies to accumulate higher internal reserves and recapitalize by increasing common stocks and higher-quality equity while expediently resolving troubled debts and inducing financial soundness and better internal management.
  - Bolster supervision and monitoring of excessive competition in asset expansions as the economy recovers.
  - Induce financial companies to improve on their profitability through cost-effective management and reduced operating costs and newly developed products.
2. Enhance governance structure
  - Set exemplary standards for conflict of interest prevention, maximum term in office, circulating system of appointment, performance assessment and disclosure to enhance accountability and professionalism of banks' board of directors, and then incorporate them in 2010 shareholders' meetings.
  - Apply the same disqualification standards for executive officials as the registered officials.
3. Strengthen regulation on soundness while continually easing business regulations
  - Alleviate business territory, non-core operations and asset management related regulations for mutual savings banks and specialized credit financial companies, and gradually allow new entries and business scope expansions for financial investment companies.
4. Accelerate privatization of Woori Financial Holdings Company and continue progressing preparations for the KDB's privatization while pushing ahead with sales of ownership shares of restructured companies on the priority given to sale of shares on Daewoo International, Daewoo Electronics, Daewoo Shipbuilding & Marine Engineering, and Hynix Semiconductors.
5. Improve on the competitiveness of the financial infrastructure through, among other things, the smooth adoption of IFRS accounting standards and the establishment of CCP for safe trading of OTC derivatives.
6. Prepare a report on the strategic mid- to long-term visions for the development of the financial industry which will be presented in January of 2010. Then collect opinions from the market and industry experts to fine tune policy direction.



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#### IV. Strengthening Support for Low-Income Households while Bolstering Investor Protection

Expand financial support for low-income households; bolster credit recovery support; make financial services more accessible to mid- to low-income households; make radical improvements on investor protection.

##### 1. Strengthen support for low-income households

- Work towards successful operation of the Smile Microcredit Bank for it to become a globally recognized exemplary microcredit organization.

\*Establish 200~300 district branches nation-wide

\*Provide a singular business operational manual and education to branch managers

\*Form an informational network between managers and share operational system to raise the effectiveness of asset management

- Revitalize microcredit lending activities by enhancing credit assessment of mutual savings banks, allowing special tax breaks for microcredit organizations and easing loan transfers.
- Strengthen supervision on influentially large lending companies raise the overall soundness of the industry.

##### 2. Bolster support for credit recovery of low-credit individuals

- Expand eligibility bracket from individuals with lower than credit level-7 to individuals with lower than credit level-6 for the Credit Recovery Funds Committee's guarantee program.
- Continue personal debt restructuring programs for delinquent individuals through interest exemptions and maturity extensions.

##### 3. Make financial services more accessible to mid- to low-income households

- Ease financial burden for households through inducing expansion of fixed-rate loans, alleviated additional interest levies and introduction of various base-rate loan products.
- Put in place a fee ceiling structure for retailers and a full disclosure system for credit card interest rates comparisons, lower the ceiling on mutual funds sales fees from 5% to 1% annually as well as on fund management fees from 5% to 2%.



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4. Make radical improvements on investor protection.
  - Rearrange investor protection mechanism through securing new recruits and relocating employees to form separate departments within financial companies specifically for investor protection and encourage greater activity of public organizations for investor protection and consumer reporting of financial companies and financial products.
  - Start from the zero-base to reform the overall structure of investor protection within first half of 2010 to come up with new guidelines comparable to international standards.

#### V. Upgrade Korea's Recognition in Global Financial Markets

Take Korea's hosting of 2010 G20 Summit to raise Korea's status in global finance and successfully turn the 'Korea discount' to the 'Korea premium'.

1. Support the successful hosting of 2010 G20 Summit
  - Through close alliance with Asian nations, establish a constant communication channel and hold international conferences to collect opinions and develop regulatory agendas to lead global talks in finance.
  - Push for hosting of the FSB plenary meetings in Korea in connection with the G20 meetings.
2. Utilize the professional network of foreign media and financial analysts to strengthen Korean IR and preemptively manage negative options of the Korean financial markets.
3. Foster designated financial hub districts in Seoul and Busan to become self-reliant specialized financial hubs.
4. Enter into emerging markets' finance sectors
  - Utilize the experience in exporting infrastructure of securities markets to countries like Mongol and Vietnam to expand elsewhere in Asia while also incorporating guarantee systems to emerging countries as well as introducing Korea's knowhow in resolving troubled assets.
  - Seek ways for manufacturing companies to jointly enter into the market while improving cooperation with the subject countries' financial regulators to alleviate business obstacles and induce more Korea firms to go abroad.



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#### 5. Make advancements in financial supervisory services

- Form a financial supervisory services evaluation committee membered by external industry professionals to make assessments and distribute the results of the findings with suggestive actions for improvement.
- Expand disclose limits for sanctions, turn status-related sanctions to monetary sanctions, strengthen functional supervision and enhance quality of supervisory services.

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