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Press Release

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KEY IMPROVEMENTS TO THE SHORT-TERM BENCHMARK RATE SYSTEM

BACKGROUND

The FSC created a joint taskforce with affiliated agencies, the academia and industry groups on July 19, 2012 to come up with plans to improve the current system of short-term benchmark rate. The taskforce held its fifth meeting on August 21 to announce three major improvements out of various proposals discussed so far.

KEY IMPROVEMENTS

1. Introduction of short-term COFIX

The Cost of Funds Index (COFIX) was first introduced to replace the certificate of deposit (CD) rate in loan markets. As a benchmark lending rate, COFIX reflects banks' costs of funding. However, an average maturity of loans linked to COFIX is nine to ten months, and COFIX is announced only once a month. Therefore, for floating-rate loans with shorter maturities less than one or two years, the CD rate is still preferred to COFIX.

As a complementary measure, a short-term COFIX will be newly introduced, which will be announced every week. The short-term COFIX reflects banks' average funding costs for short-term lending with a three-month maturity. The first announcement of the short-term COFIX is scheduled for the first week of November this year, tentatively.

2. Stimulation of issuance of brokered CDs¹

Banks agreed to issue brokered CDs to keep an average balance to a level of KRW 2 trillion. In order to enhance validity of the CD rate, 50% of the newly issued CDs worth KRW 1 trillion will be issued in brokered CDs with a three-month maturity.

3. Improved calculation of the CD rate

The Korea Financial Investment Association will create basic principles on quote submissions, and improve the way the CD rate is calculated in a more valid and transparent manner.

¹ Brokered CDs are CDs bought by brokers and then resold.



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The basic principles and stricter disclosure rules will be in place by September this year. The FSC will pursue amendment to the supervisory regulations on the benchmark rate in the second half of this year.

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