



Financial Services Commission  
www.fsc.go.kr

## Press Release

---

October 23, 2012

### LEGISLATION NOTICE OF COVERED BONDS ACT

#### **BACKGROUND**

Since the global financial crisis, there has been growing need for a legal framework to issue covered bonds in order to ensure financial institutions' stable funding channel and financial markets' stability.<sup>1</sup> Covered bonds are expected to reduce financial institutions' funding cost and serve as a stable funding channel in the event of financial crises. It is also expected that covered bonds will help improve the structure of household debt by providing financial institutions with a funding source of long-term and fixed rate loans.

#### **KEY CONTENTS**

##### **1. Definition of covered bonds**

Covered bonds are a type of bonds secured by a cover pool of assets that the issuer provides as collateral. In the event of the issuer's bankruptcy, investors have a preferential claim to the cover pool and are guaranteed dual recourse to the issuer's other assets as well.

##### **2. Eligible issuers of covered bonds**

In order for a financial institution to issue covered bonds, it should satisfy both institutional and eligibility requirements.

- **(institutional requirement)** banks, Korea Housing Finance Corporation, Korea Finance Corporation, and other equivalent institutions designated by Presidential Decree
- **(eligibility requirement)** a financial institution with equity capital of more than KRW 100 billion and a BIS ratio of more than 10 %, capable of ensuring proper funding, operation and risk management.

##### **3. Cover pool**

A cover pool is composed of cover assets, liquid assets and other assets with a minimum coverage ratio of collateral more than 105%.

---

<sup>1</sup> As of end-June, 2012, 33 countries have introduced some legislation for covered bonds; and in the U.S., the enactment of Covered Bond Act is now in progress.



Financial Services Commission  
www.fsc.go.kr

- **(cover assets)** mortgage loans, debts issued by governments and public institutions, government bonds
- **(liquid assets)** cash, certificates of deposit issued by other banks with a maturity of less than 100 days
- **(other assets)** recovery from cover assets, property earned through management, operation, and sale of assets, derivative contracts for hedging against currency and interest rate risks

#### 4. Registration and issuance

An issuer should register its issuance plan and details about its cover pool to the FSC.

- **(issuance plan)** issuer, issuance terms such as interest rate, maturity, date, volume
- **(cover pool)** type of assets, total values, collateral ratio, management of cover pool, trustees, supervisors

The issuer who completed registration may issue covered bonds with a ceiling set by Presidential Decree (tentatively 4%) within the range of 8% of the issuer's total assets at the end of previous fiscal year.

#### 5. Management of cover pool

The issuer should manage a cover pool of assets separately from other assets and keep a separate balance sheet. The issuer should maintain a collateral ratio and eligibility of a cover pool by adding and replacing assets and select an auditor to ensure independent audit and supervision of a cover pool.

#### 6. Preferential rights

Covered bond investors have a preferential claim to a cover pool in the event of the issuer's bankruptcy. If they could not exercise their preferential rights to a cover pool, they are granted an equal standing with unsecured unsubordinated creditors.

#### 7. Public disclosure and supervision

The issuer should establish a risk management system for issuance and repayment of covered bonds, and present value of a cover pool at least once on a quarterly basis and post the results on its website.



Financial Services Commission  
[www.fsc.go.kr](http://www.fsc.go.kr)

For the purpose of investor protection, the FSC can require issuers to submit covered bond-related materials, conduct investigation and order corrective measures.

### **UPCOMING SCHEDULE**

The draft bill on the Covered Bond Act will be submitted for parliamentary approval by December, 2012 after a 40-day notice period from October 24 to December 3, 2012 and a review by the Ministry of Government Legislation.

Emkay Kim  
Foreign Press Spokesperson  
Financial Services Commission

tel: + 82-2-2156-9582  
fax: +82-2-2156-9538