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Press Release

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MEASURES TO NORMALIZE CORPORATE BOND MARKET

The FSC announced measures to invigorate the sluggish corporate bond market as a preemptive response to prevent worsening corporate funding condition and destabilizing factors in corporate bond market from spilling over the broader economy.

MARKET OVERVIEW

Corporate bond issuance has decreased since the beginning of 2013. The market condition has been further deteriorated since May this year as yields for corporate bonds and credit spreads began to rise due to growing concerns about potential tapering of the U.S. Federal Reserve's quantitative easing.

< Corporate Bond Issuance Volume >

(unit: KRW trillion)

	'09	'10	'11	'12	'13	Jan	Feb	Mar	Apr	May	Jun
Net Issuance (monthly average)	34.6 (2.9)	18.1 (1.5)	30.8 (2.6)	32.2 (2.7)	11.8 (2.0)	1.4	3.5	1.3	2.8	1.2	1.5

Corporate bond issuance with a BBB rating or lower has decreased since the global financial crisis as investors are reluctant to invest in such bonds. The risk-averse attitude is now spreading to investment in corporate bonds with a single-A credit rating.

< Corporate Bond Issuance Volume by Credit Rating >

(unit: KRW trillion)

		'11	'12	'13	Jan	Feb	Mar	Apr	May	Jun
Issuance (monthly average)	Total volume	6.1	6.4	6.1	4.3	7.3	6.6	7.8	5.3	5.2
	A-grade bonds	1.7	1.7	0.8	0.6	1.3	0.8	1.0	1.0	0.1
	BBB or below	0.4	0.4	0.3	0.1	0.1	0.3	0.6	0.4	0.2

MEASURES TO NORMALIZE CORPORATE BOND MARKET

1. Liquidity support program through P-CBOs

The government will issue primary collateralized bond obligations (P-CBOs) with a total of KRW 850 billion.[1]

[1] The Korea Credit Guarantee Fund will provide KRW 150 billion. The remaining KRW 700 billion

Eligible candidates are companies below certain level of credit rating with corporate bonds set to mature between July 2013 and December 2014. A review committee[2] will select recipient companies based on its comprehensive review of such companies' self-help plan.

Once the review committee selected recipient companies, 20% of maturing bonds for a recipient company will be repaid by the recipient company itself. The remaining 80% debt will be taken over by the Korea Development Bank (KDB), which will be resold to financial institutions (10%), creditor banks (30%), and the Korea Guarantee Fund (60%).

2. Improve funding conditions in corporate bond market

A. Taxation support for high-yield funds (4Q of 2013)

- Grant separate taxation incentives for the income tax for dividend of corporate bond funds which possess more than 30% of subprime bonds (BBB or below).

B. Improve Qualified Institutional Buyer (QIB) system (3Q of 2013)

- Ease requirement conditions for issuers and investors as a means to vitalize the QIB system (introduced in May, 2012).

C. Ease relevant regulations to boost demand for corporate bonds such as allowing qualifying corporate bonds taken over by affiliated companies to be securitized funds regardless of the period after the purchase of bonds (4Q of 2013)

- Ease related regulations to expand demand base for corporate bond.

D. Revise ABS-related regulations (4Q of 2013)

- Ease requirement conditions for issuing ABS through revising the Asset-Backed Securitization Act in order to vitalize ABS issuance by companies.

3. Improve corporate bond market infrastructure

A. Reform credit rating system (3Q of 2013)

- Draft and implement additional improvement measures if necessary such as examining the effectiveness of the regulation revised in 2012 and strengthening requirements for a

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will be financed by the government budget (50%) and the Korea Finance Corporation (KoFC, 50%). The Bank of Korea (BOK) will provide liquidity to help KoFC finance the Korea Guarantee Fund.

[2] The committee is composed of those from creditor banks, financial institutions and the Korea Guarantee Fund.

bankrupt company to disclose its credit ratings just before bankruptcy.

B. Enhance issuance-related system (Aug., 2013)

- Expand corporate bond demand base and reinforce securities firm's acquisition risk management capability through improving demand forecasting system.

C. Improve system related to corporate bond management firms (4Q of 2013)

- Improve effectiveness of the system by examining the actual state of corporate bond management firms which are being operated perfunctorily and by ensuring stability of Covenant system.

D. Enhance transparency and effectiveness of bond distribution market (4Q of 2013)

- Improve over-the-counter bond transaction and brokerage business by discussing necessary measures through a 'Task Force to Improve Bond Distribution Market (tentative)' comprised of experts from the FSS and related associations.

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