



Press Release

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「BUSINESS GUIDELINE FOR FINANCIAL MARKET INFRASTRUCTURES」

1. BACKGROUND

After the global financial crisis in 2008, countries around the world strengthened financial regulation and supervision in order to prevent systemic risk in financial markets. The G20 countries agreed on stricter supervision on financial market infrastructures, mandatory clearing of over-the-counter(OTC) derivatives through a central counterparty(CCP) and mandatory reporting of transaction information to a trade repository(TR). To avoid regulatory arbitrage among different jurisdiction, the G20 endorsed the Principles for Financial Market Infrastructures(PFMIs)¹ as international standards for payment, clearing and settlement systems.

In line with such a global move, Korea bolstered supervision on financial market infrastructures and is now in the process of implementing international standards into domestic regulatory framework. We strengthened monitoring and investor protection in derivatives markets. Korea also introduced a CCP for clearing OTC derivatives(April 2013) and mandatory clearing of Korean won IRS through a CCP(June 2014).

With the establishment of the ‘Business Guideline for Financial Market Infrastructures,’ the FSC intends to adopt the PFMIs as clear guiding principles in supervision of domestic financial market infrastructures.

2. SUMMARY OF 「BUSINESS GUIDELINE FOR FINANCIAL MARKET INFRASTRUCTURES」

** Attached: Full Text of the Business Guideline for FMIs*

OVERVIEW

The Business Guideline for Financial Market Infrastructures(hereinafter ‘the Guideline’) is to provide specific standards that financial market infrastructures(hereinafter ‘FMIs’) should comply with in conducting business pursuant to the Financial Investment Business and Capital Markets Act and its subordinate regulations.

Reflecting the PFMIs, the Guideline reorganized provisions related with financial market infrastructure, scattered throughout the Financial Investment Business and Capital Markets Act, into a systemic order.

¹ The Committee on Payment and Settlement Systems(CPSS, currently CPMI) of the Bank for International Settlements(BIS) and the International Organization of Securities Commissions(IOSCO) issued the PFMIs in April 2012 to provide standards for payment systems(PS), central securities depositories(CSD), central counterparties(CCP) and trade repositories(TR).

FMI SUBJECT TO THE GUIDELINE

The Guideline shall apply to Korea Exchange, Korea Securities Depository and financial investment instrument clearing companies.

entities	business operations
KRX	clearing of securities transactions clearing & settlement of exchange traded derivatives
KSD	clearing of securities transactions centralized deposit of securities
CCP for financial investment instruments	clearing of OTC derivatives (KRX) settlement of listed stocks in client transactions (KSD)

HOW TO IMPLEMENT

An FMI shall reflect the Guideline in prescribing its internal rules that require an approval by the FSC in its establishment and amendment. Out of PFMI, provisions of mandatory nature are being implemented in relevant domestic regulations or will be reflected through regulatory revisions.²

KEY CONTENT OF THE GUIDELINE

The Guideline reorganized 24 key principles of the PFMI into 14 principles in accordance with domestic circumstances and provides detailed standards to implement.

section	detailed standards
common standards for FMIs (14 principles)	1) legal basis 2) governance 3) risk management, 4) credit risk 5) liquidity risk 6) collateral 7) settlement 8) participant default rules & procedures, 9) general business risk 10) custody & investment risk 11) operational risk 12) participation 13) efficiency & effectiveness 14) information disclosure & communication
standards for clearing organization & central securities depositories	The Guideline provides additional requirements for clearing & depository businesses in addition to the 'common standards for FMIs' - (clearing organization) stricter standards regarding credit risk, liquidity risk and stress test, additional requirement for client protection - (central securities depositories) additional requirements reflecting the characteristics of its business – e.g. segregation of its own assets from the participants' securities

3. EXPECTED OUTCOMES

The Guideline is expected to strengthen stability in financial market infrastructures by proving clear and detailed business standards for FMIs. It will ensure consistency for similar

² For example, a revision bill on the Financial Investment Business and Capital Markets Act was submitted to the National Assembly in December 29, 2014 to revise the sequence of using financial resources in covering credit losses in the event of a KRX member's default, usually referred to as the default waterfall, in accordance with international standards.

FMI in handling business operations and provide guiding principles for newly-entered FMIs in setting up internal rules.

Reaffirming Korea's strong commitment to global coordination, the Guideline will enhance the international community's confidence in Korea's financial market infrastructures.

4. Future Plan

The Guideline will be implemented immediately, and whether FMIs observe the standards will be monitored.

FMI should self-evaluate on a regular basis whether their internal rules and business operations are in compliance with international standards and disclose the results of self-evaluation. The Financial Supervisory Service (FSS) will adopt the Guideline as supervisory principles in its supervision and inspection on FMIs. The Guideline will serve as guiding principles for new FMI entrants to devise internal rules.

Korea will continue to actively participate in the global regulatory direction to enhance stability and efficiency of FMIs.

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