

FSC ANNOUNCES RULES CHANGE TO IMPROVE THE RECOVERY AND RESOLUTION REGIMES OF SIFIs

The FSC announced a revision proposal for the Enforcement Decree of the Act on the Structural Improvement of the Financial Industry on February 18, which will be put up for public notice from February 19 to April 1, 2021. The revision proposal to the Enforcement Decree is a follow-up to the revised Act passed at the National Assembly in December last year which is aimed at strengthening the recovery and resolution regimes of the systemically important financial institutions (SIFIs) as recommended by the Financial Stability Board.

The revisions are expected to help improve the preparedness and responsiveness of SIFIs in their crisis management.

KEY REVISIONS

(SELECTION OF SIFIs) The FSC should select SIFIs every year after considering their function, scale, ties to other financial institutions and influence on the domestic financial markets. In this regard, the selection of SIFIs will be confined to banks and bank holding companies.

(RECOVERY AND RESOLUTION PLANS) SIFIs will be required to prepare and submit their own recovery plans to the Financial Supervisory Service within three months from the day of being designated as a SIFI. The FSS will then immediately pass on their recovery plans to the Korea Deposit Insurance Corporation (KDIC) and be required to evaluate the recovery plans and file evaluation reports to the FSC within three months. At the same time, the KDIC will be required to draw up resolution plans and submit them to the FSC within six months. A deliberative body within the FSC will then decide on the final approval of both recovery and resolution plans within two months. In this regard, recovery plans should have been approved at a board meeting prior to being submitted and contain specific details about the role and responsibilities of board members and executives, major business areas, standards of determining crisis situations, specific crisis management measures, etc. The deliberative body within the FSC will be made up of an FSC commissioner (FSC Chairman) and four private sector experts.

(RECOVERY PLAN IMPLEMENTATION) The FSC may ask for a settlement of certain issues that are considered to be standing in the way of an orderly resolution process of a SIFI. In crisis situations, SIFIs should respond according to their own recovery plans approved by the FSC, which has the authority to demand implementation from SIFIs if it is apparent that no appropriate actions have been taken by SIFIs.

(QUALIFIED FINANCIAL CONTRACTS) When a SIFI is categorized as an insolvent institution, the revised Act places restrictions on its counterparties' termination rights on qualified financial contracts. If the FSC makes such a decision to temporarily suspend the termination rights, the decision should be immediately announced and made public via website, etc. In this regard, the period of temporary suspension cannot exceed two business days and will be determined by the FSC.

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