

FSC ANNOUNCES KOREA'S RISK-FREE REFERENCE RATE

Vice Chairman Doh Kyu-sang held the 35th financial risk assessment meeting and 3rd taskforce meeting on benchmark interest rate reform via teleconference on February 26. At the meeting, Vice Chairman Doh announced the authorities' selection of the overnight repo rate of government bonds and monetary stabilization bonds as Korea's new risk-free reference rate (RFR).

The following is a summary of Vice Chairman Doh's remarks.

(TRANSITION FROM LIBOR) The uncertainty surrounding the continuing availability of LIBOR beyond the end of 2021 requires financial institutions and businesses to be thoroughly prepared. In this regard, financial institutions and businesses are recommended to refrain from making new contracts based on LIBOR after the end of this year to minimize risks. For the current LIBOR-based contracts with maturities extending beyond the end of this year, fallback provisions should be added prior to the third quarter of this year.

The financial authorities along with the relevant institutions have been operating a taskforce to prepare for the discontinuation of LIBOR under the auspices of the working group on reforming benchmark interest rate. The authorities will work for a seamless and systematic transition from LIBOR, ensure that financial institutions have adequate consumer protection measures in place and regularly monitor the financial institutions' LIBOR exposures, response plans, etc.

(SELECTION OF RFR) The working group on benchmark interest rate reform has completed the selection of a RFR after a year and eight months of the selection process. After a series of discussions and votes by a market participants group,¹ the working group has selected the overnight repo rate of government bonds and monetary stabilization bonds as the RFR. The repo market's abundant liquidity and its expandable use in derivatives markets were the main reasons for selection. After additional discussions on the calculation method of RFR, the Korea Securities Depository which currently provides repo rate calculations will begin to provide RFRs from as early as the third quarter this year. It is expected that the newly selected RFR can serve as an alternative and fallback rate for the certificate of deposit (CD) rate which is widely in use currently in international derivatives transactions.

As it has become a global standard to use RFRs as a reference rate, the authorities will continue to work on measures to promote and facilitate its use in the market. First, the authorities will seek listing of RFR futures on the exchange by the end of this year with the possibility of offering incentives to financial institutions to promote RFR futures trading at an early stage. The authorities also plan to come up with measures

¹ 26 banks, securities firms, asset managers and securities finance companies

to promote the RFR-based overnight index swap (OIS) trading. Within the next year, the Korea Development Bank and Industrial Bank of Korea will seek to issue RFR-linked floating rate notes (FRNs). The issuance of RFR-linked FRNs will help expand liquidity in the RFR futures and OIS markets.

(COVID-19 FINANCIAL SUPPORT) The loan payment deferrals for SMEs and small merchants, which began in March last year, have provided critical support to businesses in times of liquidity shortage. Considering the third wave of COVID-19, continuation of social distancing rules and the slowing pace of economic recovery, the financial sectors agreed on February 22 to extend the period of loan payment deferrals until September this year. In this regard, the financial authorities will also extend the temporary deregulatory and support measures for financial institutions with regard to their capital, liquidity and sales practice-related rules, while continuing to encourage the maintenance of adequate loss provisions. The pandemic support measures are non-permanent and therefore the FSC will work on an orderly rollback of the pandemic-related response measures. To this end, the authorities will develop a comprehensive framework—taking into account the conditions of virus prevention, real economy and financial risks—which can serve as a guide to the normalization process. Through this, the authorities will make sure that the normalization process takes place with a sufficient level of expectation for market participants.

COVID-19 FINANCIAL SUPPORT PROGRAMS²

(In trillion won)		
▶ EMERGENCY LOANS FOR SMALL MERCHANTS	TARGET	PROVIDED
- 1 st round of financial support (Feb 7~)	16.4	14.8
- 2 nd round of financial support (May 25~)	10.0	4.8
Existing program	7.0	4.5
Special lending program for those affected by social gathering restrictions	3.0	0.3

(In trillion won)		
▶ FINANCIAL SUPPORT FOR SMEs & MIDDLE MARKET ENTERPRISES	TARGET	PROVIDED
- Loans (Mar 16~)	21.2	28.9
- Guarantees (Apr 1~)	7.9	7.0

(In trillion won)		
▶ LIQUIDITY SUPPORT FOR CORPORATE BOND & SHORT-TERM MONEY MARKETS	TARGET	PROVIDED
- Liquidity support for securities firms (Mar 24~)	5.0	10.5
- Corporate bond and CP underwriting and refinancing programs (Mar 30~)	6.1	2.2
- Low-rated corporate bond & CP purchase program (Jul 24~)	20.0	2.5
- P-CBO issuance (Apr 1~)	11.7	3.8

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² From February 7, 2020 to February 19, 2021