

GOVERNMENT PROPOSES REVISIONS TO IMPROVE ASSET-BACKED SECURITIES MARKET

The government approved a revision proposal to the Asset-backed Securitization Act at a cabinet meeting held on October 12, with aims to improve efficiency in business fundraising activities through asset-backed securities (ABS) and close regulatory loopholes to strengthen risk management. The revision proposal is a follow-up measure to the government's plan to improve the ABS market announced in May last year.¹ The bill is expected to be submitted to the National Assembly in October for further legislative actions.

KEY DETAILS

I. FACILITATE BUSINESS FUNDRAISING THROUGH ASSET-BACKED SECURITIES

(EXPANDING SCOPE OF ABS ISSUING BUSINESSES) The revision proposal expands the scope of businesses allowed to raise funds through ABS by abolishing the credit rating requirement which currently permits ABS issuance to only those with BB ratings or above. To ensure investor protections, only businesses subject to external audit and meet certain conditions will be allowed to issue ABS.

(DIVERSIFYING ABS TYPE AND STRUCTURE) The revision proposal establishes a legal ground to diversify the type and structure of ABS by (a) allowing businesses to use future assets and intellectual property rights in raising funds and (b) allowing multi-seller programs in which a special purpose company issues securitized assets with assets transferred from multiple businesses.

(STREAMLINING ABS REGISTRATION PROCESS) The revision proposal reduces the burden of registration requirements in the cases where there exist no issues over investor protections or profit rights.

II. STRENGTHEN RISK MANAGEMENT

(ABS DISCLOSURE REQUIREMENT) The revision proposal introduces a disclosure requirement on all asset-backed securities—both registered and unregistered—with a fine for violating the disclosure rule. An integrated information platform on the ABS market has been set up at Korea Securities Depository and in operation since January this year.

¹ Please click [here](#) to see the press release dated May 18, 2020.

(RISK RETENTION RULE) The revision proposal requires asset holders (“originators”) to hold about five percent of credit risk in securitized assets to help enhance accountability of originators and improve risk management, except when securities are guaranteed by state-backed guarantee institutions or have low credit risk. To help improve effectiveness of the rule, information on risk retention will be disclosed while a fine of up to five percent of securitized assets issued (maximum KRW2 billion) will be imposed on those violating the risk retention rule.

SCHEDULE

The revision bill prepared and approved by the government will be submitted to the National Assembly in October this year. The FSC will closely cooperate with the legislative branch and work for the enactment of the bill.

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