

FSC INTRODUCES NEW LENDING CAPS AND LIQUIDITY RULES ON MUTUAL FINANCE FIRMS

The FSC decided to introduce new lending limits and liquidity rules on mutual finance companies in order to help boost their soundness and address the problem of regulatory arbitrage between mutual finance companies. The rules change to the supervisory regulation on mutual finance business is a follow-up measure to the revision to the Enforcement Decree of the Credit Unions Act which was approved at a cabinet meeting held on December 28, 2021.

(LENDING LIMITS) Credit extension to the real estate and construction sectors will each be limited to 30 percent of the total lending with the total amount of credit extension to both real estate and construction sectors capped at 50 percent of the total lending.

(LIQUIDITY RULES) Mutual finance businesses will be required to maintain a 100 percent liquidity ratio in principle. However, smaller entities will be subject to lower liquidity requirements. Those with total assets in the range of KRW30 billion to KRW99 billion in the preceding business year will be required to maintain at least 90 percent liquidity ratio and those with total assets below KRW30 billion in the preceding business year will be subject to the minimum 80 percent liquidity ratio.

The revision to the supervisory regulation on mutual finance business introducing new lending limits and liquidity rules will go into effect from December 29, 2024. For those with total assets of KRW100 billion or more in the preceding business year, at first, a 90 percent liquidity ratio will be applied for one year until December 28, 2025 with a 100 percent liquidity ratio kicking in thereafter.

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