Financial Services Commission

Press Release

November 4, 2022

FINANCIAL AUTHORITIES HOLD MEETING TO MONITOR MARKET SITUATION IN WAKE OF U.S. FED RATE HIKE

The FSC held a meeting with the Financial Supervisory Service, financial industry groups and policy financial institutions on November 4 to review financial market condition following the recent increase in the U.S. federal funds rate (+75bps).

On November 2, the Fed raised its policy interest rate by 75 basis points for the fourth consecutive time. The Fed Chair Jerome Powell mentioned about a possible slowdown in the pace of future increases but suggested that the Fed will go on to raise rates and that the ultimate interest rate will be higher than previously expected. At today's meeting, authorities reviewed financial market conditions with a focus on the impact of the FOMC decision on domestic money market including the corporate bond and CP (commercial paper) markets.

Authorities also checked the progress and future plans for the KRW50 trillion-plus liquidity support measures.

a) Bond market stabilization fund: Purchase of CPs began last week; purchase of bonds issued by specialized credit finance companies began this week; and first round of additional capital calls expected to be completed this week *(Oct. 20)*.
b) Korea Securities Finance Corporation: About KRW1 trillion in repos (repurchase agreements) and loans provided to small- and medium-sized securities firms so far; purchase of CPs issued by securities firms began on November 1 *(Oct. 26)*.
c) Five major financial holding companies: Announced that KRW95 trillion in liquidity supply will be implemented *(Nov. 1)*.
d) Banks: Industry-wide market stabilization efforts in place such as reducing bank bond issuance and expanding market liquidity support; temporary easing of LCR (liquidity coverage ratio) requirement *(Oct. 21)* and loan-to-deposit ratio *(Oct. 27)* announced; and a working-level taskforce to regularly monitor situation of banking sector launched on Nov. 3.
e) Insurance sector: Measures to support liquidity conditions of non-life insurers *(Oct. 28)* and life insurers *(Nov. 3)* are being taken.
f) Financial investment sector: The real estate project financing (PF)-ABCP buying program,[1] which is based on the financial investment sector's voluntary funding, announced on October 27, begins operation next week with receiving purchasing requests from securities firms.
   - In addition, financial authorities will provide the following supports—(a) clear interpretation of statutes to permit securities firms to purchase self-guaranteed

---

[1] 9 comprehensive financial investment business companies voluntarily made KRW450 billion investments to purchase ABCPs—A2(-) grade or over—guaranteed by small- and medium-sized securities firms.

ABCPs, which will allow more reasonable assessment[2] of the securities firms' credit risk; (b) temporary delay in application of modified liquidity ratio in evaluating management status; and (c) postponement of regulatory plan to lower the maximum ratio of financial bonds issued by specialized credit finance business companies incorporated to risk hedging asset of derivatives-linked securities (maximum 8 percent from 2023).

As financial market uncertainties may increase at home and abroad following the Fed's recent rate hike decision, FSC Vice Chairman Kim So-young urged authorities to promptly respond to stabilize market situations through closer cooperation between the financial authorities, financial sectors and policy financial institutions. In particular, as the Fed's further tightening policy may put more stress on domestic money market, Vice Chairman Kim asked authorities to maintain vigilance and swiftly carry out available measures, while closely monitoring market situations and seeking measures to help stabilize the real estate PF ABCP market. Vice Chairman Kim said that authorities need to check financial market risks by adopting a longer-term perspective and maintaining close communication with the financial industry and prepare for risks in a preemptive manner.

# # #

For press inquiry, please contact Foreign Media Relations at fsc_media@korea.kr.

[2] For now, obscure statutory interpretation encouraged securities firms to perform their guarantee obligation through lending to SPC (special purpose company issued ABCPs) instead of buying those ABCPs. This led to higher credit risk for securities firms because the risk for loans to SPC is regarded bigger than that for ABCPs. Thus, refinancing ABCPs with higher interest rate has been preferred by the guarantor securities firms, which have aggravated money market instability and concerns about the soundness of securities firms.