

## AUTHORITIES DISCUSS REGULATORY REFORMS TO PROMOTE CONVERGENCE OF FINANCIAL AND NON-FINANCIAL SECTORS

The financial regulatory innovation committee held its 4<sup>th</sup> meeting on November 14 and discussed ways to improve the regulations on the separation of industrial and financial capital. The committee also discussed plans to improve the regulation on entrustment of services of financial institutions.

### **KEY AGENDA DETAILS**

#### a) Regulatory reform on separation of industrial and financial capital

*Regarding separation of industrial and financial capital, authorities will expand and improve the scope of permissible ancillary services and that of their permissible investment in other companies in order to promote convergence between financial and non-financial sectors as well as help improve synergetic effects between them.*

The principle on separation of industrial and financial capital forms an integral part of our financial system in maintaining financial stability, preventing conflicts of interests and restricting concentration of economic power. However, rapid digitalization and the “Big Blur”<sup>1</sup> phenomenon recently require changes in the regulations on separation of industrial and financial capital. While keeping the basic framework of these regulations intact to ensure financial stability, it is essential to more reasonably regulate financial institutions’ ancillary services and investment in other companies in order to assist financial institutions in efficiently adapting to a changing environment, such as digital transformation and the “Big Blur,” and making advances.

Therefore, authorities will consider various ways to decide how to recraft the regulatory scope of non-financial services that financial institutions can do, from making improvements to the current positive list approach to making a transition to a negative list approach and regulating the total amount of risks.

#### b) Regulatory reform on entrustment of financial institutions’ services

*Authorities will encourage subcontracting and outsourcing of financial institutions by enhancing the regulatory framework for entrusting financial institutions’ services and expanding the scope of services that can be entrusted, resulting in more efficient resource allocation in financial institutions.*

Authorities will pursue regulatory reforms on financial institutions’ entrusting practices because current regulations are applied differently across different sectors with the

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<sup>1</sup> Blurring of the barriers between industries.

divergent application of entrustment rules even for essential affairs. Currently, the entrustment of services by financial investment business entities is regulated under the Financial Investment Services and Capital Markets Act (FSCMA), and that by other types of financial institutions comes under the purview of the regulation on the entrustment of information processing affairs in financial institutions (the “entrusting regulation” hereinafter). Thus, there are different regulatory grounds. The recently revised FSCMA allows the entrustment of financial investment business entity’s essential affairs except for internal control affairs. However, the entrusting regulation, in principle, prohibits financial institutions from entrusting their essential affairs.<sup>2</sup> Thus, the scope of affairs that can be entrusted remains different, which needs to be adjusted.

Authorities will consider whether to establish a statutory ground for the entrusting regulation, whether to integrate and unify the current regulations on entrustment, how to allow the entrustment of financial institutions’ essential affairs under the current entrusting regulation, and whether to grant the FSS a new right to conduct inspection on the entrusted.

### **FURTHER PLAN**

The financial regulatory innovation committee will draw up the plans based on the result of discussions within the committee, collect opinions from relevant stakeholders including financial institutions, fintechs and SMEs, and decide on specific measures at the committee meeting planned for early next year.

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<sup>2</sup> Essential affairs in financial services for which a financial institution has obtained a license. For example, for loan-related work, soliciting loan applications and filing documents for loan applicants are non-essential affairs, while evaluating applications for loans, determining loan eligibility and issuing loans are essential affairs.