Financial Services Commission

Press Release

December 7, 2022

AUTHORITIES HOLD MEETING TO MONITOR FLOW OF FUNDS AND RISK FACTORS IN FINANCIAL MARKETS

On December 7, the FSC met with the pertinent authorities[1] to review the flow of funds and risk factors in the financial sectors and to go over future response plans.

Participants in the meeting agreed that recent volatility in the domestic money market appears to be stabilizing, which is supported by expectations for a slower pace of tightening monetary policy both domestically and internationally as well as the implementation of a number of market stabilization measures. Participants concurred that caution must be exercised in light of the special funds situation involving year-end account settlements and the December meeting of the U.S. Federal Open Market Committee. Participants shared the opinion that consistent government policy support and efforts by the financial industry are necessary to firmly ensure market stability.

The Bank of Korea (BOK) and financial authorities will work to smoothly implement the market stabilization programs set up to stabilize the money market.

a) The bond market stabilization fund is currently undergoing another capital call, which will be finished by January 2023. Additionally, the BOK intends to provide liquidity to the financial institutions it has invested in, up to KRW 2.5 trillion.
b) The Korea Development Bank (KDB), Industrial Bank of Korea (IBK), and Korea Credit Guarantee Fund (KODIT) are currently operating a corporate bond and CP (commercial paper) purchasing program worth a total of KRW11 trillion. In particular, the P-CBO (primary collateralized bond obligation) program, worth KRW5 trillion, will start running the following year to help large businesses, middle market enterprises, and SMEs issue corporate bonds.
c) The PF-ABCP (project finance asset backed commercial papers) purchasing program for those backed by securities companies is currently providing prompt assistance in response to market demands from the PF-ABCPs approaching maturity (total KRW1.8 trillion).
   The PF-ABCP purchasing program for those backed by construction companies (total KRW1 trillion) began purchases last week and is constantly monitoring demand through discussions with construction companies.
d) Securities finance businesses are also constantly providing liquidity support to securities firms and the BOK plans to increase the volume of its repo (repurchase agreement) purchase facility in December.

[1] The Bank of Korea, the Financial Supervisory Service, the Korea Securities Depository, major financial industry associations, relevant research institutions and financial institutions.

Meanwhile, participants discussed the recent "money shift" in financial markets, in which investors moved funds away from risky assets and toward low-risk assets as economic and financial market conditions deteriorated. Participants acknowledged that excessive money shifting and competition for funding among financial institutions appeared to have subsided in November, but that this phenomenon needed to be continuously monitored for effective responses. The Korea Institute of Finance made the following recommendation in this regard: In order to help alleviate the issue of money shift to the banking sector, it is necessary to continuously review and pursue measures that are intended to contain excessive competition for securing funds, ease liquidity regulation in the banking sector, and continuously make the supply of funds available between financial institutions.

Participants also discussed the Korea Securities Depository's securities lending and borrowing system for collateral,[2] which was launched in 2017 and is currently in operation. Due to the fact that collateral can be used again in derivatives transactions, financial authorities encouraged financial institutions to actively use this system. Financial institutions, such as banks, can increase their capacity for providing liquidity during the process of OTC (over-the-counter) derivatives transactions if they can reuse, for instance, the government bonds they received as collateral to support another borrowing transaction.

Lastly, financial authorities and the BOK once more urged financial institutions to refrain from engaging in overly aggressive competition to secure funds, both between sectors and within the same sectors. Authorities also announced their intention to continuously monitor interest rate volatility across all financial sectors to determine whether it has reached an excessive level or not. Financial authorities have been looking for ways to improve regulations on the liquidity coverage ratio (LCR), loan-to-deposit ratio, maximum borrowing limit on retirement pension funds, easing rules on financial holding companies' credit extension to their own subsidiaries, etc. to help financial institutions secure enough liquidity. Going forward, authorities will keep trying to listen to financial institutions' concerns about their borrowing conditions and market stabilization issues. Moreover, authorities will maintain close contact with companies of all sizes as well as with securities firms and specialized credit finance business entities and continuously look for ways to improve the operation of the bond market stabilization fund, the corporate bond and CP purchase program run by the KDB, IBK and KODIT and the P-CBO program. Furthermore, in order to promote stability in the real estate market and alleviate concerns in the bond and money markets, authorities emphasized the importance of ensuring a seamless supply of funds from financial institutions to project financing and sound real estate investments.

# # #

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

[2] At a previous meeting held on December 2, the BOK made a suggestion that financial institutions' use of this program should be promoted.