



## Press Release

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July 10, 2014

### FSC ANNOUNCED ITS PLAN FOR FINANCIAL REGULATORY REFORM

#### **BACKGROUND**

The FSC announced its plan for financial regulatory reform to create new opportunities and growth drivers for Korea's financial industry and economy.

The global financial industry stands at a crossroads between decline in growth and another takeoff in the aftermath of the global financial crisis. Korea's financial industry also has difficulties in seeking for clear vision, developing new profit models, and restoring public trust in the financial sector. The financial sector is now called for reinventing itself to support the real economy, to generate high-added value, and to bring more satisfactory services to financial consumers.

The FSC identified both statutory and implicit regulations which constrained the growth of the financial industry. Since March 2014, we held dozens of meetings with stakeholders – e.g. financial institutions, consumers, etc. – and conducted a survey of stakeholders to get their views on existing regulations and recommendations for improvement. We also conducted a series of reviews on a total of 3,100 financial regulations, 1,700 regulations of which were shortlisted for further reviews. Out of them, 700 regulations were finally chosen to be reformed.

#### **KEY DIRECTION FOR FINANCIAL REGULATORY REFORM**

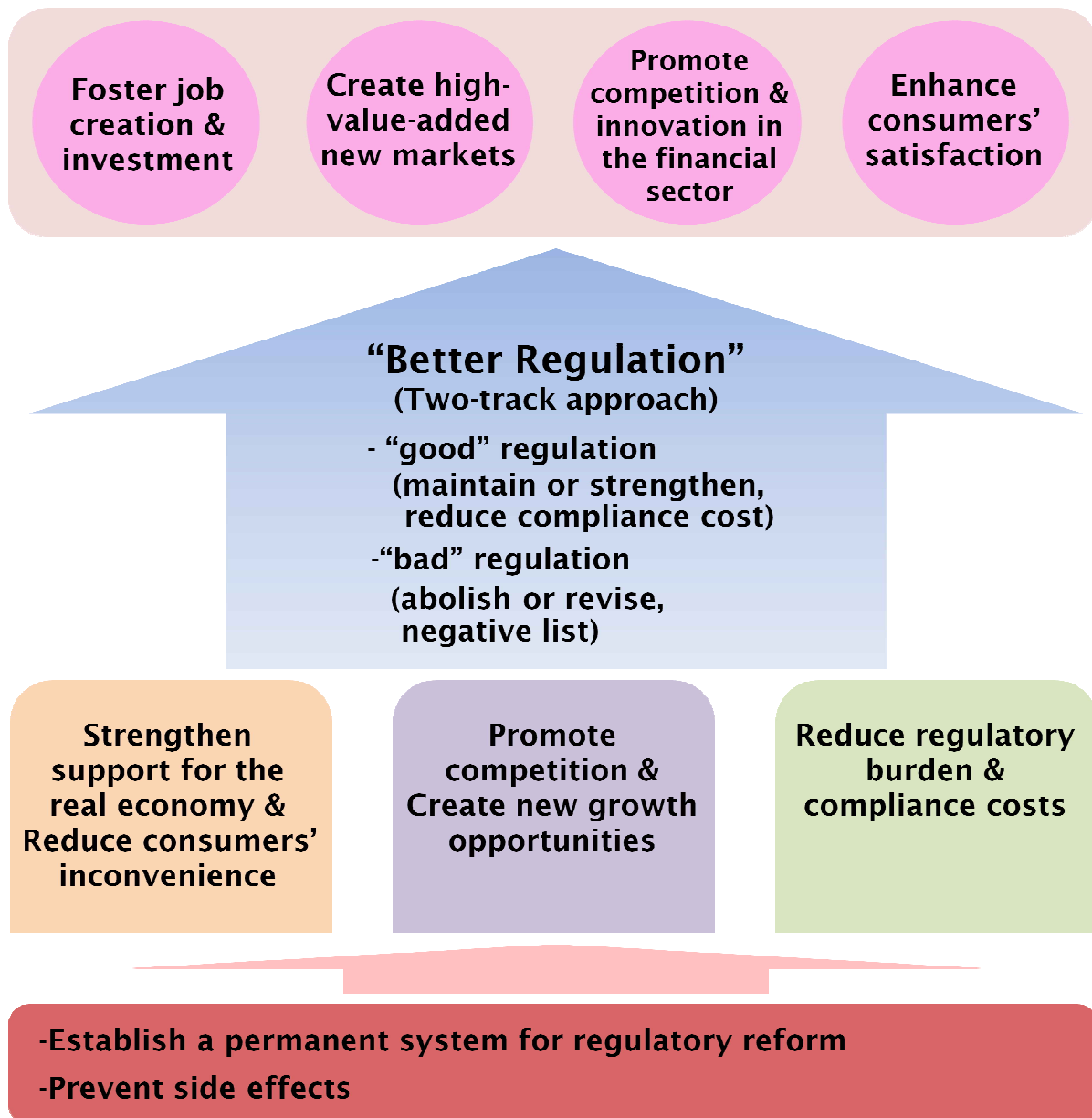
##### **1. Build a financial regulatory system for 'better regulation'**

A two-track approach will be taken for financial regulatory system: 1) **a rule-based approach**<sup>1</sup> for regulations needed to maintain systemic stability, protect financial consumers, and ensure personal data security; and 2) **a principle-based approach**<sup>2</sup> for regulations on approving financial institutions' entrance into business, sales channel and business operation.

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<sup>1</sup> By a rule-based approach, regulations will specifically prescribe methods or forbidden acts

<sup>2</sup> By a principle-based approach, regulations will set guidance or basic direction only, while the rest of details will be left to those being regulated to decide.



## **2. Strengthen support for the real economy and reduce financial consumers' inconvenience**

Regulations on corporate lending, guarantee, and listing will be improved to facilitate the technology credit bureau(TCB) system. For financial consumers, excessive document requirement will be eased to enhance access to financial services.

## **3. Create new markets and growth opportunities for the financial industry**

Regulations will be reformed to promote financial institutions' entry into new business and markets, to adopt a negative list for regulations, and to allow financial institutions greater autonomy in business operations.

#### **4. Abolish implicit regulations and administrative guidance**

Regulatory burdens will be significantly reduced by abolishing implicit regulations existing in forms of industry practice or administrative guidance. The practice of supervision and inspection will be improved to reduce regulatory costs for financial institutions.

#### **5. Establish a permanent system for regulatory reform**

Review bodies and web portals will be created to review and reform financial regulations on a regular basis. September will be designated as the Month of Regulatory Reform.

#### **6. Tighten market discipline to prevent side effects of easing regulations**

Internal control of financial institutions and market discipline will be tightened to prevent side effects of easing regulations.

### **DETAILED ACTION PLAN**

#### **1. STRENGTHEN SUPPORT FOR THE REAL ECONOMY**

The current practice of corporate lending, mainly depending on loan guarantee and collateral, will be improved. Technology assessment system to be introduced in the second half of this year will enable start-ups, venture companies and SMEs to borrow money with their ideas and technology as collateral. Regulatory reform will be pushed forward to help finance start-ups and venture companies throughout the life cycle of startup, growth, listing and exit.

- High school students of 17 years old or above with promising technology and idea will become eligible for preferential guarantee for startups, up to 300 million won.<sup>3</sup>
- A technology assessment model will be developed to finance idea-stage startups and entrepreneurs.
- Guarantee period will be extended for small businesses from three years to five years even after they grow into mid-sized companies in order to lessen their financial burdens upon termination of guarantee.
- Entry barriers to stock markets such as KOSPI, KOSDAQ and KONEX will be lowered to help businesses raise funds and move up from KONEX, KOSDAQ to KOSPI market.
- Failed small business owners who faithfully repay their debt will be offered loan guarantee to re-start their business.

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<sup>3</sup> Currently, only those above 20 are eligible for the preferential guarantee program for young entrepreneurs up to 200 million won.

## **2. RELIEVE INCONVENIENCES FOR FINANCIAL CONSUMERS AND BUSINESSES**

Public financial institutions will cut the number of required documents and reduce regulatory burdens to enhance consumers' access to financial service.

- Public financial institutions will directly collect required documents to provide service – e.g. a copy of resident registration, certificate of tax payment, etc.- through government data base, or Administrative Information Database Network and cut overlapping requirements. Reducing the number of such documents is expected to save up to 12 billion won annually, given that a document incurs 4,673 won of social cost.

## **3. CREATE NEW GROWTH OPPORTUNITIES FOR THE FINANCIAL INDUSTRY**

- Financial investment businesses will be allowed to add a new business with registration only. Regulations on the scope of financial institutions' business will be covered under a 'negative list'-based system.
- Subsidiaries of a financial holding company – e.g. banks, securities firms and insurers - will be allowed to share office to provide one-stop service. Universal banking business will be permitted to overseas operation of domestic financial companies.

- If a financial company is granted a business license for financial investment business, the company will be allowed to add a new business within the licensed category with registration only.
- Financial institutions will be able to sell a variety of financial service through an integrated sale channel across subsidiaries.
- The FSC will consult with relevant ministries to introduce an Individual Wealth Account (IWA) that financial consumers will be able to manage a variety of investment products and receive tax benefits under a single account.
- Domestic financial companies will be permitted to operate overseas businesses which are not allowed under the Korean law in a foreign country as long as such businesses are permitted under the country's law.
- Non-banking financial institutions such as insurers and brokerage firms will be allowed to own overseas banks.

## **4. ENHANCE FINANCIAL FIRMS' AUTONOMY IN BUSINESS OPERATION**

Regulations, administrative guidance and other forms of red tape which restrain financial firms' business operation will be overhauled. Prudential regulations will be improved in a more market-friendly manner.



- Financial investment businesses will be allowed to borrow up to 100% of equity capital, currently limited to 60%.
- Excessive regulations will be eased for hedge funds and PEFs to boost investors' participation.
- For financial holding companies to create greater synergy across subsidiaries, restrictions on holding positions concurrently will be eased, and middle offices will be integrated.

## **5. REDUCE ADMINISTRATIVE GUIDANCE ON A REGULAR BASIS**

Existing administrative guidance will be under review on a regular basis. For newly created administrative guidance, “sunset clause” will be imposed.

## **6. IMPROVE PROCEDURE OF SUPERVISION AND INSPECTION ON FINANCIAL COMPANIES**

Procedure of supervision and inspection on financial companies will be improved in a fairer and more transparent manner to reduce burdens for financial institutions and protect financial consumers.

### **UPCOMING SCHEDULE**

Further details on each topic will be announced according to the following schedule.

<b>Task</b>	<b>Schedule</b>
Regulation on approval of financial investment business	3 <sup>rd</sup> week, July
Plan to facilitate competition and innovation of the insurance industry	3 <sup>rd</sup> week, July
Announcement of the regulations subject to improvement	3 <sup>rd</sup> week, July
Plan to strengthen internal control	4 <sup>th</sup> week, July
Plan to strengthen competitiveness of financial holding companies	5 <sup>th</sup> week, July

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