

FSC UNVEILS WORK PLAN FOR 2023

The FSC presented its annual work plan for 2023 on January 30. This year's work plan includes twelve specific policy items under the initiatives of (a) ensuring strong financial market stability, (b) strengthening the role of finance to shore up the growth of the real economy and people's livelihoods and (c) promoting the advancement of the financial industry into a high value-added strategic sector.

KEY DETAILS OF 2023 WORK PLAN

ENSURING FINANCIAL MARKET STABILITY

WILL PREEMPTIVELY RESPOND TO FINANCIAL MARKET RISK FACTORS

Financial markets in Korea are, despite continuing uncertainties at home and abroad, on a stable recovery path backed by the KRW50 trillion-plus market stabilization measures and strong policy cooperation among relevant authorities. In this regard, authorities will continue to work on the following:

- a) Ensure market stabilization utilizing over KRW40 trillion of the remaining capacity of the market stabilization programs.
 - Flexibly adjust the eligibility and size of the support in accordance with market situations. Authorities will widen the pool of eligible recipients and increase the maximum value¹ of bonds supported by the P-CBO (primary collateralized bond obligation) program (KRW5 trillion) in order to relieve businesses even with unfavorable credit ratings from difficulties in corporate bond issuance.
- b) Seek flexible and creative policy solutions, in responding to current crisis situation, that are not bound by the past crisis-handling experience and appropriate for current market situations.
 - Mobilize all available resources and capabilities in financial sectors to respond to the crisis by maintaining close cooperation with financial institutions, as well as relevant ministries.

II. AUTHORITIES WILL THOROUGHLY MANAGE RISKS LINKED TO REAL ESTATE MARKET

- a) Spare no effort to ensure a soft-landing of the real estate market as a countermeasure against a potential weakening of the real estate project finance (PF) which is considered as the biggest risk this year.
- b) Make necessary funding available to the profitable real estate PF businesses

¹ (Specialized credit finance business entities) A- rating → BBB- rating / (Limit for subsidiaries of large conglomerates) KRW400 billion → KRW500 billion

through market stabilization programs² such as the guarantee support,³ bond market stabilization fund, etc.

- c) Encourage lending consortiums to revise lenders' agreements to voluntarily carry out liquidation of the real estate PF businesses that are deemed to be at risk of insolvency, and support normalization of real estate PF businesses by creating a fund (maximum KRW1 trillion), led by the Korea Asset Management Corporation (KAMCO), which purchases and liquidates the real estate PF businesses deemed to be insolvent.
- d) Ease mortgage loan regulations for multiple-house owners,⁴ etc. until the end of March and pursue additional regulatory easing such as an expansion of loan-to-value (LTV) ratio for one-house owners while closely monitoring the household debt and housing market situations.

III. AUTHORITIES WILL PREVENT THE SPREAD OF CORPORATE INSOLVENCY AND AVERT RISK CONTAGION IN FINANCIAL SECTOR

- a) Expand the scope of borrower enterprises subject to credit risk assessment from those who got credit extension of KRW3 billion or more currently to those who got credit extension of KRW1 billion or more in order to grant small businesses an opportunity of business normalization through a workout program, and improve the accuracy of credit risk assessment.⁵
 - In addition, make the small businesses who got credit extension of KRW1 billion or less to be eligible for the "fast-track financial support program" which provides maturity extension support only after a simple credit assessment.
- b) Set up a corporate restructuring innovation fund worth KRW1 trillion in 2023 to enable support for business normalization driven by the private sector via capital markets. And effectively support the restart and recovery of businesses in connection with the Korea Asset Management Corporation (KAMCO)'s business supports such as the sale and leaseback program.
- c) Extend the sunset date (currently scheduled for October 2023) of the Corporate Restructuring Promotion Act, which provides a legal ground for corporate workout, in order to enable insolvent businesses to preemptively and quickly receive debt adjustment support.
- d) Bolster the loss absorbing capacity of financial sectors to prevent a contagion of insolvency from corporate sector to financial sector, for example, by newly establishing the right to ask the banking sector to set aside special loan loss reserves.
 - Establish a "financial stability account" in the Deposit Insurance Fund to preemptively support liquidity injection and recapitalization of financial institutions undergoing temporary difficulties.

² Support refinancing of PF-ABCPs guaranteed by construction companies and securities firms using market stabilization programs such as the bond market stabilization fund, corporate bond and CP purchase program, etc., support construction companies' bond issuance through P-CBO, etc.

³ KRW15 trillion for making a transition from a bridge loan to a takeout loan and KRW3 trillion for making a transition from a PF-ABCP (asset-backed commercial paper, short-term) to a long-term business loan

⁴ Loan-to-value ratio: (For multiple-house owners) 0% → 30% in regulated areas / (For registered house rental or sales business entities) 0% → 30% in regulated areas and 0% → 60% in unregulated areas

⁵ Reflecting distinct characteristics of business sectors and conducting frequent assessments on high-risk business sectors

SUSTAINING GROWTH OF REAL ECONOMY AND PEOPLE'S LIVELIHOODS

IV. AUTHORITIES WILL SUPPORT THE EXPANSION OF FUTURE GROWTH ENGINES SUCH AS THE NEW GROWTH STRATEGY 4.0

- a) Provide KRW205 trillion in policy funds—including KRW81 trillion for five key strategic areas⁶ and KRW16 trillion in export finance—to support the “New Growth Strategy 4.0” and promote the goal of leaping to one of the top 5 power exporters.
- b) Introduce business development companies (BDCs) that are publicly offered and exchange-listed to facilitate investment by retail investors in venture businesses and innovative firms that have high growth potential.
- c) Institutionalize over-the-counter trading platform for unlisted stocks (currently operated under the regulatory sandbox program), which will provide promising investment opportunities for investors and seamless fundraising opportunities for venture startups and innovative firms.
- d) Specify the corporations under duty and disclosure items for mandatory ESG disclosure of listed firms, which will begin in 2025, and provide ESG-related policy fund support⁷ in diverse areas.
- e) Pursue the Korea Development Bank (KDB)’s relocation to Busan to strengthen the role of policy financial services in promoting well-balanced regional development and fostering regionally specialized industries.

V. AUTHORITIES WILL PROVIDE SUPPORT FOR MICROENTERPRISES AND SMEs UNDERGOING DIFFICULTIES

- a) Expand the eligibility of the low interest rate refinancing program available for sole proprietors from only the entities hit by COVID-19 previously to all sole proprietors and boost its user convenience (increasing credit limit, extending loan period, etc.) to make the program more effective.
- b) Extend the support period of interest rate subsidies program on “Hope Plus” credit loan from one year previously to two years and broaden the eligible recipients to include micro-entrepreneurs who previously benefited from the interest rate subsidies program for micro-enterprises in 2020.
- c) Implement KRW80 trillion of comprehensive financial support programs to help SMEs overcome management difficulties, in cooperation with the Ministry of SMEs and Startups.

VI. AUTHORITIES WILL ALLEVIATE HOUSING AND FINANCIAL DIFFICULTIES AMID RATE HIKES AND HOUSE PRICE DROPS

- a) Ensure seamless supply of special Bogeumjari Loan which eased application requirements⁸ temporarily for a year to structurally reduce the interest burden of mortgage borrowers.⁹

⁶ (a) Support global super-gap industries, (b) develop future promising industries, (c) advance business reorganization and industrial structure, (d) foster globally competitive unicorn venture startups, SMEs and middle market enterprises, and (e) relieve business management difficulties amid triple-highs (interest rate, inflation and USD-KRW exchange rate)

⁷ KRW4.4 trillion provided in 2022 → KRW5.8 trillion planned for 2023

⁸ House price (up to KRW600 million → up to KRW900 million), loan limit (up to KRW360 million → up to KRW500 million), annual income level (up to KRW70 million → no restriction)

⁹ Base rate: 4.25~4.55% (general-type), 4.15~4.45% (with interest rate subsidy) → additional reduction of 50bps

- b) Supply fixed rate jeonse¹⁰ loan products with reduced interest rate by the Korea Housing Finance Corporation's enhancing of guarantee ratio and lowering of guarantee fee rate.
- c) Overhaul housing loan regulations for jeonse loans and loans for landlords who intend to return jeonse deposit money to tenants in order to lower housing costs of the tenants and remove deposit repayment difficulties of landlords.
 - Extend the eligibility of guarantees on jeonse loans sought to a married couple who makes more than KRW100 million a year collectively and owns only one house and those who own only one house that has a market value of more than KRW900 million, for whom jeonse loan guarantees have not been available previously.¹¹
 - Abolish various regulations on loans taken out by landlords with a purpose of repaying jeonse deposit money to tenants.¹²
- d) Broaden the eligibility¹³ for debt adjustment programs provided by private sector financial institutions for borrowers experiencing difficulties in making mortgage payments. And adjust the DSR (debt service ratio) application period¹⁴ to make transferring loans easier for them to help alleviate burdens.

VII. AUTHORITIES WILL UNBURDEN FINANCING DIFFICULTIES AND REPAYMENT BURDENS OF VULNERABLE PERSONAL DEBTORS IN AN ERA OF HIGH INTEREST RATES

- a) Expand the supply of policy microfinance to up to KRW10 trillion for vulnerable borrowers who face difficulties in accessing traditional financial services.
- b) Launch emergency loans for living expenses (up to KRW1 million) for borrowers with low income and low credit backgrounds (including delinquent debtors) to help them avoid turning to illegal private lending sources just for a small amount of emergency cash.
- c) Double the amount of support for special guarantee products intended to help lowest credit borrowers from initially planned KRW140 billion to KRW280 billion.
- d) Expand the availability of debt adjustment services for vulnerable borrowers to help them get out of excessive debt payment burdens amid a worsened economic condition and allow them to regain their footing.
 - Expand the availability of interest rate reduction support¹⁵ and payment deferment support programs currently available for young adults to the vulnerable borrowers of all ages. And provide debt adjustment support, like principal reduction, for borrowers deemed to be incapable of making repayments such as the recipients of basic livelihood security benefits and the elderly, even when they have overdue debt accounts for less than 90 days.¹⁶

from initial plan

¹⁰ A lump sum deposit for rent usually for 2 years with no monthly payments

¹¹ However, to prevent market instability such as increasing prevalence of house flipping cases, etc., the restriction on loan guarantees will be maintained on multiple house owners and one-apartment owners with house value over KRW300 million in speculation and high-speculation designated areas.

¹² (a) Abolish loan limit (KRW200 million) on apartments priced at over KRW1.5 billion in speculation and high-speculation designated areas → Instead, apply loan-to-value ratio, (b) Abolish the requirement to move into the newly purchased house valued at over KRW900 million in regulated areas, (c) Abolish the rule requiring multiple house owners to sell existing homes to purchase a new house in regulated areas

¹³ (As is) Financially distressed & Owner of a house valued less than KRW600 million → (To be) Debt-to-income (DTI) ratio of 70% or more & Owner of a house valued less than KRW900 million

¹⁴ Temporarily allow for one year the application of debt service ratio (DSR) not from the time a loan transfer was made but from the time of original loan issuance (increase in loan amount not allowed).

¹⁵ Provision of interest rate reduction of 30 to 50 percent even when debt is overdue for less than 30 days

¹⁶ Provision of cancellation of all interest payments on principal and overdue payments as well as principal

- Pursue enactment of an act on personal debtor protection, which will strengthen protections for debtors with measures to ease burdens such as overdue debt accrual and debt collection and to establish a debtors' right to request debt adjustment.

VIII. AUTHORITIES WILL PROTECT CONSUMERS FROM FINANCIAL CRIMES AND FRAUDS

- Spare no effort to prevent the spread of financial crimes and frauds which attempt to take advantage of vulnerable groups at a time of difficult economic and living situations.
 - Apply the same procedures for remedies for victims of phishing scams utilizing virtual assets at virtual asset exchanges as the one currently in place at financial institutions. And establish a procedure for remedies for the sole proprietors who have fallen victims to threats related to their bank accounts.¹⁷
- Overhaul regulations on quasi-investment advisory business entities by prohibiting marketing activities through interactive online communication channels such as social media and chat rooms and promising of loss recovery or profit guarantee.

PROMOTING ADVANCEMENT OF FINANCIAL INDUSTRY

IX. AUTHORITIES WILL PROMOTE INNOVATION IN FINANCIAL SERVICES THAT CAN HAVE A GLOBAL REACH

- Overhaul outdated regulations no longer suitable for a digital era¹⁸ and revamp regulation on big techs¹⁹ and financial data security²⁰ in line with international standards to promote launch of new products and services based on the convergence and mixture of financial and non-financial sectors.
- Make efforts to expand success stories where domestic financial services are introduced successfully in overseas markets.
 - Promote exports of globally competitive financial service infrastructures such as credit data system or payment and settlement system to emerging markets and provide comprehensive support for fintech companies (from provision of local market information to foreign investor and human resource search to networking support for local partnership) that seek overseas expansion.
- Strengthen cooperation with relevant ministries and seek improvement of comprehensive system in both financial and non-financial sectors to facilitate the domestic inflow of more global financial institutions and investments.

X. AUTHORITIES WILL STRIVE TO CULTIVATE NEW SECTORS IN FINANCIAL SECTOR SUCH AS FINTECH

reduction (maximum 30%) on a par with support available from personal debt workout programs (for debt overdue for more than 90 days)

¹⁷ e.g. Transferring small sum of money to sole proprietor's bank account that is open to the public and derive the suspension of payment from banks.

¹⁸ e.g. Allow financial companies to invest in non-financial sector subsidiaries or allow their ownership as ancillary services.

¹⁹ Prevention of risk contagion between businesses within a big tech group and management of risks regarding the entrustment of services between a big tech and a financial institution

²⁰ Establish a risk-based self-regulatory security system and switch to a regulatory system rooted in goals, principles and ex-post accountability.

- a) Promote fintech startups through provision of fintech-specific consulting service, policy fund support (e.g. fintech innovation fund),²¹ boosting effectiveness in the operation of the D-testbed (digital-data testbed) program,²² etc.
- b) Establish a regulatory system on virtual assets in phases²³ to protect virtual asset users in line with international trends and standards.
- c) Revamp the regulatory system on the issuance and distribution of fractional investment items and digital asset securities (security tokens).

XI. AUTHORITIES WILL PURSUE ADVANCEMENT OF CAPITAL MARKETS IN LINE WITH GLOBAL STANDARDS

- a) Establish an investment environment congruent with global standards to boost the attractiveness of domestic capital markets by abolishing the foreign investor registration system, phasing in English disclosure requirement for listed firms, etc.
- b) Create general shareholder-friendly rules regarding dividend through a revision of the Financial Investment Services and Capital Markets Act (FSCMA) and inducing change in dividend practices, in order to enable investors to invest in companies with knowledge on dividend information.
- c) Seek improvement of the rights and interests of general shareholders by bolstering the disclosure requirement on the purpose of treasury stock acquisition and disposition, strengthening penalties for the violation of the reporting duty on stocks held in bulk (a.k.a. 5% rule), etc.
- d) Prepare a comprehensive plan to improve the competitiveness of publicly offered funds to boost their profitability and expand their investor base.

XII. AUTHORITIES WILL CONSIDER CONSUMER TRUST AND CONVENIENCE IMPROVEMENT AS FOUNDATION OF FINANCIAL INDUSTRY ADVANCEMENT

- a) Enhance the internal control system of financial institutions and pursue regulatory improvements to bolster transparency in financial institutions' appointment procedures of executive officers.
- b) Apply an additional deposit insurance limit (e.g. KRW50 million) on pension savings independently from other types of savings, in order to protect consumer assets more safely.
- c) Establish a single-stop, online loan transfer infrastructure to help borrowers switch from high-interest rate loans to low-interest rate ones more easily.
- d) Digitize the claiming process for the indemnity medical insurance proceeds in order to ensure that policyholders can more easily receive insurance proceeds in full.

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²¹ Expand the size of fintech innovation fund from KRW500 billion to KRW1 trillion and provide KRW200 billion or more in policy funds annually.

²² Provide support to enable companies participating in the D-testbed program to have access to the data analysis system offered by Fintech Center Korea on a regular basis and expand the types of data available to include non-financial data.

²³ (Phase 1) Protection of user assets and introduction of regulation on unfair trading activities → (Phase 2) Augmentation of regulation on market order when relevant standards materialize internationally