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Press Release

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Amended Regulation on Outsourcing by Financial Services Companies Takes Effect July 27, 2005

The FSC/FSS announced on July 26 that the newly amended Regulation on Business Delegation of Financial Institutions took effect July 27, 2005. The newly amended regulation is a major deregulatory step that significantly broadens the range of activities that can be outsourced by financial services companies and help them utilize outsourcing more efficiently. One of the key changes to be implemented under the amended regulation is a shift from a positive regulatory regime that provides for activities financial services companies may outsource to a negative regulatory regime that provides for activities financial services companies may not outsource. Thus, as a general rule, financial services companies will be allowed to outsource activities unless the regulation specifically provides otherwise. The following is a summary of the newly amended regulation on outsourcing.

Expanded outsourcing by financial services companies

- Adoption of negative regulatory regime for outsourcing

As a rule, outsourcing is to be allowed for financial services companies unless the activity to be outsourced (i) constitutes a part of the core business activities of the financial service company; (ii) is mandated under the law to the financial service company, or (iii) poses risk to the soundness of the financial services company, undermines orderly conduct of their business, or causes consumer harm. In addition, the core business activities of financial services companies are specifically provided for so that non-core activities may be outsourced without undue discretionary intrusion from the regulators.

- Back-office & support activities

The amended regulation newly defines outsourcing as utilizing the services or the facility of a third party in order to perform financial services activities approved by the FSC/FSS and provides that outsourcing encompasses the back-office and other support activities of financial services companies. As a general rule, outsourcing is to be allowed for back-office and other support activities, unless provided otherwise under the applicable law, or consumers could be harmed as a result of outsourcing.



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More specific regulatory provisions on outsourcing

- Outsourcing to individuals

The amended regulation specifically provides that the term “third parties” to which financial services companies may outsource their activities includes individuals (natural persons) as well as legal entities.

Reporting of outsourcing activities

- Advance reporting for new forms of outsourcing

Advance filing is required for new forms of outsourcing as a safeguard measure to ensure that financial services companies comply with their regulatory responsibilities and appropriate level of supervisory oversight of outsourcing activities of financial services companies is maintained.

- Simplified reporting of outsourced activities

Outsourcing activities that are currently exempt from reporting are to be reported semiannually using a short reporting form to ensure appropriate supervisory oversight and monitoring.

- Internal guidelines on outsourcing

Financial services companies are to establish internal guidelines and controls on outsourcing to systematically manage risks associated with outsourcing activities. The internal guidelines and controls on outsourcing are to be set up and implemented autonomously by financial services companies by incorporating the outsourcing standards provided in the newly amended regulation and taking into account such factors as the unique characteristics of the financial service sectors and the outsourcing financial service company.

Financial services companies subject to outsourcing regulations

- Asset management companies are excluded from the newly amended regulation as there are already rules and regulations on outsourcing that are applicable separately for the asset management companies.
- The credit business of the Korea Federation of Savings Banks and credit unions and cooperatives (including their national headquarters) is subject to the amended regulation on outsourcing.



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