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Press Release

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Improvements in Derivatives Market Supervision

Background

The financial crisis spread globally through the asset securitization and credit derivatives that preceded the collapse of the sub-prime market. Local companies and investors also suffered heavy losses from either KIKO contracts or large falls in FX/stock prices. This has created a pressing need for an appropriate supervisory system for the derivatives market, especially in regards to strengthening the competitiveness and developing the soundness of Korea's capital markets ahead of the expected introduction of the Capital Market and Financial Investment Business Act in February 2009.

To this effect, the FSC/FSS established last July a joint private-public Task Force Team with the Korea Institute of Finance (KIF), the Korea Securities Research Institute (KSRI), the Korea Securities Dealers Association (KSDA), the Korea Futures Association (KFA), the Korea Federation of Banks (KFB), Korea Exchange (KRX), the Korea Securities Depository (KSD), and industry specialists.

The TF Team produced a detailed plan called, "Improvements in Derivatives Market Supervision" after a series of discussions, including a study by industry experts, Task Force consultations, and IMF technical assistance.

Summary of Changes

The proposed plan outlines 4 main areas with 51 sub-categories.

1. Reorganizing the derivatives market monitoring system
 - Strengthening information analysis and its utilization by itemizing information, setting up a database, and establishing a consultative body of experts
2. Strengthening the investor protection by taking into consideration the characteristics of each respective product and investor
 - Providing greater product descriptions, introducing graded canvassing rules, strengthening protection of small investors and businesses, etc.
3. Preventing derivatives-based transactions from overexposing financial institutions and posing systemic risk
 - Strengthening financial company's internal controls and establishing systems to reduce derivatives trading-related operational and credit risk



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4. Reexamining the derivatives market supervisory functions
 - Strengthening financial supervisory authority over the derivatives market and reestablishing the role of self-regulatory organizations

Future Actions

Areas that are related to strengthening investor protection will be adopted by the first-half of next year to have material effect as soon as possible whereas IT infrastructure and other areas requiring greater specification and global cooperation will, however, proceed once outside opinion is collected from market participants and the IMF-TA.

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