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Press Release

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FSB PLENARY MEETING REPORT

The FSC Chairman Chin Dong-Soo attended the 2nd FSB Plenary Meeting in Paris on September 15. The meeting deliberated and finalized on most subjects that will be on the report, "Improving Financial Regulation" scheduled to be submitted to the Pittsburg G20 Summit on September 24-25.

The above mentioned report will contain the followings: (citing the press release from FSB)

Strengthening the global capital framework. Decisions have now been taken by supervisors that will lead to a comprehensive set of measures to strengthen the capital framework which would substantially raise the level and quality of capital and reduce procyclicality in the banking system. The reforms will set reasonable implementation windows to avoid impeding the recovery of the economy.

The Basel Committee on Bank Supervision (BCBS) has made the following proposals:

- (i) Foster the quality of Tier 1 bank capital and enhance the consistency and transparency
- (ii) Incorporate counter-cyclical capital buffer requirement in addition to the existing minimum capital requirement
- (iii) Introduce "the leverage ratio system" as a complementary measure to the Basel II risk centric supervisory system after proper review.

Making global liquidity more robust. The Basel Committee will publish by end-2009 specific proposals for a new minimum global liquidity standard.

Reducing moral hazard and strengthening capacity for cross-border resolution. The FSB is setting in train a work programme to address the moral hazard risks and other challenges posed by systemically important institutions. This will build upon the work underway by the FSB's Cross-border Crisis Management Working Group and the Basel Committee's ongoing work on cross-border bank resolution.

Strengthening accounting standards. The FSB welcomed the steps taken by accounting standard setters to address weaknesses in existing standards and the enhanced dialogue between the International Accounting Standards Board, prudential authorities and market regulators on financial institution reporting issues. Members encouraged agreement on converged standards that would simplify and improve principles for valuation and



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provisioning and mitigate procyclicality by recognising credit losses at an earlier stage of the cycle.

Improving compensation practices. The FSB will set out for the Pittsburgh Summit specific implementation guidelines on the governance, structure and disclosure of compensation, which will limit the level of compensation in the light of the need to conserve capital and ensure that the structure and incentives are aligned with good risk management, in line with the FSB Principles for Sound Compensation Practices in financial institutions issued in April.

The specific contents of the guidelines are:

- (i) An independent board committee to oversee compensation policies and practices
- (ii) Coupling the total compensation with the total performance of the financial institution
- (iii) Restriction on guaranteed bonuses
- (iv) Regulation on compensation, especially for determent of bonuses
- (v) Clawbacks imposed on deferred bonuses for loss-provisioning, and exposure when actual loss take place
- (vi) Provide deferred bonuses in the form of stocks or stock options and impose vesting provision
- (vii) Full disclosure and transparency on compensation

Expanding oversight of the financial system. The FSB reviewed the progress to implement consistent regulatory approaches to the registration, oversight and reporting requirements of hedge funds, and also the registration and oversight of credit rating agencies. The FSB also asked IOSCO to continue its work on the issues raised by unregulated markets and products.

Strengthening the robustness of the OTC derivatives market. The official sector will strengthen capital requirements to reflect the risks of OTC derivatives and further incentivize the move to central counterparties or organised exchanges. It will strengthen standards for central counterparties to address the issues specific to clearing OTC derivatives.

Re-launching securitisation on a sound basis. Regulatory and industry initiatives are underway to strengthen standards and market practices for securitisation, including standardising terms and structures, reducing complexity and enhancing transparency. The FSB noted that the official sector, through supervision of market participants and regulation of markets, must provide the framework that ensures discipline in the market as it revives.

The FSC Chairman Chin has contributed in the discussions taken place at the Plenary, the Steering Committee and the Standing Committee through his presentations on the following three main topics:



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1. An in-depth discussion took place at the Plenary Meeting especially on the issue of how to stabilize the foreign currency liquidity in emerging countries. This particular subject has been adopted as an official agenda of the meeting as we proposed based upon our own experience in the current crisis. We successfully brought to attention one of the most serious stability issues faced by emerging economies.
2. Korea agreed on the basic concept and direction of the FSB's regulatory reform of the capital framework and that the government and the banking industry are preparing for the strengthening of regulation.
3. We also emphasized that not only home but host countries should play more significant roles in within the supervisory colleges, a system of collaborated supervision of systemically important financial institutions.

Furthermore, the Standing Committee for Vulnerability Assessment, one of three Standing Committees within the FSB, has reported on four main areas of risk that include: the market impact of rapidly rising government debt, risks related to the timing of exit strategies from current policies, and the challenges in maintaining an appropriate balance and pace of regulatory reform. Authorities in emerging economies are assessing policy challenges related to currency mismatches on sectoral balance sheets and instability in portfolio flows.

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