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Press Release

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THE BOK-FSS JOINT INSPECTION ON BANKS' FX FORWARD POSITIONS

The Bank of Korea (BOK) and the Financial Supervisory Service (FSS) will conduct a joint inspection for 14 working days from October 19 to November 5 on banks handling foreign currency.

*Under Article 20 of the Foreign Exchange Transaction Act and Article 35 of its Enforcement Decree, the BOK and the FSS are authorized to jointly inspect financial institutions handling foreign currency.

The inspection intends to examine progress being made since the Measures to Mitigate Volatility of Capital Flows were announced on June 13 and to ensure their effective enforcement. Given that the measures to limit banks' FX forward positions* are scheduled to be fully implemented starting October 9 after a three-month grace period, the inspection will be particularly focused on banks' FX forward positions such as non-deliverable forwards (NDFs) and forward transaction details. Considering these factors, the authorities will choose banks subject to the inspection.

*The rules limit local banks' FX forward positions to 50% of their equity capital at the end of the preceding month. Local branches of foreign banks operating in Korea are required to limit their forward positions to 250% of their capital. The ceilings may be adjusted depending on market conditions.

Results of the inspection will be taken into account when the authorities enforce the measures and establish relevant policies. For banks found to be in breach of the rules, appropriate measures will be taken pursuant to relevant laws.

Further inspections are being planned for banks exempted from the inspection this time.



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Major Checkpoints

Banks' FX forward positions

- Changes in banks' forward positions and details of forward transactions since new measures were introduced
- Whether there was any diverted transaction by local branches of foreign banks e.g. local branches' investment in the local bond market shifted to offshore headquarters
- Changes in banks' NDF positions, transaction details, and trading patterns, as well as trading purposes and counterparties

Banks' Compliance with FX transaction-related laws

- Whether banks' forward positions and NDF transactions were appropriately reported to the authorities
- Whether banks appropriately managed their FX forward positions during the grace period
 - ① If banks' FX forward positions prior to the implementation of new measures exceed their limits, banks should curb their positions during the grace period not to exceed further.
 - ② If banks' FX forward positions prior to the implementation of new measures are below their limits, banks should manage their positions during the grace period not to exceed the limits.

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