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Press Release

November 9, 2010

PROPOSED AMENDMENTS TO THE ENFORCEMENT DECREE OF THE BANKING ACT APPROVED BY CABINET

Background

Prior to the enforcement of the amended Banking Act*, proposed amendments to the Enforcement Decree of the Banking Act have been approved at the cabinet meeting on November 9. The proposed amendments are to be enforced starting November 18, 2010 after the President's approval and announcement.

* The amended Banking Act, announced on May 17, 2010, is scheduled to be enforced starting November 18, 2010.

Key Amendments to the Banking Act

To improve corporate governance in banks

- Strengthen qualifications of outside directors: ① any "affiliated person" with a majority shareholder is forbidden to serve as an outside director; ② outside directors have to represent more than half of board members
- Promote transparency and credibility of corporate governance in banks by guiding banks to establish internal governance rules

To revise the scope of banks' business activities

- With the enforcement of FSCMA (Feb. 2009) and passage of amendments to the Insurance Business Act, the Banking Act also revised classifications of banks' business. With the amendment, the scope of non-banking business that banks are authorized to run is partially expanded, and banks are allowed to engage in a broad range of subsidiary activities to boost the banking industry's competitiveness.

To strengthen consumer protection

- Directly regulate unfair business practices and advertisements in order to protect financial services consumers and secure sound financial transactions



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Key Contents of the amended Enforcement Decree

A. Banks' overseas expansion

In principle, banks seeking overseas expansion are allowed to submit a report to the authorities afterwards, except for only those who fall into one of the following categories prescribed by the amended Enforcement Decree.

- ① (bank soundness) a bank's BIS ratio or its CAMELS rating falls short of required criteria.
- ② (investment method) a bank plans to make investment in or pursue an M&A with a below-investment-grade local corporation.
- ③ (business scope) a bank wants to engage in business activities other than banking, concurrently-run, and subsidiary business.
- ④ (investment destination) a bank plans to expand into a below-investment-grade country or a country that has no diplomatic tie with Korea

Further details are stipulated by the Regulation on Supervision of Banking Business*

*a bank's BIS ratio is less than 10%, or its CAMELS rating is below 3; credit ratings of local subsidiaries are below B+; and sovereign ratings of the host country are below B+ etc.

B. Disqualifications of outside directors

Most of disqualifying conditions for outside directors set by Best Practice Guidelines on Corporate Governance in Banks (announced in Jan. 2010) were prescribed in the Regulation on Supervision of Banking Business previously and are now to be directly regulated under the amended Banking Act. Details such as definitions of a "corporation which has a special business relationship with a bank"* and a "person who cannot carry out his/her duty faithfully"**

*a corporation which concluded a single contract with a bank, amounting to more than 10% of the total sales revenue

** a lawyer who provides a bank with legal or business advisory services; or an accountant who provides accounting or audit services for banks

C. Internal governance rules

In order to protect interests of shareholders and financial services consumers, the amended Banking Act requires banks on a voluntary basis to establish internal principles and procedures governing their board of directors. The organization and operation of the board should be made public. The amended Enforcement Decree provides guidelines on details which should be specified in each bank's internal rules such as ① composition and operation of board of directors; ② establishment and operation of committees within the board; and ③ conditions for executives.



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- ① (board of directors) composition, qualifications for board membership, election and retirement of board members, evaluation of the board's activities
- ② (committees within the board) composition and function of committees, evaluation of committees' operation
- ③ (executives) qualifications, election and retirement of executive officers, internal training program for executives and candidates, performance evaluation, and compensation practices.

D. Banks' business scope

The amended Banking Act classifies banks' non-banking operations into three categories: business ① that banks need to obtain authorization and approval pursuant to other laws; ② prescribed by other laws as allowed to banks; and ③ the rest.

With corresponding amendments to the Enforcement Decree, the scope of banks' non-banking operations has been expanded to include investment advisory business. Also, purchases and sales of treasury stock, previously defined as banks' subsidiary business, are reclassified as non-banking business concurrently run by banks.

E. Regulation against unfair business practices

In order to protect consumers of financial services and secure sound financial transactions, the amended Banking Act directly regulates banks' unfair business practices and principles banks have to comply with in their advertisements.

- ① (unfair business practices) The Enforcement Decree prevents banks from forcing deposit products or installment savings on borrowers against their will. Banks are also forbidden to ask collateral providers for cross-guarantees.
- ② (consumer protection) In order to protect financial services consumers, banks are obliged to provide full information on contract terms and related documents.
- ③ (advertisement) The Enforcement Decree prevents banks from misleading consumers with unconfirmed facts or groundlessly arguing their products' superiority over competitors'.

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