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## Press Release

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March 4, 2013

### REVISION BILL ON THE FSCMA APPROVED BY THE LEGISLATION AND JUDICIARY COMMITTEE OF THE NATIONAL ASSEMBLY

The Legislation and Judiciary Committee of the National Assembly approved the revision bill on the Financial Investment Services and Capital Markets Act (FSCMA) on March 4, 2013, which includes the creation of a central counterparty clearing house (CCP) and reflects related changes in the Commercial Act amended in April 2012.

#### **KEY CONTENTS**

##### **1. Introduction of a CCP for OTC transactions**

A new business sector will be created to deal with clearing of financial investment contracts. Clearing business operators will be approved depending on types of financial products they deal with.

Over-the-counter (OTC) derivatives whose default could deliver significant impact to the market<sup>1</sup> will be mandatorily cleared through a CCP.

##### **2. Changes in line with the amendment to the Commercial Act**

The revision also reflects the related amendments to the Commercial Act which already went into force last year. With the amendment to the Commercial Act, some provisions in the original FSCMA are abolished under which listed companies might be further restricted in clearing off their profits than non-listed companies. In the same context, listed companies will be exempted from disclosure obligations under the Commercial Act as they are supposed to disclose important facts on-line when they allocate new shares.

#### **EXPECTATIONS WITH THE INTRODUCTION OF CCP**

The creation of a CCP for OTC derivatives<sup>2</sup> is expected to significantly reduce counterparty risk and establish effective risk management system for OTC transactions.

In particular, if IRS, which takes up the largest portion of OTC derivative market, were

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<sup>1</sup> Interest rate swaps (IRS) will be designated as products which should be cleared through a CCP.

<sup>2</sup> As of end-2011, OTC derivatives market in Korea amounted to KRW 690.4 trillion



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mandatorily cleared through the CCP, the settlement safety of OTC derivatives will be significantly improved.

Creating a CCP in Korea as soon as possible will help prevent flight of clearing demands to overseas competitors and survive growing competition among global CCPs.

With the introduction of CCP, Korea will be able to implement the G20 agreements and bring OTC derivative regulations in line with global standards.

### **UPCOMING SCHEDULE**

The FSC will proceed with revision of the FSCMA enforcement decree in order to ensure the CCP immediately begins its clearing business in three months after the announcement of the revised FSCMA.<sup>3</sup>

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<sup>3</sup> The public-private T/F, composed of KRX, interest parties, and market experts, was already created and now in operation for the introduction of CCP; and KRX is now doing preparatory works to meet requirement for clearing business so that it can get an approval as an CCP right after the revised FSCMA takes effect.