Financial Services Commission

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Press Release

April 8, 2014

ENFORCEMENT DECREE OF THE COVERED BOND ACT APPROVED AT CABINET MEETING

The Enforcement Decree of the Covered Bond Act[1] was approved by the Cabinet today to come into force starting from April 15, 2014. The Enforcement Decree is to stipulate details mandated by the Covered Bond Act such as qualifications for cover assets, evaluation basis and issuance cap.

KEY CONTENTS OF THE COVERED BOND ACT AND ENFORCEMENT DECREE

1. Eligible issuers

Financial institutions are required to meet both institutional and eligibility requirements to issue covered bonds.

- **(institutional requirement)** banks, Korea Housing Finance Corporation, Korea Finance Corporation, and other equivalent institutions designated by Enforcement Decree[2]
- **(eligibility requirement)** a financial institution with equity capital of more than KRW 100 billion, a BIS ratio of more than 10%, and risk management system

2. Cover Pool

The minimum ratio of collateralization is 105%. Underlying assets in a cover pool need to be evaluated by market prices if there are credible market prices as a reference price. In the absence of market prices, the assets can be evaluated by book value or acquisition prices.

- **(underlying assets)** home mortgage loans, public bonds, ship and aircraft mortgages, high-quality assets with a stable cash flow

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[1] The Covered Bond Act, passed by the National Assembly on December 19, 2013, was promulgated on January 14, 2014 and is scheduled to come into force starting April 15, 2014 to provide a statutory foundation for financial companies to issue covered bonds. The Fitch Ratings said Korea is "the first Asian country to have dedicated covered bond legislation"(https://www.fitchratings.com/gws/en/fitchwire/fitchwirearticle/Korean-Covered-Bond?pr_id=812810)

[2] The Enforcement Decree limits covered bond issuers to banks and policy banks in order to ensure market confidence and investor protection. The FSC is considering allowing a broader range of issuers, depending on market developments.

- **(liquid assets)** cash, CDs, liquid assets converted into cash within three months[3]
- **(other assets)** recovery from underlying assets, gains earned through management, operation and sales of assets

3. Issuance Cap

Covered bond issuance is limited to 4% of the issuer's total assets.[4]

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For any inquiry, please contact Foreign Press & Relations Team at fsc_media@korea.kr

[3] The proportion of liquid assets is limited to 10% of the cover pool.

[4] The Covered Bond Act mandates its Enforcement Decree to set an issuance cap within the range of 8% of the issuer's total assets. The Enforcement Decree sets the cap to 4% of the issuer's total assets. As of end-2013, 4% of banks' total assets worth KRW 2,120 trillion is equivalent to KRW 85 trillion.