Financial Services Commission

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Press Release

April 16, 2014

ENACTMENT OF THE REGULATION ON SUPERVISION OF COVERED BOND ISSUANCE

The FSC approved a draft regulation on Supervision of Covered Bond Issuance, completing a legal framework for covered bond issuance. The Regulation on Supervision of Covered Bond Issuance is enacted to stipulate further details mandated by the Covered Bond Act and its Enforcement Decree.[1]

1. Specify qualifications of underlying assets

Home mortgage loans in underlying assets need to be composed of at least 20% of loans with a debt-to-income (DTI)[2] ratio 70% or lower in a bid to contribute to improving structural soundness of household debt. Out of home mortgage loans in underlying assets, fixed-rate loans must account for more than 30%[3], by which banks would be pushed toward extending more fixed-rate loans.

2. Establish standards for evaluation of underlying assets

In principle, underlying assets in a cover pool are to be evaluated by market prices. In the absence of such prices, the assents can be evaluated by book value computed by international accounting standards. These are to guarantee objective valuations of collateral assets, which will enhance investors' confidence.

3. Require market-making roles of underwriters

Issuers are required to register their underwriters' market-making roles when they file their issuance plan. The requirement is to encourage underwriters to play market-making roles such as offering quotations upon investors' requests for a certain period of time after the issuance of covered bonds.

The Regulation on Supervision of Covered Bond Issuance will take effect on April 23, 2014.

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

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1 Press release (April 8, 2014) 'Enforcement Decree of the Covered Bond Act Approved at Cabinet Meeting'
2 Ratio of principle-and-interest repayment a year to a borrower's annual income
3 As part of efforts to improve structural soundness of household debt, banks are targeting to increase proportion of fixed-rate loans out of home mortgage loans, which is 15.9% as of the end of 2013, up to 30% by the end of 2016 and up to 40% by the end of 2017. Please refer to the press release (February 27, 2014) 'Measures to Improve Structural Soundness of Household Debt' for further details.