Financial Services Commission

Press Release

February 1, 2018

PLAN FOR COMPREHENSIVE SUPERVISION OF FINANCIAL CONGLOMERATES

The FSC outlined its plan to introduce a comprehensive supervisory framework for financial conglomerate,[1] one of the government's financial reform agendas.
The plan is to set out key policy tasks and principles for the supervision of financial conglomerates.

Objectives

The comprehensive supervisory scheme is intended to capture and manage a full spectrum of their group-wide risks that conventional sectoral supervision cannot fully address. With the introduction of comprehensive supervisory framework, the FSC intends to close regulatory gaps between holding and non-holding types of financial groups by applying the same standards corresponding to their risks.
The comprehensive supervisory scheme will also help prevent any possible contagion of group-wide risks into financial affiliates.

Key Policy Tasks

1. Comprehensive Supervisory Scheme

► **Scope of application**

Any group of companies with financial affiliates of KRW5 trillion or more in assets in at least two sectors of banking,[2] insurance or securities will be subject to comprehensive supervisory rules.[3]

※ *Financial holding companies*, already regulated by the Financial Holding Company Act, and *financial groups whose other financial business besides their main financial business is below a certain threshold (e.g. 5%) of assets or equity capital of the group or of the sector's market share* will *be excluded*.

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1 A '*financial conglomerate*' refers to any group of companies with financial affiliates in at least two sectors of banking, insurance or securities.
2 including credit institutions
3 By estimation, seven conglomerate groups including Samsung, Hanwha, Kyobo Life Insurance, Mirae Asset, Hyundai Motor, DB (former 'Dongbu') and Lotte are expected to come under the comprehensive supervisory scheme.

► **Realignment of supervisory framework**

A consultative body, which consists of a group-level supervisory department and sectoral supervisory departments in the group's financial affiliates, will be created to clarify responsibilities and facilitate coordination in group-wide supervision.

► **Reporting and disclosure requirements**

A financial conglomerate under comprehensive supervision will be required to report its group-wide capital adequacy and aggregate risk management to the supervisory authorities on a regular basis and disclose the information to the public.

2. Comprehensive Risk Management Scheme

► **Comprehensive risk management system**

A head of financial conglomerate[4] will be identified as a representative company to take responsibilities of group-wide risk management. The representative company will be required to establish and operate a group-wide risk management body in which the group's financial affiliates participate.

► **Comprehensive assessment of capital adequacy**

A financial conglomerate's capital adequacy will be assessed on a group-wide basis to limit excessive leverage.

To this end, a financial conglomerate will be required to maintain group-wide capital adequacy at a higher level than the sum of minimum capital requirements of its financial affiliates – whether they are banking, securities or insurance.

A financial conglomerate will be required to maintain adequate capital on a group-wide basis to act as a buffer against any possible contagion risks associated with the group's non-financial affiliates or cross-sectoral activities.

► **Management of intra-group transactions, risk concentration, etc.**

Financial conglomerates will be subject to group-wide stress test to assess the impact of risk contagion on financial affiliates in the event of a crisis; and they will be required to have a contingency plan for financial affiliates.

[4] A financial company which is at the top of the group's organizational structure; or holds biggest shares of the group's assets and equity capital will be identified as a representative company. If the group is not able to decide the representative company on its own, the Financial Supervisory Service can designate a representative company in consultation with the group.

3. Prevention of Risk Contagion

► **Assessment of contagion risks from non-financial activities**

The FSC will develop and test an assessment program by the end of 2018 to evaluate the size and possibility of risk contagion in a financial conglomerate – e.g. risk contagion from a group's non-financial units or owner's crisis to financial affiliates, taking into account possible factors such as risk concentration, intra-group transactions, governance structure and reputation risks.

Based on the assessment, financial conglomerates may be asked to take additional measures – e.g. additional capital requirement for financial units - to prevent risk contagion.

► **Firewall between financial and non-financial affiliates**

The FSC will strengthen the 'firewall' measures between financial and non-financial affiliates to prevent a conflict of interests in governance, intra-group transactions and ownership structures.

Timetable

The FSC will publish best practice guidelines for comprehensive supervision of financial conglomerate in March 2018. Under the guidelines, a trial of comprehensive supervisory scheme will be launched in the second half of this year. Regulatory details will be finalized by the end of this year.

The FSC plans to submit a draft bill for comprehensive supervision to the National Assembly by the end of 2018, with an aim to phase in the new supervisory framework in 2019.

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