



FSC TO REFORM BENCHMARK INTEREST RATES

The FSC and the Bank of Korea (BOK) jointly launched a taskforce to develop a new benchmark interest rate, which aims to replace the current benchmark interest rate of certificate of deposits (CDs) by 2021. Co-chaired by FSC Vice Chairman and BOK Vice Governor, the taskforce is composed of officials from the Ministry of Economy and Finance, the Financial Supervisory Service, market participants and research institutions.

The rate-rigging scandal of the London Interbank Offered Rate (LIBOR) in 2012 prompted global reform efforts to improve the representativeness and credibility of benchmark interest rates. In preparation for the expiration of LIBOR in 2022, the US, the UK, the EU, Japan and Switzerland are replacing it with new benchmarks such as “risk-free” overnight rates. Other countries including Australia, Canada, Hong Kong and Singapore, whose currencies are not used to calculate LIBOR, are also developing alternatives to enhance the representativeness and transparency of benchmark interest rates and their consistency with international standards.

In line with the global move, Korea will also develop a new benchmark interest rate as an alternative to the CD rates, currently being widely used as a benchmark interest rate in Korea’s financial markets.

However, the CD rates have fundamental limitations in serving as a benchmark interest rate: (i) the issuance of CDs is not sufficient; and (ii) CD rates are based on quotes, not real transactions.

Against this backdrop, the FSC and the BOK jointly launched a taskforce to develop an alternative to the CD rates, which aims to publish a new benchmark interest rate in March 2021. Meanwhile, the taskforce will also come up with measures in the second half of 2019 to boost the issuance of CDs and improve the current method of calculating CD rates.

At a kick-off meeting on June 14, FSC Vice Chairman Sohn Byungdoo called for an active role by market participants including banks, financial investment companies and the KRX in reforming the current benchmark interest rate regime. In particular, Mr. Sohn emphasized it is urgent for Korea to develop a new benchmark interest rate, which is consistent with international standards, amid growing demand for fundamental reforms of benchmark interest rates across the globe.