

FSC UNVEILS NEW BILL ON SUPERVISION OF FINANCIAL CONGLOMERATES

The FSC unveiled a new bill on the supervision of financial conglomerates on June 5, which lays legal grounds for the supervision of non-holding financial groups that have financial assets of KRW5 trillion or more. It also contains provisions that authorize the FSC to demand a management improvement plan to help improve their financial soundness. The proposed bill will be submitted to the National Assembly in September this year.

BACKGROUND

The supervision of financial conglomerates is an internationally adopted regulatory mechanism implemented by major economies since the Joint Forum first introduced the principles for supervision of financial conglomerates in 1999. In Korea, financial holding companies have been subject to supervision through the Financial Holding Companies Act. However, there exist regulatory blind spots for non-holding financial groups despite their significance to the system. The IMF's Financial Sector Assessment Program in April this year pointed out this problem and recommended that legislation on the supervision of systemically important non-holding groups is necessary to help remove the regulatory discrepancy existing between the holding and non-holding groups.

As a key policy task of the current administration, the FSC introduced best practice guidelines for comprehensive supervision of financial conglomerates in July 2018, through which the authorities have been able to test run the comprehensive supervisory framework before an enactment of the relevant law.

KEY PROVISIONS

The proposed bill on the supervision of financial conglomerates takes into account the current best practice guidelines, comments received during the test run period, research outcomes and the compatibility with the international standards.

- ▶ **FINANCIAL GROUPS:** Financial groups are defined as those with financial assets in the amount of KRW5 trillion or more, except financial holding companies and state-owned banks.

- ▶ **INTERNAL RISK MANAGEMENT:** An internal group-wide risk management body should be established and operated, led by the group's top representative company to oversee the group-wide risk management policy, regulatory compliance, prudential management, etc.
- ▶ **INTERNAL ASSESSMENT:** Financial conglomerates should conduct self-assessment on the capital adequacy to maintain their financial soundness while taking into account intra-group transactions and risk concentrations.
- ▶ **REPORTING & DISCLOSURE REQUIREMENTS:** The group's top representative company is required to report and disclose the group-wide capital adequacy status and risk factors to the FSC, which in turn may ask for a management improvement plan if deemed necessary to prop up capital or reduce risky assets.

SCHEDULE

The FSC's proposal will be introduced to the National Assembly in September after 40 days of promulgation and a regulatory review. During the legislative process, the FSC will take into account comments from diverse groups and help facilitate vibrant discussions.

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