

FSC CHANGES RULES ON LIQUID ASSET REQUIREMENTS FOR REPO TRANSACTIONS

The FSC revised the regulations on financial investment business on June 24, laying out specific liquid asset requirements for the sellers of repurchase agreements.

The FSC has been pursuing changes in regulations to improve the effectiveness and soundness of the repurchase agreement (repo) market. The revisions to the Enforcement Decree of the Financial Investment Services and Capital Markets Act in December last year introduced a legal basis to require repo sellers (borrowers) to hold liquid assets. The changes in regulations adopted today are a follow-up measure, establishing the specific scope of liquid assets as well as holding requirements.

SCOPE OF LIQUID ASSETS

Liquid assets include cash, savings accounts, certificates of deposit, liquid loan commitments, readily disposable deposits of securities companies, up to 30 percent of money market trust (MMT) and money market wrap (MMW),¹ promissory notes, payment reserves of the Bank of Korea. Liquid assets in foreign currencies also qualify.

LIQUID ASSET HOLDING REQUIREMENTS

The requirements for liquid asset holding for repo sellers (borrowers) will gradually increase in three stages as shown in the table below from up to one percent of the transaction amount in July to up to ten percent between August 2020 and April 2021, and then to up to twenty percent thereafter.

Duration	Overnight	Term		
Maturity	1 day	2~3 days	4~6 days	7 or more days
July 1, 2020 ~ July 31, 2020	1%	0%	0%	0%
August 1, 2020 ~ April 30, 2021	10%	5%	3%	0%
May 1, 2021 ~	20%	10%	5%	0%

The above changes in regulations will go into effect on July 1, 2020 along with the improved rules on minimum margin requirements for repo buyers (lenders).

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

¹ Equivalent to the minimum liquid asset holding requirement of at least 30% for MMT and MMW