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Press Release

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2012 FINANCIAL POLICY AGENDA

FINANCIAL MARKET OUTLOOK FOR 2012 AND KOREA'S POLICY DIRECTION

As Europe's ongoing debt crisis is expected to threaten global economic growth and increase volatility in global financial markets next year, Korea is also likely to face an economic slowdown, which will deal a severe blow particularly to SMEs and low-income households.

Under such circumstances, the FSC set three main financial policy goals with six key objectives for 2012 as follows:

[Policy goal #1: Preparedness against crises]

- ① Take preemptive actions to secure market stability
- ② Make Korea's financial system further advanced

[Policy goal #2: Support for businesses]

- ③ Create a financial services environment for the growth of start-up companies and SMEs
- ④ Develop financial services for sustainable growth

[Policy goal #3: Greater financial inclusion]

- ⑤ Support expansion of microfinance programs for low-income households
- ⑥ Promote social contribution of financial institutions and stronger protection for financial consumers

KEY POLICY OBJECTIVES FOR 2012

1. Preemptive actions to secure market stability

(1) Create an emergency response mechanism for prompt actions in the event of a financial crisis

- The FSC will conduct thorough tests on foreign currency liquidity conditions of domestic banks and closely monitor foreign capital flows.



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- We will also review and supplement our action plans on a frequent basis to take prompt and bold actions for market stabilization in the event of a crisis.
- The FSC-FSS joint emergency response team will be ready to take swift actions against any possible crisis.

(2) Keep household debt growth to a manageable level and normalize bad PF loans

< Household debt >

- The FSC will curb household debt growth to a balanced pace with real economic growth.
- In order to encourage banks to extend more fixed-rate and installment loans, we will help banks secure their long-term funding sources by facilitating their issuance of MBS or covered bonds.
- By end-2016, banks will be required to increase fixed-rate and installment loans to 30% of their total outstanding loans.

< Real-estate project financing >

- **(Banks)** Profitable projects will be taken over by the Project Financing Stabilization Bank, and the FSC will consider creating a second PFS Bank if needed to acquire insolvent PF loans.
- **(Mutual savings banks)** Among projects with PF loans from mutual savings banks purchased by KAMCO, highly profitable ones will be sold to private companies to run the projects and repay the debt.
- The FSC will continue to make efforts to address banks' current lending practices excessively dependent on loan guarantees rather than objective evaluation of business profitability.

(3) Improve foreign exchange soundness

- Banks will be required to hold enough foreign currency liquidity to cover their foreign liabilities for three consecutive months in the event of a crisis.
- The FSC will also strengthen policy finance institutions' foreign currency funding ability in order to facilitate financial services for SMEs such as trade finance and foreign currency loans.



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- Foreign currency funding sources will be diversified, particularly utilizing the Middle East markets.
- The FSC will manage foreign capital flows in a flexible manner depending on external risk factors and supply/demand in foreign exchange markets.
- The Commission will also closely monitor foreign currency liquidity conditions of overseas branches of domestic banks, local branches of foreign banks and non-banking financial institutions and take preemptive actions if needed.

(4) Make financial institutions more resilient against financial crises

- Financial institutions will be required to retain more earnings as internal reserves.
- Safety measures will be strengthened to improve financial institutions' soundness.
 - **(Banks)** strengthened standards for loan-loss provisioning
 - **(Insurance companies)** strengthened standards for solvency margin ratio
 - **(Mutual savings banks)** revision of standards for classification of asset soundness, strengthened requirements for loan-loss reserves, and stricter regulations on BIS ratios

(5) Enhance overall soundness in the financial sector

- For mutual savings banks under restructuring process, the FSC will support efforts to normalize their operations and monitor progress on a regular basis. For mutual savings banks that received a grace period of suspension or sold their bad PF loans to the restructuring fund, the FSC will help them implement their recapitalization plans. In order to secure enough funds for restructuring, a revision bill of the Depositor Protection Act is currently pending in the National Assembly for parliamentary approval to extend the operational period of special account for mutual savings banks.

2. Korea's advanced financial system

(1) Reform capital market system

- The FSC will help home-grown IBs and hedge funds become firmly established in Korea's capital markets.
- We will ensure capital markets infrastructure such as ATS and CCP can be introduced as scheduled.



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- The current evaluation system of corporate credit ratings will be revised to meet advanced standards
- The FSC will promote sound development of Korea's derivatives markets by raising initial deposit ratio and strengthening protection for investors in ELS market.
- Pension funds will be encouraged to play a bigger role as a safeguard in financial markets through their investment.
- While promoting activities of home-grown IBs, the FSC will also support activities of "small-but-strong" securities firms in specialized niche markets.
- We will also be more flexible in granting licenses for asset management businesses
- Regulations on trust businesses will be revised in line with the newly revised Trust Business Act scheduled to be enforced on July 26, 2012.

(2) Improve ownership and governance structures in financial firms

- Financial firms will be directed to make their compensation practices more transparent and reasonable. They will be required to disclose further details of their executive compensations and link their bonus payments to employees' performances.
- Financial firms will be required to enhance managerial transparency and accountability by protecting independence of non-executive directors and an audit committee.
- Current regulations on bank ownership – such as restrictions on non-financial investors' ownership in banks – will be under review for a revision.

(3) Promote electronic financial services

- The Electronic Securities Act will be enacted to reduce costs in issuing and trading securities and improve transparency in transactions.

(4) Establish a transparent and fair market

- Penalties against negligent auditors will be raised from KRW 500 million to KRW 2 billion, and accounting firms will be restricted in auditing their peers in order to



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prevent conflict of interests.

(5) Promote further globalization of Korea's financial industry

- The FSC will strengthen international cooperation in financial supervision by signing MOUs with overseas financial authorities and more effectively support Korea's financial companies to expand into overseas markets.
- We will hold IR events to publicly promote financial centers in Seoul and Busan and attract more global financial companies.

3. Financial services environment for the growth of start-ups and SMEs

(1) Support start-up businesses

- The Commission will address banks' current practices of joint liability, which have been a big burden for start-up business owners. In principle, the joint guarantee requirement for individual business owners will be abolished. For corporations, only those who are actually involved in management will be held jointly liable for loans. In case of co-founders, they will be required to evenly share the liability.
- Policy finance institutions will increase their financial support for start-ups to KRW 21.7 trillion. In particular, ceilings of financial guarantees for young entrepreneurs by KODIT and KIBO will be raised from the current KRW 50 million to KRW 300 million.
- Financial institutions will jointly raise KRW 0.5 trillion worth of funds for the next three years to support more than 10 thousand start-up businesses.
- Public guarantee institutions such as KODIT and KIBO will provide debt relief for financially difficult borrowers.
- For those who enter workout programs, their corporate default-related information will be erased. Also for those who faithfully repay their debt for two years, the information that they are in debt workout programs will be erased.
- For those who enter workout programs, debt repayment will be deferred for up to two years.

(2) Revamp financial infrastructure for SMEs

- Banks' employees and executives who follow appropriate procedures and rules in



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approving loans for SMEs will be given immunity even if the loans they approved become non-performing.

- The FSC will improve the current credit rating system for SMEs through promoting specialized CBs.
- The KoFC, KDB and IBK will work on providing new services that combine loans and investment.
- The KoFC will increase its investment in CBs or BWs of SMEs to KRW 120 billion.
- A new stock market will be created for professional investors who want to invest in stock in SMEs in order to facilitate SMEs' funding through capital markets.
- The FSC will launch a revision of regulations on KOSDAQ to make listings of small-but-strong tech companies easier.

(3) Expand policy finance institutions' support for SMEs and job creation

- Policy funding worth KRW 106.4 trillion will be provided for SMEs against possible economic downturns.
- Fast-track programs for SMEs will be extended by end-2012.
- KODIT and KIBO will expand their guarantees for start-up companies, while reducing guarantees for long-term and large loans or for marginal companies.
- KDB and other 12 policy finance institutions will hire a total of 1,328 workers.
- Companies that make significant contribution to job creation will be granted KRW 8.4 trillion.

(4) Conduct a year-round corporate restructuring

- Creditor banks will continue to conduct a year-round corporate restructuring, while closely monitoring capital flows in such cyclically sensitive industries as construction companies, shipbuilders, and shipping companies.
- Inter-creditor agreements will be extended by end-2012 in order to support construction companies suffering from temporary liquidity crunch. Depending on the demand in 2012, construction companies will be issuing KRW 1 trillion worth of P-CBOs.



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4. Financial services for sustainable development

(1) Strengthen financial support for new growth and green industries

- The KoFC will create four additional funds of KRW 600 billion to nurture new growth industries and provide incentives for businesses to effectively use those funds.
- The KoFC's on-lending facility for new growth industries will be increased to KRW 1.5 trillion, and a foreign currency on-lending program will be newly introduced.
- Financial support for green industries will be increased from KRW 8.6 trillion in 2011 to KRW 10.9 trillion in 2012.

(2) Provide financial safety nets in the era of longevity

- Equity-type funds with a long-term and diversified investment strategy will be granted tax benefits.
- For housing pension plans, the maximum amount of money that pension subscribers are permitted to withdraw on a frequent basis will be raised from 30% to 50% of their loan limits, and benefit payment schemes will be more diversified.
- The FSC will lay a foundation for developing pension insurance products for retirees that pay differentiated benefits depending on pensioners' health conditions and health insurance products for the elderly that cover age-related risks.
- A data base of financial-sector retirees will be established to be utilized by companies to fine new hires.

5. Expanded financial services for low-income households

(1) Enhance low-income households' access to financial services

- Microfinance programs – such as Smile Microcredit, Sunshine Loan and New Hope Loan – will be expanded to benefit more low-income borrowers.
- The Korea Housing Finance Corporation (KHFC) will offer lower interest rates and special guarantees for low-income borrowers.



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- In order to ease interest payment burdens for low-income household, we will help low-income households with high-interest rate loans transfer to ones with lower-interest rates and also set a ceiling on loan brokerage service fees.

(2) Protect low-income households from financial frauds

- We will revise related regulations to ensure illegal loan brokerage service fees be returned to borrowers and regulate private money lenders' advertisements to prevent low-income households from excessively borrowing beyond their means.
- We will come up with case-by-case precautionary measures against financial frauds such as voice phishing scams.
- For financial damages from fraudulent schemes, we will hold the financial firms accountable for their negligence in preventing such frauds and make them compensate part of such losses for their customers.

(3) Help poor credit-holders restore their credit rating

- A total of KRW 100 billion* will be allocated to extend loans at lower interest rates to those who faithfully repay their debt for more than a year.

* KRW 70 billion (2010) → KRW 90 billion (2011) → KRW 100 billion (2012)

- A broader range of applicants for credit rating recovery programs will be exempted from paying debt restructuring service fees and application fees.
- For college undergraduate job seekers in default on student loans, employers' inquiry into job applicants' credit records will be restricted.

(4) Revise regulations on credit card business

- Regulations on credit card fees for merchants will be revised to make them more transparent and reasonable.
- In order to encourage more use of debit cards than credit cards, we will give more tax benefits to debit card users.
- Standard terms and conditions of contract will be set in order to address unfair contract practices between credit card companies and merchants.



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6. Social contribution of financial institutions and stronger protection for financial consumers

(1) Promote financial firms' social contribution

- Budget allocation for financial firms' social contribution will be increased from KRW 0.9 trillion in 2011 to KRW 1.3 trillion in 2012.

- Financial firms will employ more high school graduates

* The financial sector plans to employ 8,718 high school graduates from 2011 to 2013.

- Banks will create funds to provide guarantees for student loans at lower interest rates.

(2) Strengthen protection for financial consumers

- The FSC will require financial companies to provide consumers further information on their financial services fees and promote fair competition, which will further broaden financial consumers' options for financial products.
- Advertisements of insurance products will be regulated not to mislead consumers, and insurers will be required to provide more detailed information about their insurance policies.

(3) Legislate the Financial Consumer Protection Act

- The FSC will set six principles on sales of financial products and strengthen penalties against violations.

(4) Strengthen safety of electronic financial transactions

- Regulators will closely watch whether financial firms properly collect and use their customers' personal information and restrict unnecessary information gathering.



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