

FSB- G20 - MONITORING PROGRESS – Korea September 2010 [For Publication in March 2011]

#		G20/FSB RECOMMENDATIONS	DEAD-LINE	<p align="center">PROGRESS TO DATE</p> <p><u>Explanatory notes:</u></p> <p>In addition to information on progress to date, specifying steps taken, please address the following questions:</p> <p>1. Have there been any material differences from relevant international principles, guidelines or recommendations in the steps that have been taken so far in your jurisdiction?</p> <p>2. Have the measures implemented in your jurisdiction achieved, or are they likely to achieve, their intended results?</p> <p>Also, please provide links to the relevant documents that are published.</p>	<p align="center">PLANNED NEXT STEPS</p> <p><u>Explanatory notes:</u></p> <p>Timeline, main steps to be taken and key mileposts (Do the planned next steps require legislation?)</p> <p>Are there any material differences from relevant international principles, guidelines or recommendations that are planned in the next steps?</p> <p>What are the key challenges that your jurisdiction faces in implementing the recommendations?</p>	
I. Building high quality capital and mitigating procyclicality						
1	(Pitts)	Basel II Adoption	All major G20 financial centres commit to have adopted the Basel II Capital Framework by 2011.	By 2011	Korea has adopted the Basel II capital framework as of the end of 2008.	NA
2	(FSB 2009) (Tor)	Basel II trading book revision	<p>Significantly higher capital requirements for risks in banks' trading books will be implemented, with average capital requirements for the largest banks' trading books at least doubling by end-2010.</p> <p>We welcomed the BCBS agreement on a coordinated start date not later than 31 December 2011 for all elements of the revised trading book rules.</p>	By end-2011	FSC(Financial Services Commission) is currently reviewing trading transaction, regulatory capital and overall status of the market risk to implement higher capital requirements for bank's trading books.	<p>Scheduled to conduct an impact evaluation on domestic banks using internal models, and to modify the standard model.</p> <p>Korea will implement proper capital requirements after the impact evaluation.</p>

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3	(Pitts)	Build-up of capital by banks to support lending	We call on banks to retain a greater proportion of current profits to build capital, where needed, to support lending.	Ongoing	FSC has encouraged and guided all the banks to increase their capital by retaining their profits and inducing new capital during the crisis. FSC signed MOU with banks on Bank Recapitalization Fund and consistently monitored SME lending performance.	Planning to implement regulations on capital buffer, which is to be determined at BCBS.
4	(FSF 2009)	Basel II – Pillar 2 enhancement	1.4 Supervisors should use the BCBS enhanced stress testing practices as a critical part of the Pillar 2 supervisory review process to validate the adequacy of banks' capital buffers above the minimum regulatory capital requirement.	End-2009 and ongoing	In response to potential deterioration in banks' soundness, Korea conducted a more rigorous stress test on banks based on variables and scenarios in Apr. 2009. FSC is conducting reviews to apply the 'Principles for sound stress testing practices and supervision' announced by the Basel Committee in May '09.	Korea will continue to use stress test as a major supervisory tool. FSC is developing guidelines on crisis analysis jointly developed by the public-private Pillar 2 Task Force. The guidelines will be finalized by 2010.
5	(Lon)	Supplementation of Basel II by simple, transparent, non-risk based measure	Supplement risk-based capital requirements with a simple, transparent, non-risk based measure which is internationally comparable, properly takes into account off-balance sheet exposures, and can help contain the build-up of leverage in the banking system.	Ongoing	Korea is currently adopting the simple leverage ratio (excluding off-balance sheet items) as one of criteria to evaluate CAMELS of financial institutions.	According to the outcome and schedule of the BCBS work, Korea will supplement current capital regulation applied to domestic banks in line with the international standard.

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9	(FSB 2009)	Enhancement of supervision of banks' operation in foreign currency funding markets	Regulators and supervisors in emerging markets will enhance their supervision of banks' operation in foreign currency funding markets.	Ongoing	<p>The new enhanced supervision of mid-long term funding ratio was implemented in Jan 2010.</p> <p>To address maturity mismatch between foreign assets and debts, banks are required to apply liquidity weight based on asset type in consideration of anticipated recovery rates by the July 2010.</p> <p>Banks are required to hold minimum safe foreign assets (government and corporate bonds) to cope with potential foreign liquidity shortages by the Jul 2010.</p> <p>The new measures are legislated on Dec 29, 2009 in line with the objective of the Basel Committee.</p>	The implementation status will be closely monitored by the supervisory authority continuously.
10	(FSF 2008)	Strengthening of regulatory and capital framework for monolines	II.8 Insurance supervisors should strengthen the regulatory and capital framework for monoline insurers in relation to structured credit.	Ongoing	Currently there are no monoline insurers involved in structured credit in Korea.	NA
II. Strengthening accounting standards						
11	(WAP)	Consistent application of high-quality accounting standards	Regulators, supervisors, and accounting standard setters, as appropriate, should work with each other and the private sector on an ongoing basis to ensure consistent application and enforcement of high-quality accounting standards.	Ongoing	FSC/FSS, accounting standard-setter (KASB), and accounting firms worked together to ensure smooth transition to IFRS adoption in Korea. In particular, they organised a large scale off-line education program which was provided to preparers, CPAs and other interested parties. Also, Korea actively participates in the activities of AOSSG (Asia Oceania Standard Setters Group) which consists of standard-setters from many countries in Asia and Oceania region, in order to work toward consistent application of IFRSs and raise implementation issues to the IASB efficiently.	Korean government will continue to monitor the progress of IFRS adoption in Korea through the committee of which the members comprising regulator, standard-setter, accounting firms, and preparers. Korea will continue to participate in the activities of AOSSG working groups.

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12	(FSF 2009)	The use of valuation reserves or adjustments by accounting standard setters and supervisors	3.4 Accounting standard setters and prudential supervisors should examine the use of valuation reserves or adjustments for fair valued financial instruments when data or modelling needed to support their valuation is weak.	End-2009	<p>The KASB submitted comment letters on exposure draft of the IASB during the 2nd quarter of 2010, which include the following.</p> <ul style="list-style-type: none"> - Measurement uncertainty analysis disclosure for fair value - Fair value option for financial liabilities - Financial instruments: Amortised cost and impairment <p>In the comment letter for 'financial instruments: Amortised cost and impairment', the KASB pointed out that the complexity in practice and the convergence with US GAAP should be addressed in finalising the proposed model.</p> <p>The KASB held round-table meetings or forums for the exposure drafts to hear the opinions of Korean constituents.</p>	<p>As for the IFRS 9 'Financial Instruments' issued by the IASB in Nov. 2009, the KASB is monitoring the progress of the other projects for financial instruments to adopt the IFRS 9 as Korean standards.</p> <p>The KASB will also monitor the progress of the convergence projects of the IASB and the FASB.</p>
13	(FSF 2009)	Dampening of dynamics associated with FVA.	3.5 Accounting standard setters and prudential supervisors should examine possible changes to relevant standards to dampen adverse dynamics potentially associated with fair value accounting. Possible ways to reduce this potential impact include the following: (1) Enhancing the accounting model so that the use of fair value accounting is carefully examined for financial instruments of credit intermediaries; (ii) Transfers between financial asset categories; (iii) Simplifying hedge accounting requirements.	End-2009	<p>As for (i) and (ii), please refer to the comment for '12'</p> <p>As for (iii) The IASB's plan for the replacement of IAS 39 consists of three main phases. As the last phase, the IASB will issue ED (Exposure Draft) on hedge accounting by the end of 4th quarter 2010. The KASB is monitoring the tentative decisions developed by the IASB.</p>	<p>As for (i) and (ii), please refer to the comment for '12'</p> <p>As for (iii) The KASB plans to submit a comment letter on the ED for hedge accounting to the IASB after collecting opinions from domestic constituents. The KASB will consider implications for K-IFRS following finalisation of the new standard by the IASB</p>

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14	(FSF 2008)	Enhanced disclosure of securitised products	III.10-III.13 Securities market regulators should work with market participants to expand information on securitised products and their underlying assets.	Ongoing	<p>The Asset-backed Securitization Act in Korea mandates registration and disclosure on a relatively stronger legislative level than other countries. Regarding public disclosure on asset-backed securitization, companies are required to register detailed plans including the scope, type and management plan related to securitization to FSS(Financial Supervisory Service) and details of the registration is disclosed on DART(Data Analysis Retrieval and Transfer System) an electronic disclosure system run by the FSS.</p> <p>DART, which allows investors to view securitization information on-line, helps asset-backed securities issuance remain transparent. Moreover, the FSS monitors the issuance of high-risk securities by monitoring registered securitization plans, which provides stronger investor protection</p> <p>The FSC plans to revise Asset-Backed Securities Act to expand disclosure for investor protection.</p>	III.10-III.13 The FSC to develop amendments for Asset-Backed Securities Act by end of 2010.
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III. Reforming compensation practices to support financial stability					
15	(Lon)	Implementation of FSB/FSF compensation principles	National supervisors should ensure significant progress in the implementation of FSF sound practice principles for compensation by financial institutions by the 2009 remuneration round.		
	(Pitts)		We fully endorse the implementation standards of the FSB aimed at aligning compensation with long-term value creation, not excessive risk-taking. Supervisors should have the responsibility to review firms' compensation policies and structures with institutional and systemic risk in mind and, if necessary to offset additional risks, apply corrective measures, such as higher capital requirements, to those firms that fail to implement sound compensation policies and practices. Supervisors should have the ability to modify compensation structures in the case of firms that fail or require extraordinary public intervention. We call on firms to implement these sound compensation practices immediately.	End-2010	<p>FSC introduced best practices for each sector such as banks, financial investment firms, insurers and financial holding companies in January 2010. FSC performed consultation process with related financial associations and financial institutions, and issued administrative guidance to implement the new standards.</p> <p>The best practices reflect key highlights of the original FSB principles, including the establishment of an independent compensation committee, aligning compensation and risk with long-term performance, disclosing key compensation-related information.</p> <p>The new standards are applied for compensations in 2010.</p>
	(Tor)		We encouraged all countries and financial institutions to fully implement the FSB principles and standards by year-end, We call on the FSB to undertake ongoing monitoring in this area and conduct a second thorough peer review in the second quarter of 2011.		<p>Korea will consider gradually expanding implementation scope following global discussions and domestic implementation progress.</p> <p>Korea will revise relevant guideline reflecting FSB's thematic review results, which will be announced in upcoming March.</p>

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16	(Pitts)	Supervisory review of firms' compensation policies etc.	Supervisors should have the responsibility to review firms' compensation policies and structures with institutional and systemic risk in mind and, if necessary to offset additional risks, apply corrective measures, such as higher capital requirements, to those firms that fail to implement sound compensation policies and practices. Supervisors should have the ability to modify compensation structures in the case of firms that fail or require extraordinary public intervention.	Ongoing	<p>FSC will review financial institutions' status of implementation periodically. Any financial institution who does not follow the best practices will receive low CAMELS rating and corrective orders from FSC.</p> <p>Korea has a Prompt Corrective Action rule which allows FSC to issue an order to failing financial institutions to modify their compensation scheme.</p>	Korea fully agrees with FSB's view on compensation scheme of financial institutions and is committed to implementing its principles.
IV. Improving OTC derivatives markets						
17	(Lon)	Development of action plan on the standardization of CDS markets (eg CCP)	We will promote the standardization and resilience of credit derivatives markets, in particular through the establishment of central clearing counterparties subject to effective regulation and supervision. We call on the industry to develop an action plan on standardisation by autumn 2009.	Autumn 2009	<p>In Nov 2009, domestic financial institutions held discussions on establishing "The Study Committee for OTC Derivatives Infrastructure Improvements" to set up infrastructure on OTC Derivatives.</p> <p>The Study Committee for OTC Derivatives Infrastructure Committee announced its recommendations regarding implementation of OTC infrastructure in Feb. 2010.</p>	The Study Committee will continue to conduct analysis on international trends and studies to build OTC derivatives infrastructure.
18	(Pitts)	Trading of all standardized OTC derivatives on exchanges etc.	All standardized OTC derivative contracts should be traded on exchanges or electronic trading platforms, where appropriate, and cleared through central counterparties by end-2012 at the latest. OTC derivative contracts should be reported to trade repositories. Non-centrally cleared contracts should be subject to higher capital requirements.	By end-2012 at the latest	<p>To develop implementation plans for OTC derivatives infrastructure such as establishment of CCP, the government organized a task force team in cooperation with the academia, and related agencies.</p> <p>Currently, details of the implementation plans are under review.</p>	Plans to establish OTC derivatives infrastructure will be developed by end of 2010.

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V. Addressing cross-border resolutions and systemically important financial institutions						
19	(Pitts)	Consistent, consolidated supervision and regulation of SIFIs	All firms whose failure could pose a risk to financial stability must be subject to consistent, consolidated supervision and regulation with high standards.	Ongoing	Starting in 2010, FSC imposed stricter supervision and regulation on large banks by reducing the average on-site inspection term from 1.5-2 years to 1 year.	FSC will conduct in-depth study on the feasibility of adopting new supervisory regulation on domestic SIFIs. Meanwhile, Korea will contribute to setting up new standards by actively participating in FSB discussions.
20	(Pitts)	Development of resolution tools and frameworks for the effective resolution of financial groups to help mitigate the disruption of financial institution failures and reduce moral hazard in the future	We should develop resolution tools and frameworks for the effective resolution of financial groups to help mitigate the disruption of financial institution failures and reduce moral hazard in the future. Our prudential standards for systemically important institutions should be commensurate with the costs of their failure. The FSB should propose by the end of October 2010 possible measures including more intensive supervision and specific additional capital, liquidity, and other prudential requirements.	October 2010	Korea support FSB's process to develop new supervisory rules on SIFI. Starting in 2010, Korea will reinforce supervision on large banks and insurers by increasing on-site inspection frequency.	FSC will conduct in-depth study on the feasibility of adopting new supervisory regulation on domestic SIFIs. Meanwhile, Korea will contribute to setting up new standards by actively participating in FSB discussions.
VI. Strengthening adherence to international supervisory and regulatory standards.						
21	(Lon)	Adherence to international prudential regulatory and supervisory standards	<p>We call on all jurisdictions to adhere to the international standards in prudential, tax and AML/CFT areas.</p> <p>We are committed to strengthened adherence to international prudential regulatory and supervisory standards.</p>	Ongoing	<p>As of October 14, 2009, Korea became a full member of the FATF and has been implementing various measures to improve the AML/CFT regime in Korea including (but not limited to): the adjustment of the Suspicious Transaction Report (STR) threshold and the improvement of the Customer Due Diligence (CDD) regime.</p> <p>Korea is strongly committed to implement an effective AML/CFT regime and the Follow-UP Review Team from the FATF also confirmed our commitment to adhere to the international standards in prudential and AML/CFT areas.</p>	<p>In accordance with the FATF's recommendations, we are in the process of amending the Financial Transaction Reports Act (FTRA) and the Prohibition of Financing for Offences of Public Intimidation Act (PFOPIA). Once these amendments are implemented, we expect that they will strengthen the AML/CFT regime in Korea.</p> <p>Korea will continue to stand in the forefront of implementing an effective prudential, tax and AML/CFT regime in the world.</p>

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22	(Lon)	Periodic peer reviews	FSB members commit to pursue the maintenance of financial stability, enhance the openness and transparency of the financial sector, implement international financial standards, and agree to undergo periodic peer reviews, using among other evidence IMF / World Bank FSAP reports.	Ongoing	Korea is committed to maintaining financial stability, enhance the openness and transparency of the financial sector, implement international financial standards, and agree to undergo periodic peer reviews.	Korea will undergo periodic peer review when necessary.
23	(WAP)	Undertaking of FSAP	All G20 members commit to undertake a Financial Sector Assessment Program (FSAP) report and support the transparent assessment of countries' national regulatory systems.	Ongoing	Korea has already undertaken an FSAP assessment from 2001 to 2003. Based on the assessment results, Korea has fully amended its relevant laws and regulations in line with international standards.	Korea is considering undertaking a new FSAP assessment in or beyond 2011.
24	(FSF 2008)	Additional steps to check the implementation of int'l guidance	V.11 National supervisors will, as part of their regular supervision, take additional steps to check the implementation of guidance issued by international committees.	Ongoing	FSC constantly monitors developments to ensure implementation of guidelines developed by FSB, BCBS, ISOCO and IAIS. For example, we already adopted Basel II and the compensation principles.	FSC will continue to revise relevant laws and regulations to ensure implementation of international standards.

VII. Other issues

Developing macroprudential frameworks and tools, realigning and ensuring an adequate balance between macroprudential and microprudential supervision

25	(Lon)	Amendment of regulatory systems to take account of macro-prudential risks	Amend our regulatory systems to ensure authorities are able to identify and take account of macro-prudential risks across the financial system including in the case of regulated banks, shadow banks and private pools of capital to limit the build up of systemic risk.	Ongoing	FSC and FSS have right to supervise all financial institutions and instruments by the relevant laws. In order to limit the build up of systemic risk, they regulate the banking sector not only based on international standards such as Basel II capital framework but also based on LTV and DTI for mortgage loans to maintain asset soundness of banks.	International discussion is underway on system risk-based macro-prudential tools and standards. Korea will adopt new supervisory tools proposed by the FSB or other international bodies if it is necessary.
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26	(Lon)	Powers for gathering relevant information by national regulators	Ensure that national regulators possess the powers for gathering relevant information on all material financial institutions, markets and instruments in order to assess the potential for failure or severe stress to contribute to systemic risk. This will be done in close coordination at international level in order to achieve as much consistency as possible across jurisdictions.	Ongoing	Korea has been operating an integrated financial supervisory body since 1999. The FSC/FSS is responsible for collecting relevant information regarding all financial institutions, market and products. These information are used to monitor impacts on macro prudential conditions. We have also kept keen relationship with various foreign supervisory authorities by signing MOUs on information sharing.	Korea will keep the consistency across jurisdictions by adopting new standards agreed by international communities.
27	(Lon)	Review of the boundaries of the regulatory framework	We will each review and adapt the boundaries of the regulatory framework to keep pace with developments in the financial system and promote good practices and consistent approaches at an international level.	Ongoing	Korea agrees that a regular review of regulation scope is necessary to keep pace with the changes in the financial system, and will review any detailed proposals made in the future at an international level.	Korea will continue to monitor the progress of international discussion on regulatory framework to keep pace with developments in the financial system.

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28	(FSF 2009)	Use of macro-prudential tools	<p>3.1 Authorities should use quantitative indicators and/or constraints on leverage and margins as macroprudential tools for supervisory purposes. Authorities should use quantitative indicators of leverage as guides for policy, both at the institution-specific and at the macroprudential (system-wide) level. On leverage ratios for banks, work by the BCBS to supplement the risk based capital requirement with a simple, non-risk based leverage measure is welcome. Authorities should review enforcing minimum initial margins and haircuts for OTC derivatives and securities financing transactions.</p>	End-2009 and ongoing	<p>Korea is currently adopting the simple leverage ratio (excluding off-balance sheet items) as one of criteria to evaluate CAMELS of banks.</p> <p>Insurance companies are unable to pursue excessive margins by increasing leverage because they are allowed to borrow only for the purpose of maintaining financial soundness or liquidity. Risky transactions are more strictly managed and supervised. For instance, total volume of investment in OTC derivatives is limited (no more than 3% of total asset) and massive losses on derivatives trading (more than 1% of solvency margin) must be publicly disclosed.</p> <p>FSC/FSS are analyzing the likelihood of potential risks by writing standard stress test scenarios for each underlying asset of derivatives and aggregating test results by transaction counterparty (from Q2 2009).</p> <p>FSC increase the margin requirement for margin trades from 2 to 5 percent, ultimately reducing the leverage of such trades to 20 times (in Jul 2009).</p> <p>FSC revised regulations to allow banks to set transaction limits based on transaction parties in foreign currency derivative transactions.</p>	<p>According to the outcome and schedule of the BCBS work, Korea will supplement its capital regulation applied to domestic banks.</p> <p>FSC is planning to revise regulations to allow financial investment companies to set transaction limits based on transaction parties in foreign currency derivative transactions.</p>
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29	(WAP)	Monitoring of asset price changes	Authorities should monitor substantial changes in asset prices and their implications for the macro economy and the financial system.	Ongoing	The Ministry of Strategy and Finance and the FSC are closely monitoring the effects of asset price fluctuations on the financial market and macro-economy. The Bank of Korea also considers the impact of changes in stock and housing prices on its monetary policy. In particular, FSC has strengthened LTV and DTI regulations last year in response to herd behaviour of mortgage lending business which associated with systemic risks.	NA
30	(FSF 2008)	Supervisory resources and expertise to oversee the risks of financial innovation	V.1 Supervisors should see that they have the requisite resources and expertise to oversee the risks associated with financial innovation and to ensure that firms they supervise have the capacity to understand and manage the risks.	Ongoing	FSS has established a dedicated team to effectively address risks associated with financial innovation. (Financial Risk System Office, Financial Risk Examination Support Department)	FSS will hire more experts to oversee the risks associated with financial innovation, and train its inspectors to update new risks to manage.
31	(FSF 2008)	Supervisory communication with firms' boards and senior management	V.2 Supervisors and regulators should formally communicate to firms' boards and senior management at an early stage their concerns about risk exposures and the quality of risk management and the need for firms to take responsive action. Those supervisors who do not already do so should adopt this practice.	Ongoing	FSC/FSS hold regular partnership meetings with financial institutions' management and have official interviews with them when carrying out comprehensive evaluations to discuss risk factors and risk management measures.	NA
32	(FSF 2008)	Improved cooperation between supervisors and central banks	V.8 Supervisors and central banks should improve cooperation and the exchange of information including in the assessment of financial stability risks. The exchange of information should be rapid during periods of market strain.	Ongoing	There are various consultation channels to discuss financial stability risks and to exchange information among financial authorities, including the Financial Services Commission, the Ministry of Strategy and Finance and the Bank of Korea.	NA

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Hedge funds						
33	(Lon)	Registration of hedge funds	Hedge funds or their managers will be registered and will be required to disclose appropriate information on an ongoing basis to supervisors or regulators, including on their leverage, necessary for assessment of the systemic risks they pose individually or collectively. Where appropriate registration should be subject to a minimum size. They will be subject to oversight to ensure that they have adequate risk management.	End-2009	<p>There are two types of hedge funds in Korea (PEF and hedge funds for accredited investors). When hedge funds are established, they are obliged to register with the supervisory authority. Hedge fund managers are under constant monitoring of the supervisory authority. Only authorized experts are allowed to manage hedge funds for qualified investors. PEF is subject to supervision when necessary by the law.</p> <p>Funding limits for hedge fund are regulated by the relevant law, There would be no leverage-associated risks due to the relatively low required limits</p> <ul style="list-style-type: none"> - PEF(Including SPC) : Less than 200% of PEF assets - Hedge funds for qualified investors: Less than 300% of fund assets 	<p>As regulations in Korea mostly meet international principles or guidelines related to strengthening hedge fund regulation, no additional measures would be necessary.</p> <p>If there is any, FSC may consider to adopting additional regulations to prevent system risks associated with hedge funds, such as strengthening reports requirement on hedge fund exposure.</p>
34	(Lon)	Effective oversight of cross-border funds	We ask the FSB to develop mechanisms for cooperation and information sharing between relevant authorities in order to ensure effective oversight is maintained when a fund is located in a different jurisdiction from the manager. We will, cooperating through the FSB, develop measures that implement these principles by the end of 2009.	End-2009	<p>The supervisory authority operates a system which enables ongoing oversight of domestically-founded hedge funds, thereby allowing collection of hedge fund-related data on an ongoing basis.</p> <p>Korea submitted an application to sign MMOU with IOSCO to share supervisory data with its members.</p>	<p>FSC is committed to implementing international cooperation principles on hedge funds.</p>
35	(Lon)	Effective management of counter-party risk associated with hedge funds	Supervisors should require that institutions which have hedge funds as their counterparties have effective risk management, including mechanisms to monitor the funds' leverage and set limits for single counterparty exposures.	Ongoing	<p>Currently Korea imposes leverage ratios on hedge funds under the law.</p> <ul style="list-style-type: none"> - PEF (including SPC): Less than 200% of PEF assets - Hedge funds for qualified investors: Less than 300% of fund assets 	<p>Instead of phasing out leverage ratios, FSC is considering mandating reports on financial lending and exposure related to hedge funds and their counterparties</p> <p>FSC is considering obligating risk management on hedge fund managers.</p>

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36	(FSF 2008)	Guidance on the management of exposures to leveraged counterparties	II.17 Supervisors will strengthen their existing guidance on the management of exposures to leveraged counterparties	Ongoing	FSC currently requires counterparty risk evaluation in capital adequacy (NCR) review. Since Dec 2009, FSC has strengthened counterparty risk levels on RAMS (Risk Analysis & Management System).	Additional measures to reduce counterparty's risks will be reviewed if necessary.
Credit rating agencies						
37	(Lon)	Registration of CRAs etc.	All CRAs whose ratings are used for regulatory purposes should be subject to a regulatory oversight regime that includes registration. The regulatory oversight regime should be established by end 2009 and should be consistent with the IOSCO Code of Conduct Fundamentals.	End-2009	Korea operates a permit system on CRAs and conducts supervisory activities on a regular basis. The Credit Information Act, revised in Oct 2009, requires CRAs to establish and comply with internal controls.	NA
38	(Lon)	CRA practices and procedures etc.	National authorities will enforce compliance and require changes to a rating agency's practices and procedures for managing conflicts of interest and assuring the transparency and quality of the rating process. CRAs should differentiate ratings for structured products and provide full disclosure of their ratings track record and the information and assumptions that underpin the ratings process. The oversight framework should be consistent across jurisdictions with appropriate sharing of information between national authorities, including through IOSCO.	End-2009	FSC completed the revision of CRA-related regulations which took effect in Oct. 2009. The revised regulations make it mandatory for CRAs to establish internal process to ensure rating accuracy and prevent conflict of interest and irregularities. CRAs are obligated to disclose rating methodology and rating process on structured products as well as underlying assets which significantly impact credit rating. To maintain supervisory consistency on CRAs, FSC pays close attention on international discussions and legislative developments in respective countries.	NA

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39	(FSB 2009)	Globally compatible solutions to conflicting compliance obligations for CRAs	Regulators should work together towards appropriate, globally compatible solutions (to conflicting compliance obligations for CRAs) as early as possible in 2010.	As early as possible in 2010	FSC is committed to any requests for global cooperation.	NA
40	(FSF 2008)	Review of roles of ratings in regulations and supervisory rules	IV. 8 Authorities should check that the roles that they have assigned to ratings in regulations and supervisory rules are consistent with the objectives of having investors make independent judgment of risks and perform their own due diligence, and that they do not induce uncritical reliance on credit ratings as a substitute for that independent evaluation.	Ongoing	CRAs are required to disclose rating performance reports and data on rating developments and average accumulated default rates. FSC encourages investors to perform their own due diligence to prevent them from becoming overly dependent on credit ratings.	NA
Supervisory colleges						
41	(Lon)	Supervisory colleges	To establish the remaining supervisory colleges for significant cross-border firms by June 2009.	June 2009	None of the local financial institutions fall into the category in Korea. Korea agreed to establish the remaining supervisory colleges.	FSC wishes to participate in existing and any new supervisory colleges established by the home authorities of foreign banks

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42	(FSF 2008)	Supervisory exchange of information and coordination	V.7 To quicken supervisory responsiveness to developments that have a common effect across a number of institutions, supervisory exchange of information and coordination in the development of best practice benchmarks should be improved at both national and international levels.	Ongoing	<p>To comply with guidelines recommended by SSBs, Korea has continually revised relevant legislation as part of efforts to address shortfalls as identified in the FSAP review.</p> <p>Korea raised the need to share information relating to the detailed activities of supervisory colleges (e.g. list of the (core) members, criteria to select such members) among FSB members for them to discuss whether such criteria are appropriate. (Sept FSB meeting)</p> <p>FSC has revised the Real Name Financial Transaction Act, which had previously hindered information exchange with supervisors, as well as MOUs with supervisory bodies around the world. We have submitted a formal application to sign MMOU of IOSCO in Nov 2009.</p>	Korea is committed to comply with the key principles developed by BCBS, IOSCO and IAIS, and requires procedural time for signing MMOU with IOSCO.
Crisis management						
43	(Lon)	Implementation of FSF principles for cross-border crisis management	To implement the FSF principles for cross-border crisis management immediately. Home authorities of each major financial institution should ensure that the group of authorities with a common interest in that financial institution meets at least annually.	Immediate	<p>At the FSB June Plenary meeting in 2009, Korea proposed that the host countries' supervisory authorities should be invited to join supervisory colleges and encouraged to be actively involved in setting the meeting agenda and discussions, in case of matters relating to cross-border financial institutions deemed systemically important from the view point of the host countries</p> <p>Korea submitted detailed proposals on the criteria for developing countries' participation in and operation of supervisory colleges (Sep. FSB meeting)</p>	FSC wishes to participate in the existing and any new supervisory colleges established by the home authorities of foreign financial institutions.

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46	(FSF 2008)	Review of national deposit insurance arrangements	VI.9 National deposit insurance arrangements should be reviewed against the agreed international principles, and authorities should strengthen arrangements where needed.	Ongoing	Korea abides by all 18 core principles developed by the IADI (International Association of Deposit Insurer) and BCBS.	International discussions are underway to strengthen deposit insurer capability in preemptively identifying financial institution delinquency to minimize risk. Korea will incorporate international developments to strengthen deposit insurer capability in preventing delinquency and improving resolution functions.
Risk management						
47	(WAP)	Development of enhanced guidance for banks' risk management practices	Regulators should develop enhanced guidance to strengthen banks' risk management practices, in line with international best practices, and should encourage financial firms to re-examine their internal controls and implement strengthened policies for sound risk management.	Ongoing	Korea has adopted Risk Assessment and Dynamic Analysis Rating System (RADARS) since 2006 to assess risks in 14 business areas. Korea has established a three-step plan for advancement of the comprehensive risk management system aimed at improving banks' risk management capacity. * Step 1 (Apr. 2000~Dec. 2002): Establishment of infrastructure for risk management Step 2 (Mar. 2004~Dec. 2007): Advancement of risk management business Step 3 (Mar. 2008~Present): Enhancement of the comprehensive risk management system	NA
48	(Pitts)	Robust, transparent stress test	We commit to conduct robust, transparent stress tests as needed.	Ongoing	Korea called on banks to comply with the BCBS principles for sound stress testing practices and supervision published in Apr. 2009. FSC frequently conducts a detailed level of stress tests in preparation of diverse situations that can adversely impact the financial system. In 2009, FSC conducted stress tests regarding household and project financing loan delinquencies and required capital expansion at banks.	Korea is developing the "Best practice for stress testing" by forming a joint task force with domestic banks. Korea commits to conduct stress tests on a frequent basis to retain financial soundness in preparation to external shocks.

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49	(Pitts)	Efforts to deal with impaired assets and raise additional capital	Our efforts to deal with impaired assets and to encourage the raising of additional capital must continue, where needed.	Ongoing	The supervisory authority monitored banks' NPL resolutions and purchased NPLs through the Restructuring Fund to bring down NPL ratios to less than 1%. Since the financial crisis, FSC has encouraged domestic banks to increase capital, which amounted to 29 trillion won in Aug 2008 to Dec 2009. As a result, BIS ratio and Tier 1 ratio of domestic banks rose from 10.86% and 8.33% in Sept 2008 to 14.21% and 10.80% respectively.	NA
50	(FSB 2009)	Implementation of BCBS/IOSCO measures for securitisation	During 2010, supervisors and regulators will: <ul style="list-style-type: none"> • implement the measures decided by the Basel Committee to strengthen the capital requirement of securitisation and establish clear rules for banks' management and disclosure; • implement IOSCO's proposals to strengthen practices in securitisation markets. 	During 2010	FSC has completed QIS analysis in Aug '09 following the measures by Basel to strengthen capital requirement of securitization and established domestic plans to implement IOSCO code of conduct in approval standards for External Credit Assessment Institutions in Aug 2009.	Korea is currently involved in discussions at the Basel Committee and will apply outcomes in domestic context.
51	(Lon)	Improvement in the risk management of securitisation	The BCBS and authorities should take forward work on improving incentives for risk management of securitisation, including considering due diligence and quantitative retention requirements by 2010.	By 2010	Korea has set the requirements for due diligence of the underlying assets of securitization exposures in Sep. 2007.	Korea plans to issue rules by taking the revised Basel II requirements into consideration.
52	(Pitts)	Retainment of a part of the risk of the underlying assets by securitisation sponsors or originators	Securitization sponsors or originators should retain a part of the risk of the underlying assets, thus encouraging them to act prudently.	Ongoing	Given the domestic practice in which the originator (issuer) retains a certain portion (20-30%) of subordinated debt, there is lower risk of moral hazard by originators comparing to other countries.	NA

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53	(WAP)	Enhanced risk disclosures by financial institutions	Financial institutions should provide enhanced risk disclosures in their reporting and disclose all losses on an ongoing basis, consistent with international best practice, as appropriate.	Ongoing	<p>For the Capital Market Risk, disclosure requirements were included in the "Unified Management Disclosure Standards" by Oct. 2009. Korea established a differentiated supervisory measure for vulnerable instruments by requiring financial institutions to add OTC derivatives-related valuation profit and loss of each counterparties to their business reports (Q2 2009).</p> <p>For insurance companies, FSS revised the business disclosure standards in Dec 2009 by including risk management in disclosure requirements. Risk management was included reflecting IAIS recommendations and international accounting standards</p> <p>Losses at insurance companies are already disclosed through income statements.</p>	Standards will be established to require financial institutions to disclose their annual compensation evaluations as required by the FSB Principles for Sound Compensation Practices.
54	(FSF 2008)	Strengthening of supervisory requirements or best practices for investment in structured products	II.18 Regulators of institutional investors should strengthen the requirements or best practices for firms' processes for investment in structured products.	Ongoing	The Korean Capital Market Act prohibits companies to invest in OTC derivatives for the purpose other than avoidance of risks.	NA

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Others						
55	(Pitts)	Development of cooperative and coordinated exit strategies	We need to develop a transparent and credible process for withdrawing our extraordinary fiscal, monetary and financial sector support, to be implemented when recovery becomes fully secured. We task our Finance Ministers, working with input from the IMF and FSB, to continue developing cooperative and coordinated exit strategies recognizing that the scale, timing and sequencing of this process will vary across countries or regions and across the type of policy measures.	Ongoing	The Korean government suspended its payment guarantee on the banks' foreign debt. From July 1, 2010, Korean government suspended its credit guarantee expansion policy for SMEs which took effect on Feb. 2009 to go back to the pre-crisis condition. Credit guarantee rate on ordinary SMEs which rose to 95% according to expansion policies were brought down to the pre-crisis level of 85%, and guarantee rate of 100% in core areas were reduced to pre-crisis level of 90%.	The Capital Expansion Fund, which was created to support banking operations to the business sector, may or may not be suspended in light of future market conditions.

Origin of recommendations:

Pitts: Leaders' Statement at the Pittsburgh Summit (25 September 2009)

Lon: The London Summit Declaration on Strengthening the Financial System (2 April 2009)

Tor: The G-20 Toronto Summit Declaration (26-27 June 2010)

WAP: The Washington Summit Action Plan to Implement Principles for Reform (15 November 2008)

FSF 2008: The FSF Report on Enhancing Market and Institutional Resilience (7 April 2008)

FSF 2009: The FSF Report on Addressing Procyclicality in the Financial System (2 April 2009)

FSB 2009: The FSB Report on Improving Financial Regulation (25 September 2009)