KOREA (as of April 2014)

Annex I: Banks

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
1. Reducing reliance on CRA ratings in laws and regulations (Principle I)			
Based on the findings from the stock-taking exercise, please describe the areas identified as needing change and those areas considered priorities, as well as the steps authorities intend to take to reduce reliance on CRA ratings in laws and regulations. In addition, authorities should describe the incentives put in place for market participants to develop their own independent credit assessment processes. Examples of incentives might include disclosure requirements relating to credit risk assessment practices or articulating clear supervisory expectations of the extent to which firms should perform their own due diligence before making lending decisions.			
In relation to banking sector, Korea has the CRA-rating related provisions in its regulation and detailed regulation on supervision of banking business. The provisions were created for the purpose of adopting the Basel standards (the pillar 1 and 3). In compliance with the pillar 1 adopted, the standardised approach using banks are obligated to use the CRA ratings for the measurement of risk weighted assets. And in accordance with the pillar 3 adopted, the banks are responsible for disclosing information on how they are managing risks; the information includes the names of CRAs and how the CRA ratings are mapped into the Basel standards. Since all the CRA-rating related provisions are designed to comply with the Basel standards, reducing further the reliance on CRA ratings in Korea may have to involve the change in the Basel standards. ※ An estimate of the number of banks using the BCBS standardised approach and the per cent of risk weighted assets covered. - Number of bank(total 18) : SA banks(7), IRB banks(11) - Per cent of risk weighted assets covered : 17.4% = asset of 7 SA banks ÷ asset of all 18 banks			
a) Remove references to CRA ratings in laws and regulations relating to banks.	Financial Supervisory	Change in the Basel Standard	About one year after the change in the

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b) Develop alternative standards of credit assessment, where needed, for the purpose of replacing references to CRA ratings in laws and regulations relating to banks.	Service(FSS)		standard is agreed upon
2. Reducing market reliance on CRA ratings (Principle II)			
a) Enhance supervisory processes and procedures to assess the adequacy of banks' own credit assessment processes and incentivise market participants to develop internal risk management capabilities.	Financial Services Commission(FSC)/ FSS	Amendment of the related law and regulation (Korean banks do not utilize the CRA ratings for their credit assessment purpose. In case of banks using standardised approach, the ratings are used to measure risk weighted assets only. Therefore the amendment might not be necessary for the purpose of reducing the reliance on CRA ratings.)	-
b) Require or incentivise market participants to disclose information about their internal credit risk assessment processes.	FSC	The Regulation on Supervision of Banking Business already requires the disclosure of the information	-

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3.2 Prudential supervision of banks (Principle III.2)			
a) Enhance supervisory oversight of banks to ensure they develop adequate internal credit assessment processes that avoid mechanistic reliance on CRA ratings (differentiating where appropriate between banks subject to the internal ratings-based (IRB), Standardised Approach of other capital regime).	FSC/FSS	Korean banks do not utilize the CRA ratings for their credit assessment purpose. → This question does not apply to Korea.	
b) Revise CRA ratings in other prudential supervisory policies (e.g. relating to liquidity requirements) to reduce reliance on CRA ratings.	FSC/FSS	In banking supervisory framework in Korea, the CRA ratings are used only for the measurement of risk weighted assets. Other than that, there is no prudential supervisory policy involving the CRA ratings.	

Annex II: Central bank operations

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
3. Application of the basic principles to particular financial market activities (Principle III)			
Based on the findings from the stock-taking exercise, please describe the areas identified as needing changes, including which areas are considered priorities, and the steps authorities intend to take to reduce reliance on CRA ratings in central bank policies and operations.			
- **(Open market operations and lending facilities)** CRA ratings are not used. Since OMOs and lending operations were introduced in Korea, the Bank of Korea has never used CRA ratings to determine eligibility of assets in OMOs and lending operations. **- (Foreign asset management)** CRA ratings are only used when choosing which securities to invest in and in reviewing counterparties. Taking into account that the mechanistic use of CRA ratings could lead to systemic risk in the international financial markets, the Bank of Korea is strengthening its efforts to reduce its reliance on CRA for the risk management of reserve assets. We are also improving risk management system in an attempt to enhance the capacity of internal credit assessments, for example, by setting exposure limits using internal scoring methodologies. So as to reduce reliance on specific CRAs and to enhance objectivity, we have increased the range of external CRAs and made the process of credit rating decision more reasonable (by applying medium or multiple ratings). We have also introduced internal credit scoring methodologies for managing counterparty credit risk by setting exposure limits on term deposit and corporate holdings. Through monitoring various indicators such as Expected Shortfall, Systemic risk index, we strengthened both tail risk and systemic risk management. We are developing the capability to respond preemptively to the risks which are difficult to manage based upon external			

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
credit ratings. We have continually used credit-related market indicators (including CDS, EDF) as supplementary tools for the external credit ratings, while we analyze individual financial statements, stress test result, regulatory impact on our reserve portfolio. Because relying solely on internal evaluation in the presence of a significant discrepancy between internal ratings and CRA ratings may result in unintended signals, the results of internal rating assessment would be used as a supplementary reference.			
3.1 Central bank operations (Principle III.1)			
a) Reduce reliance on CRA ratings in central bank policies (such as investments, asset management frameworks, and conventional and unconventional operations), including the decision to accept or reject an instrument as collateral or for outright purchase and in determining haircuts.	The Bank of Korea	**(Open market operations and lending facilities)** CRA ratings are not used. **(Foreign asset management)** The Bank of Korea is improving its risk management system to strengthen internal credit risk evaluation such as introducing internal scoring methodologies to counterparty exposure limit setting but it also deeply considers some important issues regarding internal credit risk evaluation. First, it is really hard for central banks to surpass the professionalism and credibility of CRA ratings due to insufficient resources and	

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
		capability. Second, we may give unintended signals to market, if we invest or act solely based on our internal evaluation in the case that there is big discrepancy between result of internal rating and CRA rating.	
b) Adjust policies for imposing risk control measures (including haircuts) on financial instruments to align with the FSB Principles on CRA ratings.	The Bank of Korea	**(Open market operations and lending facilities)** CRA ratings are not used. **(Foreign asset management)** The Bank of Korea has already avoided mechanistic use of CRA ratings in its investment decision making process by reserving the right to defer selling of the bond in a certain amount of time, for example when a CRA rating of a specific bond decreases below the minimum investible rating.	

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
c) Develop the central bank's internal credit risk assessment capabilities and use of alternative measures of creditworthiness.	The Bank of Korea	**(Open market operations and lending facilities)** Eligible counterparties are already selected based on an internal credit assessment, using public and non-public information. **(Foreign asset management)** The Bank of Korea has already developed internal credit scoring system for putting exposure limits on the term deposit counterparties and is also reviewing to introduce internal credit risk assessment system as a supplementary tool for credit risk management.	Under review

Annex III: Insurance/Reinsurance Companies[1]

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
1. Reducing reliance on CRA ratings in laws and regulations (Principle I)			
Based on the findings from the stock-taking exercise, please describe the areas identified as needing change and those areas considered priorities, as well as the steps authorities intend to take to reduce reliance on CRA ratings in laws and regulations. In addition, authorities should describe the incentives put in place for market participants to develop their own independent credit assessment processes. Examples of incentives might include disclosure requirements relating to credit risk assessment practices or articulating clear supervisory expectations of the extent to which firms should perform their own due diligence before making lending or investment decisions.			
- We are reviewing RBC internal-model adoption as part of our long term initiatives. Once this is introduced, each insurance company will develop its own credit assessment process.			
a) Remove references to CRA ratings in laws and regulations relating to insurance/reinsurance companies.	FSC	Revised relevant regulations to require all reinsurance contracts to meet not only CRA rating standards but also financial prudential standards stipulated by domestic and overseas supervisory authorities.	2012

[1] Answers in this section should relate to the prudential regulation of insurance companies and reinsurance companies. Laws and regulations relating to insurance companies in their capacity as institutional investors should be included in the section entitled "Investment Funds Management."

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
b) Develop alternative standards of credit assessment, where needed, for the purpose of replacing references to CRA ratings in laws and regulations relating to insurance/reinsurance companies.	FSS	Reviewing adoption of RBC internal model as part of our long term initiatives.	2012
2. Reducing market reliance on CRA ratings (Principle II)			
a) Enhance supervisory processes and procedures to assess the adequacy of insurers'/reinsurers' own credit assessment processes and incentivise market participants to develop internal risk management capabilities.	FSS	Planning to reduce reliance on CRA ratings by adopting internal RBC model.	
b) Require or incentivise market participants to disclose information about their internal credit risk assessment processes.	FSC	Revised relevant regulations to require all reinsurance contracts to meet not only CRA rating standards but also financial prudential standards stipulated by domestic and overseas supervisory authorities.	2012

Annex IV: Investment Funds Management
(including collective investment schemes, alternative investment schemes, occupational retirement schemes)

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
1. Reducing reliance on CRA ratings in laws and regulations (Principle I)			
Based on the findings from the stock-taking exercise, please describe the areas identified as needing change and those areas considered priorities, as well as the steps authorities intend to take to reduce reliance on CRA ratings in laws and regulations. In addition, authorities should describe the incentives put in place for market participants to develop their own independent credit assessment processes. Examples of incentives might include disclosure requirements relating to credit risk assessment practices.			
Developing alternative standards and internal model within asset management companies in pursuit of reducing CRA reliance would result in excessive cost which will likely be imposed to its subscribers as, in most cases, fees. Thus we believe this is inappropriate. Retirement pension fund can only be invested in products with simple structure such as investment grade bonds and listed stocks while it is prohibited to be invested in derivatives/structured products that may spur systemic risks. Therefore, retirement pension fund would not cause spill-over of systemic risks. Korea will continue to closely monitor any movements in the international arena for developing appropriate alternative standards.			
a) Remove references to CRA ratings in laws and regulations for investment funds management.	FSC	Do not have any plan to remove references	

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
b) Develop alternative standards of credit assessment, where needed, for the purpose of replacing references to CRA ratings in laws and regulations for investment funds management.	FSC	Do not have any plan to develop alternative standards	
2. Reducing market reliance on CRA ratings (Principle II)			
a) Enhance supervisory processes and procedures to assess the adequacy of market participants' own credit assessment processes.		N/A	
3. Application of the basic principles to particular financial market activities (Principle III.3)			
a) Establish, as appropriate, supervisory review of internal limits and investment policies of investment managers and institutional investors.			
a. Insurance companies (in their capacity as institutional investors)	FSC/FSS	Monitor compliance with regulation on asset management methodologies and ratio as well as adequacy of internal decision-making process on making investments	
b. Investment managers (i.e. mangers of collective investment schemes).		N/A	
c. Alternative investment managers (e.g. hedge funds, endowments).		N/A	

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
d. Managers of occupational retirement schemes.	FSC/FSS	Direct investment on both domestic and overseas junk bonds is prohibited	
b) Require changes to internal limits and investment policies.			
a. Insurance companies (in their capacity as institutional investors)		N/A	
b. Investment managers (i.e. mangers of collective investment schemes).		N/A	
c. Alternative investment managers (e.g. hedge funds, endowments).		N/A	
d. Managers of occupational retirement schemes.		N/A	
c) Incentivise compliance with the CRA Principles.			
a. Insurance companies (in their capacity as institutional investors)	FSC/FSS	If an insurance company fails to comply with the asset management methodologies and ratio stipulated in the Insurance Business Act, the authority may take following measures in accordance with the article 134 of the same Act:	

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
		1. corrective order for the relevant violation; 2. caution and warning to the insurance company, or request for a caution, warning or reprimand to its executives and employees.	
b. Investment managers (i.e. mangers of collective investment schemes).			
c. Alternative investment managers (e.g. hedge funds, endowments).			
d. Managers of occupational retirement schemes.	FSC/FSS	Investment is permitted only in investment grade bonds.	
d) Strengthen supervisory oversight to assess whether investments managers and institutional investors have made changes to the role that CRA ratings play in investment mandates, thresholds and triggers.			
a. Insurance companies (in their capacity as institutional investors)		N/A	
b. Investment managers (i.e. mangers of collective investment schemes).		N/A	

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
c. Alternative investment managers (e.g. hedge funds, endowments).		N/A	
d. Managers of occupational retirement schemes.		N/A	

Annex V: Collateral Policies for Central Counterparties (CCPs)

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
Based on the findings from the stock-taking exercise, please describe the areas identified as needing change and those areas considered priorities, as well as the steps authorities intend to take to reduce reliance on CRA ratings in laws and regulations. In addition, authorities should describe the incentives put in place for market participants to develop their own independent credit assessment processes. Examples of incentives might include disclosure requirements relating to credit risk assessment practices or articulating clear supervisory expectations of the extent to which CCPs should perform their own due diligence.			
1. Reducing reliance on CRA ratings in laws and regulations (Principle I)			
a) Remove references to CRA ratings in laws and regulations relating to collateral policies for CCPs.	FSC	N/A	

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
b) Develop alternative standards of credit assessment, where necessary, for the purpose of replacing references to CRA ratings in laws and regulations relating to collateral policies for CCPs.	FSC	N/A	
2. Reducing market reliance on CRA ratings (Principle II)			
a) Enhance supervisory processes and procedures to assess the adequacy of CCPs' own credit assessment processes.	FSC	N/A	
3. Application of the basic principles to particular financial market activities (Principle III)			
3.1 Central counterparties and private sector margin agreements (Principle III.4a)			
a) Conduct stress tests or estimate the procyclical effect, on the overall margin requirements for the CCP participants, of a sudden downgrade of the credit ratings of some widely used securities.	FSC	N/A	
b) Assess the reliance on credit ratings in the investment policy of the CCP.	FSC	N/A	
c) Review private sector margin agreements to ensure compliance with the Principle.	FSC	N/A	

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
d) Require changes to private sector margin agreements.	FSC	N/A	
e) Incentivise compliance with the CRA Principles.	FSC	N/A	

Annex VI: Securities Issuance (debt and equity, whether public issuance or private placement), including asset-backed securities and corporate debt

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
Based on the findings from the stock-taking exercise, please describe the areas identified as needing change and those areas considered priorities, as well as the steps authorities intend to take to reduce reliance on CRA ratings in laws and regulations. In addition, authorities should describe the incentives put in place for market participants to develop their own independent credit assessment processes. Examples of incentives might include disclosure requirements relating to credit risk assessment practices.			
1. Reducing reliance on CRA ratings in laws and regulations (Principle I)			
a) Remove references to CRA ratings in laws and regulations related to securities issuance.	FSC	CRA rating is required in the securities declaration form submitted to the authority when issuing unsecured corporate bonds, as a way to provide minimum level of investor protection. Considering the nature of securities, we are taking careful steps in making decision on whether to remove references to CRA.	Review in process

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
b) Develop alternative standards of credit assessment, where necessary, for the purpose of replacing references to CRA ratings in laws and regulations relating to securities issuance.	FSC	Due Diligence Best Practice for Financial Institutions has been implemented in February 2012. Will further review when detailed international standards are set.	
2. Reducing market reliance on CRA ratings (Principle II)			
a) Enhance supervisory processes and procedures to assess the adequacy of market participants own credit assessment processes.	FSC	Require market participants to have internal control system and experts in place necessary for the implementation of due diligence. It is also required to disclose details on implementation of due diligence and its results. Will further review when detailed international standards are set.	

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
3. Application of the basic principles to particular financial market activities (Principle III)			
3.1 Central counterparties and private sector margin agreements (Principle III.5a)			
a) Review the role of credit rating in disclosures by issuers of securities.	FSC	CRA rating is required in the securities declaration form that is submitted to the authority when issuing unsecured corporate bonds, in order to protect investors.	
b) Reduce the role of credit ratings in disclosures by issuers of securities (list the steps to take).	FSC	Considering the nature of unsecured corporate bonds, investor protection and financial institution's capacity to conduct due diligence should be enhanced prior to reducing the role of credit ratings.	

Annex VII: Securities Firms (broker-dealers)

Action to be taken	Responsible national authority	Milestones to be met (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
Based on the findings from the stock-taking exercise, please describe the areas identified as needing change and those areas considered priorities, as well as the steps authorities intend to take to reduce reliance on CRA ratings in laws and regulations. In addition, authorities should describe the incentives put in place for market participants to develop their own independent credit assessment processes.			
1. Reducing reliance on CRA ratings in laws and regulations (Principle I)			
a) Remove references to CRA ratings in laws and regulations relating to securities firms.	FSC	CRA rating is referred to when calculating the risk of financial investment companies in order for prudential supervision and investor protection. Careful steps need to be taken before removing references to CRA ratings. Prior to making such movements it is important to: • Strengthen investor protection tools such as eliminating sources of conflict of interest with the investors, so that mis-selling is eradicated.	Review in process

Action to be taken	Responsible national authority	Milestones to be met (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
		• Have domestic credit rating market be fully established • Have more competent internal credit assessment processes of securities companies.	
b) Develop alternative standards of credit assessment, where necessary, for the purpose of replacing references to CRA ratings in laws and regulations relating to securities firms.	FSC	Korea's legal framework only allows references to CRA ratings while not taking account ratings from unauthorized agencies. It is important to revise regulations on credit rating business together with developing alternative standards. Will further review when detailed international standards are set.	Review in process
2. Reducing market reliance on CRA ratings (Principle II)			
a) Enhance supervisory processes and procedures to assess the adequacy of securities firms' own credit assessment processes.	FSC	It is important to revise regulations on credit rating business together with developing alternative standards.	Review in process