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Regulators Seek Investor-Friendly Climate
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Throughout the first half of the year, our supervisory activities focused on addressing weaknesses and ensuring stability in the financial sector. We saw a gradual pickup in consumer spending as loans to households and small- and medium-sized enterprises stabilized at manageable levels. We also saw second-tier lenders such as mutual savings banks and credit unions that were under financial distress since the beginning of the year taking aggressive restructuring measures.

As part of the ongoing effort to promote capital market efficiency, we undertook new initiatives to help raise the competitiveness of asset management companies and create a more investor-friendly climate. For example, the regulators adopted amendments to Regulation on Supervision of Securities Business in April that significantly eased rules on bulk stock transactions and allowed the use of "special nominee accounts" for foreign investors. Under the amended regulation, foreign investor groups may execute stock trading through both umbrella accounts and special nominee accounts. In addition, before acting collectively, foreign investors are no longer required to report to the FSC/FSS as an investor group; they only need to notify securities companies of the individual investors of the group.

With respect to OTC securities trading, foreign investors may now engage in trading under open, competitive bidding and acquire shares by exercising stock warrants in the OTC market. We also took steps to lessen regulatory compliance burden of publicly-held companies, promoted more direct financing for SMEs, and encouraged companies to voluntarily rectify past accounting improprieties.

Implementing global supervisory standards very much remains a priority for the regulators. The amended "5% rule," widely adopted and enforced elsewhere, is a case in point. We now ask large shareholders of publicly-held companies more specific disclosures on the purpose of and the source of funds used for any share acquisitions greater than 5% of the total outstanding issues. We expect the amended disclosure rules to significantly improve transparency and investor protection and deter abuse of the disclosure system.

As for the implementation of the second-phase bancassurance, the timetable and the applicable insurance products were adjusted to minimize disruption in the insurance market. The introduction of bancassurance was to be implemented gradually in three phases beginning in September, 2003, and ending in April, 2007.

Under the adjusted timetable, insurance products to be introduced during the second phase are now to be implemented in three stages through April, 2008. Regulation on Supervision of Insurance Business was also amended to help small and medium-sized insurance companies expand their sales channels and compete more effectively in the insurance market, prevent excessive downsizing of insurance solicitors, and lower insurance premiums.

With financial globalization and growing cross-border activities, cooperation among financial supervisory authorities is increasingly becoming important. So we are building new partnership with foreign supervisory authorities. We established a cooperative regime with supervisory authorities of China and Japan in March and held high-level meetings with financial supervisory authorities of Germany and the U.K. in early September.

We will faithfully carry out our mission of prudential regulation and supervision of financial institutions, and we will do so while remaining attentive to changes taking place in the marketplace and addressing inefficiencies in the financial system. We will also continue to take steps to protect investors and consumers and ensure fair and orderly financial activities.

As a complement to efforts currently under way to streamline the existing regulatory processes in support of the Northeast Asia Financial Hub Initiative, we are creating a new division within the FSS to provide timely and friendly one-stop service to foreign financial services companies and alleviate language and other unique problems they encounter in Korea.

As for the remainder of the year, there are a number of goals we hope to accomplish. First, we are closely monitoring mortgage lending and what impact it may have on bank asset soundness. On June 30, we announced new measures that call on banks to step up credit screening of mortgage applicants and monitoring of risks associated with rapid growth of mortgage lending. We will continue to closely watch bank credit flowing into the housing market and when necessary issue guidelines in support of the government’s efforts to stabilize the housing market.

Second, we will forge ahead with new measures aimed at ensuring orderly and disciplined conduct in the marketplace. To this end, we plan to strengthen the fit and proper test to prevent ineligible individuals from serving as directors or officers of financial services companies, enhance the security of online financial transactions, and take strong enforcement actions against securities fraud, insider trading and other illegal activities.

Third, we will continue to upgrade and fine-tune our financial supervision and examination so that we can stay ahead of changes taking place in the marketplace. With relationship managers and early warning systems now in place, we plan to implement a feedback system so that we can effectively address concerns from market participants on our supervision and examination.

Finally, I would like to reassure foreign investors that we will continue to welcome you. Some investors here at home complain of reverse discrimination in competing with foreign investors because of legal and regulatory barriers they alone face. It is also true that some feel unease with the growing presence of foreign businesses and investors throughout the financial sectors. But when these concerns are put in perspective and in the broad context of the benefits foreign capital have brought to Korea—from financial management know-how, innovation, transparency, corporate governance, market discipline, and competition to raising the value of domestic companies—the answer is clear: the effect of foreign capital has been overwhelmingly and unequivocally positive.

In an era of globalization when capital moves freely across national borders, there is simply far more to lose than to gain by discriminating capital on the basis of "nationality." This is particularly true for us as we strive to transform Korea into a leading financial hub for Northeast Asia. So we will not adopt any new regulatory measures or take steps that hinder competition or leave foreign investors disadvantaged. What we will do is to make sure that our supervision of foreign capital is in harmony with global standards and to ensure fair competition for all market participants, irrespective of domestic or foreign.

Let me reiterate what foreign investors can expect from us: we will provide a level playing field for all; we will not discriminate capital on the basis of nationality; and we will take fair, consistent and uniform actions against all activities that harm investors or undermine the integrity of the market. Again, we will do so without any regard to nationality.