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***Korea Committed to Leveling Out the Playing Field in Financial Sector***

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As the global spotlight focuses on Korea for the 2005 Asia-Pacific Economic Cooperation, we have a unique opportunity to showcase Korea's economic success and upgrade its "brand value" among global investors. It is also an occasion to celebrate Korea's contribution to the growing trade and investment in the Asia-Pacific region and to reaffirm its commitment to a free and open market for all.

Korea's financial sector became liberalized earlier and faster than other service sectors. As a result, the participation of foreign investors in Korea's stock market has steadily increased since 2001 and now hovers around 41% in terms of market capitalization. In particular, foreign investors and financial service companies have now successfully established themselves in banking, insurance, and securities sectors and play an indispensable role in Korea's financial market. For example, foreign investors are now majority shareholders in nine of the 14 commercial banks and either are majority shareholders of or exercise managerial control over 26 of the 57 securities companies and 22 of the 50 insurance companies.

Much has been said recently both from within and outside Korea about the effect foreign capital has had and whether it is still welcome in Korea. As for the effect of foreign capital in Korea, foreign capital deserves credit for the success Korea has had with promoting competition, innovation, financial soundness, and market discipline. In particular, it is important to note that Korea's widely praised post-crisis corporate restructuring, which helped pave the way for renewed economic growth, owes some of its success to the vote of confidence that came with foreign capital.

And there is no question that the positive externalities of foreign capital are permeating throughout the economy and providing a useful catalyst for improvement in accountability, corporate governance, and market discipline, to name a few. These are all positive developments that strengthen Korea's long-term competitiveness at its very core. So, there should be no doubt about where Korea stands on foreign capital: we welcome it and will continue to welcome it.



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Foreign investors can also rest assured that our regulatory reform and our commitment to an investor-friendly marketplace are on track and that we will pursue fair and transparent supervision without discrimination. Insofar as foreign capital is concerned, we have continually stressed that we are committed to providing a level playing field for all, equal treatment for all and consistent and uniform enforcement for all.

These three principles are not in any way intended to signal more regulations or rules to come or merely mollify a small minority of vocal critics who question the benefits of foreign capital. Rather, they are our pledge not to advantage or disadvantage investors on the basis of nationality. In an era of globalization, particularly for a country like Korea that trades and invests throughout the world, it simply makes no sense to put labels on capital. It cannot and should not be done.

Korea's embrace of global trade and investment is embodied in the bold initiative the government launched to transform Korea into Northeast Asia's financial hub. Northeast Asia is, and will surely remain, one of the fastest-growing and most dynamic regions of the world. The region's share of global trade and output has been rising at a healthy pace, and Korea's potential to lead and benefit from the region's growth with an open financial service sector is enormous. To be sure, it is an ambitious goal, but also one worthy of our endeavor given the promises it holds for Korea.

### **Prudential Supervision and Regulatory Reform**

An efficient and effective regulatory framework is a prerequisite for a successful financial hub, and Korea has in fact made significant strides in this effort. As regulators make the transition to risk-based supervision and shift the focus of examination to high-risk areas, they are taking steps to reinforce the early warning system and step up market monitoring to preempt distress in the financial system.

Regulators will also continue to raise prudential standards to improve the safety and the soundness of financial institutions and take swift enforcement actions to protect investors. In particular, financial reporting and disclosure compliance will be vigorously enforced to foster investor confidence and market discipline.



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Much progress has been made on the regulatory front, particularly with respect to deregulation, and there are several initiatives currently under way to further improve the existing framework of rules and help transform Korea into Northeast Asia's financial hub. In August, regulators announced a major deregulatory initiative consisting of more than 200 draft proposals for regulatory changes as part of the ongoing effort to improve Korea's regulatory climate for businesses and investors.

The draft proposals came out of a joint public-private-sector endeavor, and a significant number of the draft proposals came from foreign financial service companies doing business in Korea. Among others, proposals on easing rules on outsourcing by financial service providers, less-burdensome reporting requirements, and allowing local incorporation of foreign financial holding companies have already been adopted.

It must be stressed that the kinds of reform we envision are not about getting rid of a few outdated regulations here and there. What we do envision is a significant upgrade, a paradigm shift, from the current system to a truly efficient, effective, and market-friendly regulatory system. We know this is a major endeavor that cannot be achieved with a stroke of pen but requires sustained focus, commitment, and substantive actions. Businesses and investors will expect no less from us, and we are moving in that direction.

### **International Cooperation**

With the growing global linkages of markets through cross-border capital flows and financial transactions, cooperation among financial regulators is emerging as a key challenge as they look for ways to deal with cross-border supervisory issues. Close cooperation with foreign supervisory authorities is particularly imperative for Korea because of its open markets and active participation of foreign investors and businesses in financial services. So we are working to build an effective framework for bilateral and multilateral cooperation not only to prevent frictions arising from cross-border activities, but also to protect the market from financial contagion and other systemic risks.



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To date, Korea's regulators have entered into formal cooperative arrangements with ten supervisory authorities from seven countries. And there are efforts under way on several fronts to expand and strengthen the existing MOUs on information sharing and other support arrangements with foreign supervisory authorities and multilateral regulatory organizations. Recent proposal on easing restrictions that bar the regulators from sharing certain information with foreign supervisory authorities is a step in the right direction that will provide for more effective cross-border supervision.

### **Prospect for Cooperation and Prosperity in the Asia-Pacific Region**

In the past two decades or so, economies in the Asia-Pacific region have made steady gains in trade and investment liberalization and have now emerged as a major pillar of the global economy. That the region's capital flows increased eight-fold to some \$1.4 trillion while its GDP nearly quadrupled during the past two decades is but one example of the economic dynamism in the region.

APEC has been promoting economic cooperation, trade and investment in the Asia-Pacific region since its founding and has proven itself a constructive framework for stability and harmony in the region. And as the economies in the region continue to liberalize and expand, the prospect for economic vitality and prosperity is brighter than ever before. So there is much we all can share and look forward to as one in a spirit of community. The 2005 APEC meeting will be an occasion to celebrate and reaffirm that very spirit of community.