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The Roles of Financial Supervisory Bodies in the Korean Economy
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Thank, you Mr. Chairman, for the warm welcome.

Ladies and Gentlemen,

I am pleased to be with you today to talk about Korea's financial supervision and our stance on some of the major policy issues before us. Before I begin, I would like to take a moment to thank Chairman Wayne Chumley and President Tami Overby for the gracious invitation to speak before you this afternoon.

It may be a little late. But since we began our lunar new year just last week, I would like to wish everyone a happy new year. This is the year of the dog, and, in most cultures throughout the world, a dog is a symbol of friendship and trust—two words that I believe accurately sum up what AmCham has earned in Korea over the years in times both good and bad.

I know that AmCham is one of the most active and most successful foreign business groups in Korea. It has a long and distinguished record of promoting economic cooperation between the United States and Korea. And many in the business community will also say that AmCham has time and again played a key role in raising investor confidence and improving Korea's business climate.

As the free-trade talks and other bilateral relations between the two countries move into new phases, your involvement here in Korea will take on greater importance than ever before. So I am sure that Chairman Chumley and President Overby have their work cut out for them. We certainly appreciate your hard work and wish you great success in bringing the business communities of the two countries closer together.



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I have always believed that openness and competition are the backbone of liberal democracy and market economy. I strongly believe that openness and competition are ultimately the best way to promote our national competitiveness and economic prosperity. Foreign investment is a natural outcome of openness and competition and adds to the pool of productive assets we can use to stimulate our economy, improve employment, and help our economy grow. So for the policymakers, there is no second-guessing about where Korea stands on foreign investment: Korea welcomes it.

As the long history of AmCham in Korea tells us, U.S. investment and business ties in Korea date back several decades and over the years transformed into a uniquely strong partnership that extends far beyond the economic ties between the two countries. This partnership has also been instrumental in preserving peace and helping Korea develop a vibrant market economy.

I will now briefly turn to Korea's financial services industry where it stands and what you can expect from us in terms of financial supervision.

Korea's financial services industry has made significant strides in the past several years in almost all meaningful measures of safety, soundness, technological change, and innovation. Just to give you some ideas, Korea's stock market capitalization is now close to 80% of the gross domestic product. The markets for derivatives ABS and other innovative instruments for structured financing are functioning well and growing at a healthy pace. We also continue to see many positive changes and improvement being made in information technology, credit screening, accounting standards, disclosure regimes, and investor protection. The stock market has lately experienced some volatility. But the general expectation is that it will stay healthy as the economy continues to gather steam and corporate earnings remain strong.

To be sure there are some aspects of the capital market that we would like to see improved. For example, the bond market is not nearly as deep as it could be and share trading in the stock market continues to be concentrated in a handful of large-cap companies. Most financial institutions have made real progress with restructuring following the 1997 financial crisis and have sharply improved their financial soundness and the ability to generate profit on a sustained basis. In terms of asset soundness and capital adequacy all the major domestic banks securities companies and insurance companies are well positioned. In particular, the banking sector is expected to report a record net income in excess of thirteen trillion won for 2005. Other positive developments in the financial services industry are the trends toward financial consolidation and conglomeration, service diversification, and product innovation.



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So, overall, I would say that domestic financial services industry is now on a solid foundation for steady future growth. I recognize the important role foreign investors play in our market and welcome your views and recommendations on the best way to move forward.

Ladies and gentlemen,

I will now make a few comments about our financial supervision and give you a broad outline of our supervisory policies going forward.

The government fully shares the view that financial de-regulation must form a key part of the drive to move our economy to the next level. To this end the government announced comprehensive review of the existing regulatory frameworks with a clean slate from a “zero base.” In this endeavor, the emphasis will be on the perspectives of the market participants, simple and straightforward compliance, and building a market-friendly regulatory climate.

One key objective of the regulatory review is to filter out financial regulations that are outdated, excessive or anti-competitive. Another objective is to look at the regulatory structures along the functional lines to ensure regulatory consistency and comparability across all financial service businesses. The government will also see to it that the regulatory review is guided by and geared toward global standards.

At the FSC and the FSS, we are taking deregulatory actions and fine-tuning our regulatory framework in earnest with an active participation of industry representatives. Recently, we took specific actions to clarify relax or eliminate regulatory provisions on 269 recommendations made by a public-private task force. I may note that 52 of the 269 recommendations came from foreign business executives.

We also restructured supervisory regulation on outsourcing from a positive list system to a negative list system in July last year. Under the negative list system, outsourcing is allowed for financial service-related activities except for those explicitly stated in the regulation. As a result, work-sharing of back office and other support operations which many foreign businesses have desired for some time is now allowed. We also clarified language in regulatory provisions to remove ambiguity.



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With respect to capital market deregulation, the government is working on a new legislation that will consolidate capital market-related laws. Under the proposed legislation, business boundaries on financial service companies now in effect will be significantly relaxed. The regulatory approval for financial products is also to be switched from a positive to a negative list system. The new legislation is expected to be completed this year.

Even as the new legislation is being drafted, we are moving aggressively on capital market deregulation where we can. Just to give you a couple of examples, we recently amended listing regulations at Korea Exchange that allow primary listing of foreign companies. There are also plans in the works that would significantly reduce the number of reporting items and ease other disclosure compliance burden on publicly held companies.

Let me add that as these measures are implemented our priority will always be transparency and investor protection. In the bond market, we are looking to come up with new bond market indexes to help bond investors better assess market conditions and risks. We are also looking to significantly reduce and streamline regulations on derivatives products. For the insurance industry, we see a need to take a fresh look at regulations on insurance companies with a view to easing restrictions on asset management. And where needed we intend to move aggressively to do away with all outdated and excessively burdensome regulations.

For businesses in general as well, deregulation will remain a top priority. The government has set establishing a “free and fair market order” one of the 12 national agenda to promote economic efficiency and growth. What this entails is building a fair and transparent market framework that promotes business-friendly climate.

One key aspect of this effort has been to take a comprehensive systematic approach to regulatory reform for businesses through the Regulatory Reform Committee under the Office of the President. Imposing sunset clauses on every regulation that affects private business enterprises is but one of many issues currently under consideration by the Committee.

I will add that improving the consistency and transparency of financial supervision has been a priority for us. Making our supervision and policies more predictable and friendly to the market so that the market can thrive with innovation and dynamism is certainly one important aspect of this goal. I may cite as an example the “No-Action Letter” system which we instituted to help companies avoid regulatory uncertainty when going into a new business or introducing a new product.



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We are also making changes and doing more at the FSS to help foreign financial companies deal more easily with the regulatory issues they face. At the FSS, we plan to create a new office called International Supervision Support Office soon to deal exclusively with foreign financial service companies and help them resolve regulatory issues in a timely manner. We are also working on an international advisory committee to be made up of widely recognized experts at home and abroad to help us improve our financial supervision and perform our duties more effectively.

Before closing my remarks today I would like to reiterate where we stand on foreign capital. We said that we will abide by and respect three simple straightforward principles insofar as foreign capital is concerned. First, we will provide a level playing field for all market participants so that they can compete fairly in the marketplace. Second, domestic and foreign capital will be treated equally. That is, neither will be favored nor disfavored. Third, we will take the same consistent enforcement actions against all violations of rules and regulations irrespective of nationality.

In closing, I would like to stress our commitment to rule of the law and market discipline in our regulation and supervision. I want to emphasize that our market is open to all we welcome foreign investors, and we are making an earnest effort to improve our prudential regulation and supervision. The partnership we have with AmCham is a special one and we will continue to work together to strengthen it. You have an open channel with us to share your thoughts and we invite you to join us in our effort to build a truly dynamic market here in Korea.

Thank you.