



Financial Supervisory Commission
www.fsc.go.kr



Financial Supervisory Service
www.fss.or.kr

Yoon Jeung-Hyun
Chairman, Financial Supervisory Commission
Governor, Financial Supervisory Service

Korea's Regulatory Reform
FT Asian Financial Centers Summit

April 12, 2006, Seoul

Distinguished guests, and ladies and gentlemen,

I am pleased to join you this afternoon to talk about Korea's regulatory reform in the financial service sector.

I would like to thank Mr. John Ridding, the publisher of Financial Times Asia, and Mayor Lee Myung-Bak for inviting me to the FT Asian Financial Centers Summit. I would also like to welcome the distinguished guests and speakers who are here with us today to share their thoughts on Korea's prospect for a global financial center.

We see the financial service industry as the engine of growth for the future and have set our sight on transforming Korea into a major financial center for Northeast Asia. Much work lies ahead, and there are many challenges to overcome both at home and abroad before we can accomplish our goal. So, I hope that today's gathering will serve as an opportunity to take stock of our past efforts and the direction we are headed. Today's conference will surely add to the momentum we are trying to build to highlight Korea's viability as a regional financial center to foreign businesses and investors.

The Korean economy has made significant strides since the 1997 financial crisis and is now in the process of making a transition to the next level. Although Korea's manufacturing and export competitiveness is not in doubt, many share the view that Korea's future does not merely hinge on its industrial competitiveness. So we do see a need to restructure and reposition our economy in a way that will enable us to utilize our untapped potential while making the best use of our advantages.



Financial Supervisory Commission
www.fsc.go.kr



Financial Supervisory Service
www.fss.or.kr

One key strategy we are focusing on is transforming Korea into a financial hub for Northeast Asia. This strategy is based on Korea's world-class human capital and information technology. Ultimately, what we envision is a highly advanced, knowledge-based economy backed by cutting-edge technologies and an efficient, globalized financial services industry. When it does come, foreign businesses and investors will find Korea a versatile marketplace producing top-notch financial products and services alongside a truly dynamic real economy, in short, the place to do business and invest in Asia.

Regulatory reform, particularly with respect to deregulation, has been a major policy objective for the government. And there has in fact been real progress in recent years. But it is clear that Korea's regulatory cost still weighs heavily on foreign investors.

We would like to change this. So, as we continue to reduce the number of regulations, I believe that we must raise the "quality" of regulations to more effectively reduce the real as well as the perceived regulatory cost foreign investors feel in Korea.

One key aspect of the qualitative changes we seek is more transparent and predictable rules and regulations. It is said that Korea's regulations sometimes give regulators excessive leeway in interpreting and enforcing rules and regulations. Unexpected regulatory changes are also said to inflate the cost of doing business in Korea for foreign investors. We will do all we can to avoid this.

As we move ahead with deregulation, I see five simple tests that the rules and regulations we set must meet: they must be (1) reliable, (2) up to global standards, (3) rational, (4) cost-effective, and (5) specific to the market conditions.

Of the five, I would put reliability at the top. By reliability, I mean that our rules and regulations should not be driven by short-term objectives that change from time to time. Rather, all of our regulatory actions should consistently point to the long-term policy objectives.

The second test is global standards, and we will strive to keep our rules and regulations consistent and in harmony with the best global practices and standards. We completely reject anti-foreign bias and will look for global standards whenever possible. As we do so, however, I hope that foreign investors will hold a balanced perspective on our policy objectives and try to understand the unique circumstances and constraints we face at home. I say this because not all markets are same.



Financial Supervisory Commission
www.fsc.go.kr



Financial Supervisory Service
www.fss.or.kr

Rational regulations and policies are another key test we must keep in mind. Only when the rules are rational will they stand the test of time, be respected by the market, and not get in the way of the market.

We must also ensure that our rules and regulations are cost-effective. It is difficult to justify rules and regulations that impose higher cost on the market than the intended benefit. Instead, what we will strive to achieve is efficient, cost-effective rules and regulations.

Lastly, I would stress rules and regulations that are specific to the prevailing market conditions. Regulatory actions are not taken in vacuum but are guided by the ever-changing market conditions. So it makes sense for regulators to be alert to the timing and the circumstances under which regulatory actions are taken.

In short, I would summarize what we hope to accomplish with our deregulation as consistent and transparent rules and regulations that promote market efficiency and discipline.

Ladies, and gentlemen, among the policymakers, there is a keen awareness that deregulation is crucial to Korea's economic competitiveness and future growth. This is particularly true for the financial sector. So we are taking a comprehensive look at the existing regulations from a clean slate. We are doing this from the perspectives of investors, financial institutions, and consumers.

Our goal is simply to come up with the most efficient and most effective rules and regulations. Our deregulation will give financial institutions an opportunity to sharpen their competitive edge in the marketplace.

The capital market consolidation legislation the government proposed is a key part of the deregulatory process that will bring about a major realignment in the financial service industry. But even as work on the consolidation legislation continues, we fully intend to move ahead with easing restrictions on regulatory approval and financial services whenever we can.

Just to cite a few examples, we now have a "negative-list system" for outsourcing by financial service companies that will help them manage their business operations more efficiently. We have also put into effect "No Action Letter" policy to help financial service companies avoid regulatory uncertainty when going into a new business or introducing a new product.



Financial Supervisory Commission
www.fsc.go.kr



Financial Supervisory Service
www.fss.or.kr

We also plan to ease regulatory approval on financial holding companies and second-tier financial service companies. I can also tell you that we are looking to upgrade and fine-tune our supervisory framework more in line with global practices. I would also like to stress regulatory discipline. As we deregulate and reduce regulatory cost in the market, we will continue to take strong enforcement actions against all illegal activities to protect investors and consumers. In respect of disclosure compliance, we will look for ways to reduce costs associated with disclosures by listed companies, provided that they do not undermine investor protection or market transparency. We will also continue to allocate our supervisory resources on examination and work to strengthen cooperative arrangements with foreign supervisory authorities to counter unfair trading and other illegal activities.

We are also taking new steps to make it easier for foreign financial service companies to deal with regulatory issues and help them succeed in Korea. At the Financial Supervisory Service, we are creating International Supervision Support Office to provide more streamlined supervisory service to foreign financial service companies in a timelier manner.

We are also working to create an international advisory board with experts from the private sector at home and abroad to help us guide our supervision. These efforts are aimed at improving our supervision, and I have no doubt that they will have lasting beneficial effects on the market.

It may be said that, until recently, our supervisory approach has focused on financial institutions and consumers. Going forward, I would characterize the focus of our supervision as “bringing changes and innovation that our customers can really feel.” By this, I mean supervision from the perspectives of investors, financial institutions, and consumers.

Just to give you an example, we have adopted relationship manager system as part of our shift to less burdensome off-site examination process. And we now receive feedback on our examination from the financial institutions we oversee and share our knowledge with them to improve management and promote innovation.



Financial Supervisory Commission
www.fsc.go.kr



Financial Supervisory Service
www.fss.or.kr

In closing, I would stress that the principal objective for the regulators will continue to be prudential regulation and supervision as we strive to make a successful transition to Northeast Asia's financial hub. The goal to become Northeast Asia's financial hub is an ambitious one that puts additional responsibilities on the regulators. But I am confident that we are up to the challenge. Our regulatory reform and deregulation very much remain on track. We are encouraging market competition, and we welcome foreign investors to Korea. And we remain fully committed to creating a regulatory climate befitting a truly global financial hub.

Thank you.