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Keynote Speech

KORUS FTA and Innovation of Financial Supervision: From Good to Great Market

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Mr. Chairman, Distinguished Members, and Ladies and Gentlemen,

I am very pleased to speak to you today. It is a privilege for me to take part in such a prestigious gathering, and I thank the Korea Economic Forum for the invitation. I would like to express particular appreciation to the CEOs, diplomats, and journalists here today for your support for Korea.

In my remarks today, I would like to discuss the current state of the Korean economy, particularly in light of the recently concluded Korea-US Free Trade Agreement. I will then move on to discuss the ongoing innovations in the financial supervision system.

The government of President Roh has refrained from promoting consumer spending and other policies for short-term economic growth. Instead, it has encouraged market participants to search for new growth engines on a long term basis. Recent economic indicators suggest that this policy is gradually bearing fruit. For instance, the growth rate of real GDP is above 4%. And, despite the strong Korean Won, we are seeing double-digit export growth rates. The KOSPI has risen from 700 points to above 1,800 points under the current government. This is a remarkable growth even when taking into account recent market rallies around the world. Foreign exchange holdings have reached 250 billion US dollars, the 5th largest in the world.

We are well aware of the concern over the rapid growth in real estate mortgage loans. However, for a long time the FSS has encouraged banks to extend loans based on borrowers' repayment ability as defined by Loan to Value and Debt to Income. So, we have reason to believe that the likelihood of distress in the mortgage loan market is minimal.

Despite high oil prices, the global economy has been growing backed by the thriving emerging economies such as China and India. Furthermore, the economy of Japan has begun showing signs of strength. And China, the world's factory, is now powering the Asian economy and attracting investments from around the world.



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The recent growth of China and Japan is putting the spotlight on the potential weakness of the Korean economy, the so-called “Sandwich Prophecy”. Thus, Korea has begun to realize that discovering new growth engines is an urgent task at hand.

I believe that the financial services industry is one of the most promising future growth engines. We know that all the developed countries with per capita income of more than 30 thousand US dollars have advanced financial industries. This suggests that the development of the financial industry is strategically important for Korea to accomplish its goal of becoming an advanced country.

Currently, the competitiveness of Korea’s manufacturing industry is one of the world’s best. But the financial industry is not there yet. I believe the Korea-US FTA has provided momentum for the upgrade of the Korean financial industry to global standards.

So, now I will discuss the impact of the Korea-US Free Trade Agreement on the Korean economy and then go on to explain the ongoing innovations in the Korean financial sector.

The KORUS FTA was signed after yearlong negotiations. According to analyses by research institutions, GDP will grow 6 percentage points during the next 10 years cumulatively and the trade balance 2 billion US dollars annually. I am sure the foreign financial institutions operating in Korea will have increased business opportunities. It is clear that in trading with the U.S., they will be granted treatment equal to U.S. companies in accordance with the KORUS FTA.

On May 6, the Korean government commenced FTA negotiations with the EU. If the negotiations are successful, Korea will become part of a free trade zone with 27 EU countries with “National Treatment” and “Most Favored Nation Status”. There are few countries that trade freely with the EU and the U.S. Among the OECD member countries, only Korea and Mexico have this privilege. As we see China, also anticipating FTA negotiations with Korea, I am certain that foreign investors will have enormous business opportunities here.

The KORUS FTA delivers two meaningful messages. One is that Korea’s financial market will be more open on a global level. The other is that Korea’s financial supervisory system will reach global standards. The KORUS FTA in the finance sector is significant in the sense that it not only opens markets, but also ensures the freedom of financial institutions in cross-border trading. The agreement is noteworthy for its contribution to a more cooperative relationship between the financial supervisory authorities of the two countries.



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Through the establishment of discussion channels, the supervisory authorities can improve the consumer protection system and increase transparency in regulation and supervision. The Korean market will become more attractive with the introduction of new financial products, the expansion of cross border transactions of insurance and asset management services, and the permission of the transfer of financial information and back office functions. As a result, we expect more global financial institutions to enter Korea.

In addition, with the adoption of the negative list system, all activities related to financial product development and delegation of functions will be permitted except for those activities explicitly prohibited. The negative list system will certainly enable creative product development and freedom in business activity in the Korean financial markets. On the other hand, the post office insurance and other quasi-insurance services are to be subject to the same prudential supervision that applies to private financial institutions.

This means that competition among financial product suppliers will take place on a level playing field in the Korean financial market. Most importantly, the FTA will play an important role in enhancing the reliability of the Korean financial system.

While leading change and innovation in the financial system, Korea's regulators adhere to three principles in regard to foreign capital. First, a level playing field. We ensure fair competition in the market. Second, equal treatment. We do not allow discrimination in application of laws and in supervision practices. Third, strict enforcement. We strictly enforce laws against illegal actions such as illicit transactions and accounting fraud.

It is true that some Koreans have a negative attitude towards foreign capital. Yet foreign investors also have to some extent misunderstandings about the financial regulatory system of Korea.

As you well know, since the Asian financial crisis, Korea has improved the financial supervision system, accounting and corporate disclosures in order to measure up to global standards. Thus, the level of supervision and regulation in Korea is close to the "light touch regulation" adopted by countries of financial hubs such as the United Kingdom.

However, foreign companies in Korea are not fully benefiting from such innovations because of poor communication with regulators and lack of understanding. It seems particularly harder for foreign companies and investors with weak domestic networks to find effective communication channels with the government and regulatory authority. For that reason, we have been relentlessly striving to create effective channels, and we will continue to do so in the future. The FSS has a special



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office solely designated to provide guidance and support services for business licensing of foreign financial institutions. The personnel of the office pay direct visits to foreign financial institutions to listen to their difficulties and receive requests.

As for deregulation, after reviewing the recommendations of foreign companies, we have so far discovered and abolished a considerable number of ineffective financial regulations. We also take requests and recommendations regarding regulations through the Internet and telephone calls to discuss issues on a real time basis.

The U.S. has shown great satisfaction with the “prior notice of regulation change” and “Administrative Guidance Rule” that requires FSS administrative guidance to be in clear written form rather than being delivered orally.

We have also organized and administered panels consisting of financial companies and consumers. Through these panels we listen to various opinions about supervision policies from the market. In addition, we also have a panel consisting only of foreign financial institutions in order to listen to their opinions in depth.

In particular, we have worked hard for the launch of the Capital Markets Consolidation Act, which is now under deliberation in the National Assembly. This revolutionary act defines regulatory reform in capital markets as its framework and divides the regulatory system by function. As a result, the act will break down the walls between banking, securities, and insurance service providers. This intensification of competition will accelerate the growth of investment banks and the asset management industry essential to the building of a financial hub. I am also sure that the financial industry of Korea will become more competitive and consumers better off when creative financial services backed by cutting edge IT technology are developed and supplied.

Although general public opinion about the economy has become positive after the KORUS FTA, I hear concerns spreading over the weakening of existing growth engines. Korea has developed into a Good Market based on its advantageous location, well-educated human resources, and advanced IT industry.

However, in order for Korea to leap forward into a Great Market, a Big Bang in the financial industry will be required. For a Big Bang, the FSC and FSS must continue to accelerate change and innovation in the financial sector. We will intensify our efforts for deregulation, promotion of transparency and predictability, as well as strengthening of market discipline, keeping in mind the perspective of foreign companies and investors. We will also not forget to devote ourselves to our fundamental functions of supervising the soundness of financial markets and ensuring consumer protection.



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The guests here today are the most important customers of the FSC and FSS because you can evaluate our financial supervision system from a global point of view. So, I ask for your valuable input and support. I hope this forum will be an important opportunity for open discussion of Korea's financial polices and other economic issues.

Thank you very much.