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Speech before AmCham Korea General Membership Meeting  
“International Financial Cooperation and Supervisory Policies in an Era of FTA”

October 5, 2007  
Seoul, Korea

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Members of the American Chamber of Commerce,  
Invited guests, and  
Ladies and gentlemen,

I am very pleased to be here with you today.

Let me first thank Chairman Oberlin and President and CEO Overby for giving me an opportunity to speak before you today. I would also like to thank AMCHAM Korea for its support and leadership in bringing the Korea-U.S. FTA to a successful conclusion. And I very much look forward to the same dedication from AMCHAM Korea in securing legislative approval in both the U.S. and Korea.

As you know, 2007 has been a particularly meaningful year for bilateral relations between the two countries. I believe the Korea-U.S. FTA signifies far more than just a market-opening development. Indeed, I dare say that it will mean a historic milestone for economic relations between the two countries.

With the passage of the Korea-U.S. FTA, we can expect to see acceleration of Korea's economic and financial globalization. And as the economic relations between the two countries expand, the need for close cooperation on cross-border financial activities will only increase.

Today, I would like to share with you some of the steps the government is taking to promote financial market development as well as financial supervision and cooperation in an era of FTA.

Korea is the most dynamic marketplace in Asia.

It has consistently given foreign investors and companies many business opportunities not easily found elsewhere. And it still very much remains as an attractive marketplace where handsome investment returns and business profits can be achieved.



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When we look at the macroeconomic situation, the Korean economy has achieved steady and robust economic growth since the Participatory Government took office under the leadership of President Roh Moo-Hyun. This year alone, the real GDP growth rate surged from 4.0% in the first quarter to 4.9% in the second quarter. Exports also continued to grow at a healthy pace, rising 14.5% during the first six months of the year from the same period last year.

With rising real income and improving consumer sentiment, private consumption picked up the pace during the first quarter as well and jumped 4.1% for the first six months of the year. Likewise, facility investment, led by robust demand for machinery, jumped 11.5% during the first half. And construction spending increased 3.5% on the back of favorable public sector demand. The KOSPI has reflected these positive trends and now hovers around 2,000 points, compared to about 700 when President Roh Moo-Hyun came into office. In short, the Korean economy is growing at a solid pace.

Now, turning to the financial services industry, we see a similarly strong growth in the financial services industry, which accounted for 7.5% of GDP in 2006, compared with 6.9% in 2000. Indeed, Korea's financial services industry has grown rapidly in the past decade with sharply improved earnings and financial soundness.

In the banking sector, assets tripled in size from 421 trillion won in 1997 to 1,262 trillion won in 2006. The ratio of distressed assets, which climbed as much as 13% at the end of 1999, fell to 0.8% by the end of 2006, a remarkable turnaround by any measure. The securities industry also experienced a healthy growth with assets more than tripling over the past ten years from 27 trillion won to 96 trillion won.

In terms of market size, Korea's stock market ranks fifth (5<sup>th</sup>) and the bond market third (3<sup>rd</sup>) in Asia. The growth momentum we see in the capital markets is strong and will get stronger going forward. Similarly, Korea's insurance market has now grown to become the seventh (7<sup>th</sup>) largest in the world with total assets surging more than three-fold to about 330 trillion won from about 100 trillion won in 1997.

Let me now say a few words about the role of foreign capital in Korea.

There is no question that business opportunities abound and foreign investors' interest remains strong in Korea. The ever-growing presence of foreign capital and their influence in the marketplace attest to this.

The share of foreign ownership in the banking, securities, and insurance sectors has been on the rise for some time. Foreign equity now accounts for more than 64% of the seven (7) commercial banks.



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Similarly, foreign equity now exceeds 50% in about 20 insurance companies. It is also noteworthy that, of the 50 securities companies, 19 are wholly owned by foreign companies. And foreign equity in 16 of the 51 asset management companies exceeds 50%.

I would note that what these numbers clearly suggest is that foreign investors now play an indispensable role in the Korean economy, and that they are our partners. So we will continue to embrace them and welcome them as our partners.

As a result of market liberalization, Korea is now one of the most open and free economies in Asia. Historically, Koreans have been one of the most outward-looking and enterprising peoples in East Asia, and Korea will continue to strive for a more open and free market without regress.

The challenge we now face is globalization.

In the aftermath of the 1997 financial crisis, the most urgent task was to revitalize the economy from the fundamentals. Now, it is time for Korean companies to expand their businesses outside Korea and compete more in overseas markets.

It is said that domestic companies' cash reserves and short term savings as of March 2007 were close to 115.7 trillion won. So I suspect that many new business opportunities await foreign companies on the lookout for business partnership and alliance with Korean companies in markets around the world.

I believe many Korean companies will be particularly receptive to foreign companies proposing joint ventures, M&A, entering new markets, and other business tie-ups with them.

I will now make a few observations about Korea's financial hub initiative.

As Korea strives to realize the goal of joining the ranks of highly developed countries, the financial services industry holds an utmost strategic value. This is why the government has been promoting and implementing the roadmap for the financial hub initiative.

In building a financial hub, we must work on expanding our global cooperative network and, above all, create a market environment friendly to foreign investors. With this in mind, the government is working on seven priority tasks for the financial hub initiative. And going forward, the government will step up its efforts on improving the business environment and the quality of life, including educational and medical services, for foreigners.



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It is true that foreign investors and other market participants continue to see shortcomings and slower-than-expected progress in some areas. In part, many attribute this to inadequate regulatory transparency, consistency, and predictability.

At the same time, I would stress that the fact that Korea already has fairly advanced financial markets and financial services industry of its own puts it at a significant comparative advantage above many other cities and countries. The government will certainly continue to make an earnest effort to address areas in need of improvement and forge ahead with the financial hub initiative. What we would like to see is the financial services industry driving Korea's economic growth to achieve per-capita income in the range of 30,000 to 40,000 dollars.

And I would add that our success with the financial hub initiative will depend, to a significant degree, not only on the regulators, but also on the participation and contribution from people like you.

With the passage of the Financial Investment Services and Capital Market Act, we intend to take steps that will amount to a "big bang" in the financial markets and drastically improve the business and regulatory environment.

First of all, we expect to make changes in our regulatory and supervisory frameworks in step with the evolving market environment. A key part of this will be a shift in oversight focus from rule-based to risk-based supervision.

What we envision is financial institutions enforcing strict internal controls and regulatory compliance at the individual firm level and the regulators putting a greater emphasis on overseeing systemic risks. In particular, we are committed to ensuring a successful implementation of the ongoing transition to risk-based supervision. And it is my hope that foreign financial institutions will duly take into account systemic risk considerations that affect the market in making business decisions.

We will also do away with ineffective regulations so as to give financial institutions all the room and flexibility they need to develop innovative products and services and better manage business. Along with this, we will strive to exercise more transparent and predictable supervision. In particular, we will take steps to improve business entry and exit regulations in order to reduce the licensing premium that financial service providers often command from new entrants. The goal here is to make it easier for new entrants to get in and distressed ones to get out of a business area.



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Several financial institutions have already benefited from this. In May this year, JP Morgan received an asset management license and is now in business. And just last month, Genworth Mortgage Insurance Corporation received a preliminary insurance license and is now getting ready to enter the local market.

In preparation for the Financial Investment Services and Capital Market Act, set to take effect in 2009, we set our sight on completing all the supporting regulations by the end of 2008. Once the law takes effect, Korea's regulatory system will broadly shift to a negative-list system and give companies a more competitive playing field. The expectation is that these changes will open the door to many new business opportunities for foreign companies as well.

With regard to prudential supervisory standards, accounting, and corporate disclosures, we are embracing global benchmarks. For example, I can tell you that we are on track with our preparations for the full implementation of International Financial Reporting Standards, and we expect listed companies to comply with the new accounting standards by 2011.

I would also like to take this opportunity to reiterate our stance on foreign capital as we embrace financial globalization. First, we will provide a level playing field for all investors. Second, we will give equal treatment to domestic and foreign investors without discrimination. Third, we will enforce our rules and regulations consistently and strictly against all unlawful conduct.

And we will continue to expand our engagement with foreign regulators to regularly discuss supervisory issues, exchange information, and promote joint examination and other oversight activities whenever necessary. Simply put, what we seek is to build a concrete and effective cooperative framework with foreign regulators. I must add that we will step up our communication and engagement with foreign financial companies in Korea so that we can better respond to their concerns and foster a truly world-class regulatory and business environment for all.

With the Korea-U.S. FTA wrapped up, Korea is now aiming for a free trade agreement with the EU. Once completed, the Korea-EU FTA will not only further stimulate the Korean economy, it will also link the E.U., the U.S., and Korea as free trade zones spanning three key markets of the world.

Ladies and gentlemen,

Before closing, I would like to make a suggestion to the business leaders and distinguished members of AMCHAM Korea.



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There is no question that Korea's financial services industry has benefited much from foreign investment. But it can also be said that foreign financial institutions have benefited much as well from the growth of Korea's financial services industry and from the development of Korea's financial markets.

As a way to ensure continued success of foreign and domestic financial companies here in Korea and elsewhere, I would like to recommend that you actively explore opportunities to work with Korean financial institutions as your business partners outside Korea.

I also look forward to your active participation and support for the successful ratification of the Korea-U.S. FTA by the U.S. Congress.

Once again, I thank AMCHAM Korea for its hard work and support for the Korea-U.S. economic relations.

Thank you.