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Good morning, ladies and gentlemen,

It's great to be with you, and I thank you for joining us this morning.

Let me also take a moment to thank Tami Overby, President and CEO of AmCham Korea, Hans-Bernhard Merforth, Vice President of the European Union Chamber of Commerce in Korea, Narikawa Atsushi, Chairman of the Financial Committee of Seoul Japan Club, and Stefan James, Chairman of the Foreign Bankers Group, for graciously hosting today's meeting and giving me an opportunity to speak to you about the new Financial Supervisory Service.

With significant progress on the FTA with the U.S. and the EU, much interest has centered on financial services and markets lately. So I think this is a good occasion to speak about the recent reorganization of Korea's supervisory authorities and the role the FSS will take on going forward.

Reorganization of Supervisory Structure

As you know, Korea's financial firms pushed for aggressive restructuring in the wake of the 1997 financial crisis to adjust to the global era and revitalize their business. The result was a drastic improvement—particularly in terms of asset soundness, capital reserves, and profit growth—throughout the financial services industry. I would also point out that, as key market participants in Korea, foreign investors and financial service companies have been a big part of the turnaround.

The progress we have had is real. However, it is still the case that Korea's financial services industry continues to lag behind those in the developed countries in many key areas. I recently read that only two Korean financial firms made the list of Fortune 500 global companies.



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But even these two pale in comparison with the top global firms in terms of assets, global reach, and other meaningful measures. Domestic financial service companies also continue to derive most of their income from simple interest and brokerage revenues.

Not surprisingly, numerous global business indexes—including the Transnational Index, the World Economic Forum, and the IMD World Competitiveness—place Korea's financial firms only in modest rankings. In contrast, we see global financial firms, armed with complex and highly diversified financial products and services, competing head-on in many markets. This is very much the case in Korea as well.

And this is the backdrop from which many called for changes to Korea's oversight structure to revitalize the financial services industry as the next engine of growth. What followed was the merger of the financial policy bureau of the finance ministry and the former Financial Supervisory Commission into the Financial Services Commission. So, under the arrangement we now have, the new FSC is to focus on financial policy and the FSS on on-site supervision.

Relationship between the FSC and the FSS

Let me say a few words about the relationship between the FSC and the FSS.

There is some concern that the dual structure we now have will prove less efficient and put heavier burden on financial companies than before. We understand this, and we will take steps to make sure that we have clearly established role and responsibilities between the FSC and the FSS. This is so that we can avoid duplicate supervision or regulation.

Issues that come to our attention from our on-site contact with financial companies will also be shared promptly with the FSC so that all of us can stay up-to-date and take coordinated action. I can tell you that we are already doing this with our daily conference calls and briefings with the FSC. We are also putting into place real-time information sharing and communication systems to stay continuously engaged with each other.

FSS Agenda

Let me now turn to our supervision agenda and priorities.

First, we will aim for market-friendly supervision that respects the choices and decisions financial companies make in the marketplace. As we do so, the benchmark will be standards widely accepted and practiced; that is, global standards.



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Second, we intend to step up prudential supervision to improve the safety and soundness of financial companies and ensure the stability of the financial system. The heavy losses that major investment banks and others have suffered lately in the subprime market can be traced to failures in internal controls and risk management. Korea is not immune to the ongoing turmoil in the global financial markets. So we want to make sure that financial companies conduct their business responsibly, control risk, and keep up with the prudential standards.

I would also stress that we have several major risk-based supervision efforts under way. Key among them are the New Capital Accord for banking organizations, net capital ratio rules for securities firms, and risk-based capital for insurance companies.

Third, we are going to re-think our approach to the examination of financial service companies. More specifically, I see a need to carry out, on a more regular basis, inspection of financial companies' internal controls with a particular focus on their effectiveness. The level of examination financial companies receive may then vary depending on how well their internal controls operate.

I also see a need for a shift in our inspection objective. In the past, the usual practice was to point out shortcomings uncovered during examination to the management and to demand change. I believe we can do better by sharing our unique expertise with financial companies so as to help them improve their business and risk management. For our part, we intend to allocate additional resources in this endeavor and provide truly value-added service to financial companies.

We also intend to strengthen our monitoring and risk assessment. That is, the focus of our on-site inspection will be on high risk areas. For areas with limited risk, we will rely more on off-site document review as a way to reduce compliance burden on financial companies.

Fourth, we will re-think the traditional supervisory customs and practices from the standpoint of the market participants. In particular, we are going to work closely with the FSC to come up with a simple, transparent process for regulatory licenses and other applications from start to finish. For applications involving multiple supervisory departments, one will be chosen to take charge and provide one-stop service.

Financial companies often bear high compliance cost for frequent and redundant documentation demand from the supervisors. We are going to change this. The Central Point of Contact we created last December was aimed at addressing this very issue. And we are going to put more resources to this to keep compliance cost down as much as possible.



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I also intend to make sure that we maintain an open, ongoing two-way communication with the financial services industry and individual firms. This is so that there are no surprises, and everyone knows what is expected of each other.

Let me also stress that consumer protection will continue to be a top priority for us. For example, companies selling investment funds and other financial products will be expected to make full disclosures to consumers and help them make well-informed choices. They will also be expected to abide by a strong code of conduct, and we will hold them accountable for any failure to do so.

We also see a need to better deal with consumer complaints against improper sale of insurance products. So we are going to quantify consumer complaints into numerical indexes, keep a close watch, and take corrective measures accordingly.

Message to Foreign Financial Institutions

Let me now share with you my thoughts on what you can expect from us going forward.

There is a clear recognition that Korea's turnaround from the financial crisis was helped by the confidence foreign investors and businesses showed in Korea's future potential. In an era of globalization, it serves no useful purpose to debate national origin. So, as before, we will insist on a level-playing-field for all, domestic and foreign.

We do understand that foreign businesses sometimes run into difficulties that local businesses do not for reasons as simple as language and culture. Again, as before, we will continue to allocate our resources to help you better deal with regulatory hurdles you face in Korea.

As some of you may know already, the FSS created an office called ISSO—short for International Supervision Support Office—in May, 2006, solely to help foreign financial firms deal with regulatory issues. Since its creation, ISSO has provided assistance on more than two hundred cases for foreign financial firms. ISSO has also acted as the initial contact point for many foreign firms and CEOs, and has consistently provided written responses to them. It has maintained open dialogue through its cyber help desk, CEO visits, and roundtable meetings for feedback on ways to improve our supervision.

We do understand that we have more work ahead in creating a truly effective regulatory environment as well as a market-friendly business and investment climate. We are looking to global benchmarks on these efforts, and we are serious about them.



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Let me now say a few words about our basic approach to business outsourcing. Financial companies are barred from outsourcing core business activities as well as others that are mandated under the law. It is said that some of the restrictions on outsourcing need to be clarified or relaxed to help financial firms make better use of outsourcing.

I can tell you that we are working on this issue through a task force we created with the FSC. The task force has been working very closely with foreign financial institutions, and I have no doubt that the input they provide will be reflected in the outcome. The specifics are yet to be determined, but we expect to see more business activities added to what can be outsourced.

Let me add that we currently provide English translations of 43 regulations on our website. We are going to expand this with English FAQ on our supervisory activities and staff interpretations of rules and regulations. We are more than willing and ready to do our part to foster an effective regulatory environment for all.

Ladies and gentlemen,

I believe this is the time to promote Korea's financial services industry as the next engine of growth and pave the way for a truly dynamic Korea. As I noted earlier, we are making an earnest effort to create a world-class marketplace at home and to help financial firms grow into global players.

Every one of us has a stake in this, and I strongly encourage you to share with us your thoughts and to get involved in our endeavor. As we do so, I would like to ask foreign financial firms to put more emphasis on internal controls and risk management to ensure sound business. The same goes for consumer and investor protection as well.

With a new President in office, many Koreans have high hopes and expectations for the future. What they would like to see is more job and wealth creation. They are not particularly interested in what foreign investors are buying or selling in Korea.

This was the very same thing I witnessed when I served as Financial and Economic Counselor at the Korean Embassy in the U.K. from 1992 to 1995. To the government and the people, what mattered most was not from which country foreign businesses and investors came. What truly mattered to them was the jobs foreign capital created and the value they added to the economy. I am sure the very same is true in Korea.

So, domestic or foreign, what I would like to see is ever-growing business opportunities for all the companies doing business in Korea. In fact, this is what you will see when the Capital Market Act takes effect in February next year and give financial firms a chance to compete on new, wide-ranging business opportunities.



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I say that foreign businesses have a stake in creating a truly dynamic marketplace in Korea. So, they are our partners, and it is my hope that all of us will work to contribute to advancing our common goals. We are eager to move forward, and we would like to help you succeed in Korea. Our door is always open, and you are always welcome.

Let me close my talk this morning with a call to you to show your strongest support for the successful conclusion and passage of the free trade agreements with the U.S. and the EU.

Once again, I thank you for the gracious invitation to speak to you this morning.

I hope we can meet again in the near future.

Thank you.