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## **Speech at FSI-EMEAP High-Level Meeting**

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### Greetings

Distinguished colleagues, and Ladies and gentlemen,

It's great to be with you today and take part in the important discussion of banking supervision and financial stability.

With banks across countries in the grip of a global financial crisis, the high-level meeting is a timely gathering of bank supervisors.

And I thank the Financial Stability Institute and EMEAP for organizing the meeting and the People's Bank of China for hosting it.

After more than a year since the U.S. subprime mortgage crisis triggered a worldwide credit crunch, we continue to see signs of distress in the banking sector.

Fortunately, policymakers worldwide have joined hands and taken bold, concerted actions to respond to the crisis, leaving no doubt about the global nature of the crisis.

### Global Financial Crisis & Evolving Financial Environment

Financial innovation and globalization over the past two decades or so have brought major micro and macro challenges to bank supervisors.

In particular, inadequate transparency on asset securitization and derivatives employing aggressive financial engineering and excessive risk-taking has brought a host of new problems to the market.

The financial crisis that spilled out of the U.S. can also be traced to ineffective risk management of investment banks coupled with highly leveraged activities.



It is also clear that regulatory gaps and lax oversight also contributed to the pre-crisis build-up of risks in the financial system.

In a nutshell, you might say that what we have is the failure of financial supervisors to keep pace with the rapidly evolving financial markets and to preempt risks to the financial system.

### Stability of Korea's Financial System

Following the 1997 financial crisis, Korea established an integrated supervisory authority, and set tough regulatory standards for financial service firms and the markets.

As a result, Korea's financial system now operates with a high degree of safety and soundness and, I may add, without heavy leverage or subprime exposure.

Similarly, the fundamentals of Korea's banking sector in terms of asset soundness and capital reserves look strong.

To date, bank loan delinquencies, loan loss provisions, loan-deposit ratios, and BIS capital ratios all indicate that Korean banks are well positioned to cope with distress from the financial crisis.

The soundness of mortgage assets has been a source of some concern to bank supervisors.

In Korea, conservative prudential regulations on mortgage lending, including low caps on loan-to-value and debt-to-income ratios, have kept bank mortgage assets in sound shape.

Notwithstanding the overall banking soundness, Korea has to contend with the same problems that other countries face: namely, a worldwide credit crunch and a slowing global economy.

The Korean government responded swiftly to the worsening external credit conditions by increasing the availability of credit to businesses, guaranteeing domestic banks' foreign debt, and arranging a 30 billion dollar swap facility with the U.S. Federal Reserve.

Our overall assessment is that these measures are working and restoring liquidity to the domestic credit market.



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For the slowing economy, Korea has taken a series of stimulative fiscal and monetary measures, including tax relief, expanded public spending, and interest rate cuts to keep the economy on track.

Since October, Korea's central bank has cut interest rates by 1.25 percentage points. And Korea still has much room to take further fiscal and monetary measures if needed.

### Need for Global Coordination

An urgent task for bank supervisors right now is stepped-up international coordination.

In the wake of the global financial crisis, there is now a growing call for coordinated international efforts to shore up the regulatory system and reinforce the stability of the financial system.

At the G-20 summit meeting in Washington, D.C., world leaders pledged to work together and issued a set of principles for financial market reform along with actions to be taken.

I believe the Asian community of bank supervisors must also work together to give EMEAP a greater voice in promoting financial stability in the East Asia and Pacific region.

The timely Statement by EMEAP Monetary and Financial Stability Committee on October 30 reaffirming its commitment to regional cooperation and stability sends a strong message that the region's monetary authorities are working together for common interests.

And there should be no doubt that they will continue to do so as they work in concert with others to protect and promote financial stability in the region.

Let me also quickly add a word of support for efforts currently under way to upgrade the swap arrangement under Chiang Mai Initiative into an expanded multilateral framework.

It is an important joint effort that gives countries in the region an additional layer of stability, and thus merits our full support.



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### Closing Remark

Asia's financial stability is crucial to the stable growth of the global economy.

The senior bank supervisors who have gathered here for the high-level meeting attest to the importance we all attach to sound banking supervision and financial stability.

I also believe our gathering here sends an important message that Asia's bank supervisors are closely engaged with each other to better understand and more effectively respond to the global financial crisis.

And I have no doubt that all of us will leave the high-level meeting with a better grasp of the situation and with greater confidence that our collective wisdom and resolve will prevail and pull us through the challenges we face. Thank you.