# New Year's Message from Governor of Financial Supervisory Service

I would first like to wish you and your family a happy and joyous new year.

Last year was a particularly difficult year for many because of the global financial crisis. Concerns over rising energy and commodity prices, volatile won/dollar exchange rates, and precipitous drops in share prices also weighed heavily on the markets. But there were also some early signs that aggressive actions the government took to keep the economy on track were having measurable success.

Every one of us at the Financial Supervisory Service sincerely appreciates the encouragement you have given us in performing our job, and we renew our pledge today to better serve you.

The outlook for the economy is not bright right now, and one of the top priorities for the Financial Supervisory Service this year will be to contribute to early recovery from the financial turmoil we currently face. In many aspects, the nature and extent of problems we face stand out from others in the past and thus call for bold actions from all of us. For our part, we will continue to push for better, more effective financial supervision with an eye to strengthening the long-term global competitiveness of Korea's financial services industry.

Let me elaborate on what we see as critical in overcoming the challenges that lie ahead.

First, swift restructuring is needed in order to reverse the cycle of financial market uncertainties and shrinking real economy and restore healthy credit supplies to businesses and consumers.

In respect of restructuring of distressed companies, the creditor banks will be encouraged to lead the restructuring efforts and lend a helping hand to companies that are sound but merely face short-term cash flow difficulties. For companies with no realistic prospect of turnaround, the expectation is that the creditor banks will act forcefully for resolution of distressed corporate debt.

The creditors will also be expected to step up monitoring of the debt-servicing ability and the financial soundness of companies in cyclically sensitive industries such as construction and shipbuilding. Thorough and vigorous monitoring of other corporate borrowers will be expected from the creditors as well so as to ensure debtor distress is dealt with quickly and effectively.

In addition, there is a recognition that extra effort should be made to help SMEs avoid insolvency due to shorter-term liquidity difficulties. So it is of great interest to regulators whether banks are taking advantage of fast-track programs to facilitate and expedite credit extension to SMEs.

Second, we intend to reinforce our monitoring of potential risks in the market and act decisively to preempt them. As a way to encourage a steady flow of credit in the market, we intend to strongly encourage financial institutions to beef up their balance sheet positions, especially in respect of their capital strength.

Many household borrowers will likely face difficult credit conditions this year due to the slowing economy. So we see a need for well-functioning debt rescheduling programs and other proactive measures in order to minimize household debt delinquencies. Because debt rescheduling helps borrowers who would otherwise default continue to service their debt, it is a win-win for both the lenders and the borrowers.

Project financing is another area that will occupy our attention, and we fully expect to carry out the measures that the regulators announced late last year to help mutual savings banks facilitate resolution of distress in project financing loans. We also intend to closely examine the extent of exposure of other financial institutions to project financing.

As a follow-up to the measures taken to boost foreign currency liquidity, we also intend to keep a close watch on whether domestic banks are complying with the steps to which they agreed in return for government guarantee on their external debt. In respect of market monitoring, we intend to conduct more frequent stress testing for early detection of high-risk and business-cycle-sensitive assets.

Inadequate dialogue and communication between regulators and market participants was sometimes blamed in the past for creating unnecessary market uncertainties and confusion. Henceforth, we will speak more frequently with analysts and other market participants at home and abroad so that there is no disconnect between the regulators and market participants.

Third, we are going to carry out our examination and financial supervision under the assumption of heightened risks in the financial markets. As we step up our prudential oversight of financial institutions, we intend to increase the frequency of onsite examinations that are targeted at specific high-risk areas. We are also going to augment our inspection for irregular trading and accounting and at the same time beef up our enforcement against unlawful activities in the sale of financial products, foreign exchange transactions, and other questionable acts.

Given the heightened risk of financial incidents from the economic slowdown, the FSS will closely scrutinize the internal controls of financial institutions and take extra steps to ensure companies and financial institutions do not face any added compliance cost during a time of significant distress in the market.

Fourth, we will work to alleviate the hardship that the slowing economy brings to low-income and other disadvantaged consumers. In this effort, financial institutions will be encouraged to expand the pre-workout program currently in use for distressed low-income borrowers and explore ways to better serve economically disadvantaged consumer segments. In tandem with these steps, the FSS is planning strong enforcement actions against usury, abuses by private money lenders, and unlawful charges for various loan and credit services.

Let me also say a few words on moving forward with some of the major tasks we will take on in order to improve our financial supervision. They include more rigorous fit and proper tests for the controlling shareholders of financial institutions and a smooth transition to consolidated examination of financial groups. The FSS also plans to better utilize its relationship managers (RM) in identifying business risks of financial institutions and conducting targeted onsite examinations. More vigorous oversight of the derivatives markets, including a new integrated information system on derivatives trading and a rating system for OTC derivatives trading, is planned as well. Greater scrutiny of credit rating companies' internal controls and financing encouragement for green industries are also in the works.

We also intend to undertake new efforts to contribute to a well-disciplined, transparent, and competitive market environment. We will do so by improving among others our disciplinary system—e.g., barring certain individuals from employment in the financial service sector—and the accounting and disclosure regimes.

New initiatives are planned as well in order to expand consumer banking and finance education, enable a simplified online search for assets of deceased family members on the FSS Internet homepage, and terminate the practice of imposing joint liability on the debtor's spouse. Mystery shopping for insurance and investment fund products, in which regulators pose as normal customers to monitor sales tactics and practices, is on our agenda as well.

Internally, the FSS will continue to strengthen its examination and supervision capacity by adopting effective personnel management systems, expanding the recruitment of outside experts and professionals, and deepening the pool of highly trained examiners. A culture of market friendly financial supervision will also be fostered within the organization.

Dealing with urgent problems in the market and removing uncertainties stemming from them are certainly a priority for us. But just as vital is the need to focus on the long-term development and growth of the financial services industry. The Financial Investment Services and Capital Market Act is but one of the many positive changes on the horizon that will fuel a dynamic growth of the financial industry and strengthen Korea's long-term global competitiveness by promoting competition across financial services.

When the new law takes effect, companies that engage in multiple financial service businesses will need to take additional steps—e.g., strict Chinese walls among different business units—to ensure investor protection. Repealing outdated or anti-competitive regulations will also remain high on our future supervision agenda. Foreign financial companies establishing new business operations in Korea can expect friendly exclusive services and a helping hand from the FSS.