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General Membership Meeting Address

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Thank you, Vice-Chairman Solomon, for the kind introduction. I also thank Chairman Pat Gains, President Amy Jackson and AmCham members for inviting me to speak at today's meeting. It is my great pleasure to speak to you this afternoon.

I know that many senior policy makers come to address AmCham Korea as I do today. My guess is that it is because of AmCham's exceptional commitment to building bridges with Korea and promoting trade and investment.

So, before I say anything else, I wish to acknowledge the important work you do. For decades, AmCham has represented the U.S. business community in Korea and in the process has helped bilateral trade and investment rise to record levels over the years. AmCham also deserves much credit for the passage of the KORUS FTA earlier this month in the U.S. Congress. Many would say that it is a victory that would have been difficult to imagine without years of commitment and support from AmCham. So, congratulations on a job well done. I thank you and wish you even greater success in the future.

Let me now share with you some thoughts on recent market developments and our financial supervision agenda.

It's been a little more than three years since the collapse of Lehman Brothers that marked the beginning of a global financial crisis. Unfortunately, the fear of a looming crisis has once again gripped markets worldwide. This time, much of the fear has been driven by an escalating debt crisis in Europe and its potential impact on the rest of the world. To the credit of European policy makers, they are more engaged than ever for a solution, and progress is being made. But it's still too early to tell whether the worst is behind us. We also heard the IMF cutting forecast for global growth and warning of a recession next year without bold policy actions.



So confidence is not very high right now, and we see this from recent market ups and downs. For example, KOSPI share prices fell as much as 22% between August and September. In the bond market, foreign buying continued in September. But the net bond investment did turn negative for the month with unusually large redemptions. The trading range of the Korean won against the major currencies also widened with greater volatility. So the global stress was clearly felt in Korea.

What then should foreign investors look for in our markets? More than anything else, I would encourage them not to lose sight of Korea's fundamentals.

I say this because the Korean economy continues to expand at a solid pace along with consistently strong exports. In terms of fiscal soundness, Korea's sovereign debt relative to the GDP is about 33%, roughly a third of the OECD average of 98%. Moreover, compared to three years ago, the proportion of short-term external debt is now significantly lower. And the size of Korea's foreign exchange reserves has increased by some 60 billion dollars to around 300 billion dollars.

We see similar improvement in the overall soundness of the financial sector as well. With respect to capital soundness, domestic banks' BIS capital ratio stands at about 14%. And bank profits, which declined sharply following the 2008 crisis, have since been rising steadily. I would also note that the ratio of domestic banks' short-term foreign borrowings has fallen by roughly half from 50.1% at the end of 2008 to 27.8% in July this year. We also see domestic banks running into no difficulty with their foreign currency liquidity.

As you know, there is some distress in the mutual savings bank sector because of bad real estate loans. But it must be said that the sector as a whole accounts for only a small share of the entire financial sector. So we see no chance of systemic risk from the distressed mutual savings banks.

We of course understand that this is no time for complacency, especially given the uncertainty over the depth of the euro-zone crisis and the health of the global economy. For better or worse, we know that what moves global markets moves our markets, and we simply have to be prepared for this reality.

So, given the mixed domestic and global situations we face, what should be on our supervision agenda going forward? Let me share a few with you.

The first is the stability of the financial system. When it comes to keeping the financial system functioning effectively and safely, I can tell you that we have been tested time and again along with our markets. So we have a good grasp on what works well, and I believe we are well prepared for wide-ranging contingencies.



One important step we took in respect of financial stability was to enhance our market monitoring with additional data gathering and analysis capability. To a significant extent, this has helped us keep a close eye on domestic banks' foreign currency liquidity management well before confidence tumbled in global markets.

Moreover, when markets did begin to slide following the downgrade of the U.S. sovereign rating, we promptly put limits on short-selling and took other stabilizing measures to restore calm. We also took the care to meet with the CEOs of major foreign financial firms and communicated our confidence in the resilience of our markets.

In addition to tighter supervision of foreign currency asset-liability management, we are encouraging domestic banks to diversify their funding sources and rely more on long-term funding. For the securities market, we see promoting bigger, more active institutional investor base and a culture of long-term investing as two key ingredients for market stability.

The second agenda is encouraging financial activities bound by real economic substance. Experience tells us that what we usually get from financial activities without underlying economic substance is bad assets. This is in fact one key lesson from the 2008 crisis—that is, financial leveraging detached from the real world eventually fails. From this perspective, it makes sense that regulators do make an effort to safely bring down Korea's somewhat outsized household debt. The same is true for unsound competition in the credit card and pension fund management industries.

The third is promoting more responsible corporate citizenship in the financial industry. As you all know, “Occupy Wall Street” out of New York has reached many cities around the world. For many, it is an expression of frustration at the gains and advantages financial firms and their executives continue to enjoy even after one of the worst financial crises ever.

In Korea, financial firms did receive government assistance during the 2008 crisis. But the assistance came with a pay freeze on everyone. So you might say that our situation was somewhat different. But, like many other countries, Korea does have to contend with the problem of social disharmony. And many attribute this to uneven sharing of the fruits of growth and prosperity across the society at large. So we do hear voices calling for more responsible corporate citizenship in our financial industry.

Lastly, I wish to say a few words about international cooperation. Right now, it's a particularly relevant issue because of multilateral efforts under way in Europe to deal with the eurozone debt crisis. What this crisis clearly reminds us once again is that no nation is an island. And in a world with ever-present risk of contagion, the case for international cooperation is especially compelling.



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As many of you may well recall, the Korean won and domestic banks' dollar liquidity came under seemingly unbearable pressure following the collapse of Lehman Brothers. But the pressure quickly dissipated after a currency swap with the U.S. Federal Reserve was announced. Many would also agree that the G20 was instrumental in turning the global markets around from the bottom of the 2008 crisis.

In short, international cooperation works, and I believe it is the key to overcoming the uncertainty we face in Europe. To be sure, the degree of cooperation may vary from time to time. But, without it, we will not be able to bring lasting solutions to the problems we face and advance our common interest.

The G20 in many ways also represents the very best of what the community of nations can achieve together. And Korea very much looks forward to playing its part in bringing emerging market issues to the table and helping to set the world's crisis resolution and growth and reform agenda.

Ladies and gentlemen,

Before I close, I would like to briefly return to the passage of the KORUS FTA that I spoke of earlier in my speech. It is certainly a milestone in U.S.-Korea relations, and AmCham deserves much credit for the passage. With less-than-assuring growth forecast for the global economy, the FTA should provide a major boost for the economies of both countries, especially in terms of job growth.

Bilateral trade will clearly benefit as well. Between 1965 and 2010, bilateral trade increased from 240 million dollars to more than 90 billion dollars. So, in absolute terms, trade between the two countries has grown exponentially over the years. In relative terms, however, Korea's trade with the U.S. has declined from more than 30% to about 10% over the years. With the bilateral trade expected to jump about 2.5 billion dollars, however, we have reasons to be optimistic that U.S.-Korea trade will continue to pick up and further solidify relations between the two countries.

The FTA should also help Korea's financial services industry move up the global competitive ladder with significantly expanded engagement with world-class U.S. financial companies—both in terms of business growth and human resources network. As you know, we are also looking to attract international financial firms to Seoul and Busan, our future financial centers. So, I very much look forward to your continued interest and engagement with us in attracting new U.S. financial companies and talent as we forge ahead with our financial center goals.

In closing, let me say that there is no question the KORUS-FTA will take the bilateral trade and investment relations to a new level. Although we all have a role to play in it, I think the role played by the men and women of business will prove vital to our future success.



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As President Lee Myung-Bak noted in a speech during his visit to Washington earlier this month, the KORUS FTA is a new expressway that links the U.S. to East Asia, and it is the men and women of business who will make trade happen through the expressway.

This holds true for the flow of financial services and investment as well. So we will be working even harder than before to make sure the expressway stays free, safe, and sound for investors and financial firms.

AmCham and its dedicated members have an important voice in this endeavor. And I close today with our pledge to work with you as your trusted partner in creating the best possible regulatory and investment climate in Korea.

Thank you.