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Congratulatory Remarks

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Good morning, ladies and gentlemen,

It is with great pleasure that I join you this morning and deliver my welcoming remark for today's conference, Asia's top forum on derivatives and alternative investments.

I would first like to thank Gweon Seong-Cheol, president of Financial News, and his staff for organizing this event and inviting me to speak. I also thank Professor K. Geert Rouwenhorst and other distinguished guests for joining us here in Seoul.

As we all know, global markets have been facing significant headwinds because of fiscal distress and sovereign downgrading in the euro-zone. The euro-zone distress of course has come on the heels of the 2008 global financial crisis. Derivatives, specifically OTC derivatives, have been widely blamed as one of the key contributing factors to the 2008 crisis.

Since then, there have been wide-ranging discussions on regulating derivatives with the goal of reinforcing market soundness and transparency. So, a derivatives conference under the theme of "Innovation and Regulation: The Future of Alternative Investments" with renowned market professionals and experts from around the world is certainly a special occasion.

As you know, a consensus emerged out of the 2008 financial crisis that policy makers and regulators must reinforce the oversight of OTC derivatives markets. Under the leadership of the G-20, broad agreements were in fact reached on concrete steps such as creating central counterparties (or CCP) and trade repositories for derivatives trading. There were also agreements on stepping up cross-border cooperation to reduce regulatory arbitrage.



As for progress to date, the Basel Committee is spearheading global efforts on CCP implementation. And discussions on facilitating data collection—such as legal entity identifier—are now well under way.

There are also more aggressive proposals to restrict highly risky derivatives trading. In the U.S., regulators are looking to implement the so-called “Volcker Rule” that would, among others, bar banks from engaging in proprietary derivatives trading. And the expectation is that some form of the Volcker Rule will take effect in 2014 for U.S. banks and foreign banks that deal with them.

Not surprisingly, there is some concern that tough derivatives regulation will further dampen the already depressed financial industry. Another concern is that strong global regulation will disproportionately affect OTC derivatives markets that are in their infancy.

Notwithstanding such concerns, the priority is now on market transparency in order to encourage sound market growth and prevent future crises. And there is a general recognition that a well-regulated, transparent derivatives market will contribute to sustained, long-term growth.

For Korea’s regulators, the main thrust of derivatives supervision is to help the market advance to the next level. So we will be looking to implement supervisory measures that promote the growth of derivatives market in tandem with the financial industry.

The trading of exchange-traded derivatives is said to be the world’s highest in terms of volume. But there is a concern that the heavy derivatives trading volume is not justified by the realities of the underlying assets, and what we may well have is a case of the tail wagging the dog.

So there is a case to be made that derivatives trading should move in lock step with the market and contribute to its growth by helping to correct price distortions and improving risk management. Trading of derivatives that becomes too detached from the underlying markets or distorts price is not much different from naked speculation. So we see a need to step up our supervision to keep speculation or price distortion out of the derivatives market.

We are also looking to enhance our market infrastructure to measure up to the highest global standards and improve market transparency. The proposal on establishing a central counterparty has been delivered to the National Assembly. And progress is being made by the Korea Exchange and the derivatives industry.



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With respect to trade repositories, I can tell you that regulators are studying it and looking at the best ways to move forward. One key objective of improving market infrastructure is to enhance the overall efficiency of the derivatives market. So we are going to work closely with the industry to make sure we achieve our goal.

We also see investor protection as crucial to steady and sound market growth. With prolonged low interest rates, the sale of structured financial products like ELS that offer the potential for high yield is on the rise.

Given the high risk of such instruments, however, financial firms must take the due care to help investors make informed investment decisions. Financial firms must also make an earnest effort to perform their fiduciary duties faithfully and manage customer assets in a sound and prudent manner.

So, in respect of investor protection, our priority will be on enforcement of full product disclosure, sale of investment products that match investor sophistication, and other steps needed to further enhance investor protection.

Lastly, I would like to highlight our commitment to lending a helping hand to financial firms in assessing and managing risks. We issued best practice guidelines on derivatives-related risks for financial firms, and we will stay closely engaged to help them continually improve risk management.

I would like to close my remark this morning by urging financial firms to renew their commitment to risk management for their long-term business sustainability and growth.

Recently, we saw several leading global banks that were widely praised for effectively managing risk during the 2008 crisis suffering substantial derivatives-related losses. What this suggests is that there is no easy way to manage risk and that only focused, uncompromising effort will do.

I very much hope that today's conference will serve as a valuable forum for some meaningful discussions on the risks of the ever-evolving derivatives market and strategies needed to cope with them.

I am sure all of us can look forward to many vigorous and informative discussions today. Thank you.