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Weekly Newsletter

- ☐ Operational Guidelines for Open-end Mutual Funds Released
- ☐ Funds Raised via Public Offerings to Face Greater Scrutiny on Usage
- ☐ Bank's Overseas Borrowing Conditions Improved in 2000
- ☐ Korea's Total External Liabilities Fall to US$ 13.6 Billion as of end- 2000
- ☐ FDI Totals US$ 15.7 Billion in 2000

(Appendix) 1. Major Financial Statistics
2. Daily Trends

Operational Guidelines for Open-end Mutual Funds Released

On February 9, 2001, the FSS released operational guidelines for open-end mutual funds. Two asset management firms, My Asset and Mirae Asset, have already been registered to operate open-end mutual funds. Previously, only semi-open-end mutual funds, introduced at the beginning of August 2000, were allowed. The operational guidelines for the funds are as follows.

Redemption by fund promoters

In establishing an open-end mutual fund, the fund promoters, including management companies and distributors, should refrain from redeeming their own stocks for a period of at least three months. This will enhance the stability and profitability of fund management.

Issuance of stock certificates

In principle, a mutual fund may not issue and deliver stock certificates to its shareholders, unless they request to do so. This is aimed to facilitate the additional investment as well as easier redemption. However, in cases where stock certificates have been issued and redemption request is made in exchange for stock certificates, funds are allowed to delay redemption for up to 15 days in order to reconcile the authenticity of the certificates to be redeemed.

Liquidity requirements

In order to guarantee their ability to meet shareholders' requests for redemption, mutual funds should secure a sufficient amount of liquid assets as follows.

First, the ratio of illiquid assets to total net assets should not be more than 15 %. Illiquid assets refer to assets that are not sold in the markets within 15 days. Second, at least 10% of total net assets should be liquid assets that can be cashed in immediately. Third, mutual funds can borrow from financial institutions but up to the amount that is not more than 10% of total net assets.

Fair valuation of bonds below investment grade

Fund administrators should evaluate below-investment grade bonds they hold according to the rules set by the fund's board of directors, reflecting the price information of these bonds from at least two qualified pricing agents.

Distribution fees

It is mandated to mutual funds to choose the scheme of distribution fees, such as front-end sales load, back-end sales load and level load etc. While funds can also choose whether to impose early redemption fees or not, mutual funds with level load are required to impose early redemption fees of up to 70% of profits, in the case of redemption within 90 days after its establishment. It is expected to discourage early redemption and to enhance the stability of fund management.

Holding of non-distributed stocks by distributors

Upon redemption request of shareholders, the mutual funds must meet the request by selling assets in the market and also retire all of the related stocks. In this light, distributors of the funds are prohibited from paying out the redemption request from their own proprietary account and thereby holding onto non-distributed stocks.

Funds Raised via Public Offerings to Face Greater Scrutiny on Usage

The FSS will increase surveillance of the usage of funds raised through public offerings in an effort to enhance investor protection and prudential management. Under new rules covering the financial disclosure of such funds, firms will be required to provide details of the funds' usage and application into all business reports, including the annual report, semi-annual report and quarterly reports.

In addition, the FSS will monitor use of the funds by comparing companies' registration statements and business reports in order to uncover any discrepancies. Details on the usage of the funds raised by stock public offerings should be included firms' annual reports, semi-annual reports and quarterly reports disclosed beginning from February 14, 2001. If fund usage varies greatly from what was reported in the registration statement and business report, the FSS may consider taking legal action against the offending firm. Such penalties may include restrictions on issuing securities, the imposition of surcharges, and recommendations for the dismissal of directors.

Banks' Overseas Borrowing Conditions Improved in 2000

On the strength of the nation's upgraded credit rating, overseas borrowing conditions for domestic banks improved significantly in 2000. As a result, the total amount of medium- to long-term overseas borrowings (MLOBs) by domestic banks increased to US$ 12.0 billion in 2000, up $ 3.4 billion from 1999. Also, the spreads on the LIBOR for domestic banks' MLOBs in 2000 fell to 116 basis points, down 129 basis points from 1999.

Medium to Long-term Foreign Borrowings

(unit: billion dollars, bp)

	1999	**2000**					
		Jan.	**Apr.**	**July**	**Oct.**	**Dec.**	**Total**
Foreign Borrowings	8.67	0.24	2.06	1.06	1.25	1.00	**12.04**
Number of Banks	10	4	11	8	8	8	**18**
LIBOR Spread*	245	131	117	105	105	85	**116**

Note: during the period

Salient features of domestic banks' MLOBs in 2000 are as follows.

First, conditions for MLOBs improved markedly and the total amount of MLOBs issued in the form of non-collateralized credit, such as syndicate loans and bond issues, also increased despite the volatility of domestic financial markets in 2000.

Second, banks with weaker capital structures and large foreign currency-denominated assets, including Hanvit Bank, Chohung Bank and Korea Exchange Bank, raised a total of $ 1.45 billion through the issuance of subordinated bonds in order to help raise their capital adequacy ratios, up from $ 1.35 billion in 1999.

Third, the spread gaps between banks with sound capital structures and banks with weaker capital structures were maintained. Accordingly, the former relied on borrowings on credit which accounted for 93.9% of their total MLOBs. In contrast, borrowings of the latter on credit accounted for only 37.4% of total MLOBs, as their borrowings relied mostly on collateralized R/P transactions and asset-backed securities.

Fourth, MLOBs in 2000 were primarily used to repay foreign borrowings, and not for new investment purposes.

Overseas borrowing conditions for domestic banks are expected to continue to improve based on the positive outlook for Korea's sovereign credit rating as current account surplus will continue and ongoing restructuring in banking and corporate sector will progress. Despite these improvements, however, the FSS will continue to strengthen the monitoring of banks' foreign borrowings in order to prevent an excessive increase in foreign borrowings and an aggravation of profits.

Korea's Total External Liabilities Fall to US$ 136.3 Billion as of end-2000

As of the end-December 2000, Korea's total external liabilities stood at $ 136.3 billion, down $ 0.3 billion from the previous month and marking the fifth consecutive month that the nation's liabilities have decreased. The decrease was mainly attributed to the increased redemption of borrowings by financial institutions, despite an increase in import credits.

In particular, short-term external liabilities fell to $ 44.2 billion as of end-December, down US$ 0.6 billion from the previous month. The ratio of short-term debt to total foreign debt declined accordingly to 32.4%, down 0.4 percentage points from October.

Moreover, the ratio of short-term debt to usable foreign exchange reserves stood at 45.9%, down 2.1 percentage points from the previous month to remain in the "safe zone" below the critical threshold of 60%.

Meanwhile, Korea's gross external assets recorded $ 166.9 billion as of the end of December, up $ 4.2 billion from the previous month. Korea's net external assets – gross external assets minus liabilities – thus increased to $ 30.6 billion, up $ 4.5 billion from the end of November maintaining the country's position as a net creditor nation since Sept. 1999.

FDI Totals Record US$15.7 Billion in 2000

Total foreign direct investment (FDI) in 2000 reached $ 15,690 million, up $149 million, or 1% from a year earlier. This is the largest amount ever to be recorded in a single year.

FDI Trends

(unit : million dollar, %)

	1998	1999	2000				
	Total	Total	1 Q	2 Q	3 Q	4 Q	Total
Amount	8,852	15,541	2,749	2,997	4,689	5,265	15,690
Growth Rate (y-o-y)	27.0	75.6	36.6	21.8	17.2	-25.6	1.0

The number of FDI cases in 2000 rose to a record high of 4,163 cases, nearly double the 2,102 cases reported in 1999.

By industry, FDI in services totaled $ 8,556 million, a 2.5% increase compared to a year earlier. Service investment accounted for 54.6% of total FDI in 2000 and continues on an upward trend. Meanwhile, investment in manufacturing declined to $ 7,122 million, down $ 7 million from 1999.

By region, FDI from EU nations decreased by 26.4% and investment from the U.S. declined by 22.0%. In contrast, investment from Japan increased by 39.9 % and investment from other countries soared by 50.8 %.

By investment type, the ratio of the acquisition of new stocks - the establishment of new corporations and/or participation in capital increases - to total FDI rose dramatically to 89.7%.

FDI by Type

(unit: million dollar, %)

	1998		1999		2000	
		Ratio		Ratio		Ratio
Acquisition of Stocks Newly Issued	6,525	73.7	12,571	80.9	14,067	89.7
Acquisition of the Outstanding Stocks	1,244	14.1	2,333	15.0	1,277	8.1
Long-term Loans	1,083	12.2	637	4.1	346	2.2
Total	8,852	100	15,541	100	15,690	100

2 (Appendix)

1. Major Financial Statistics

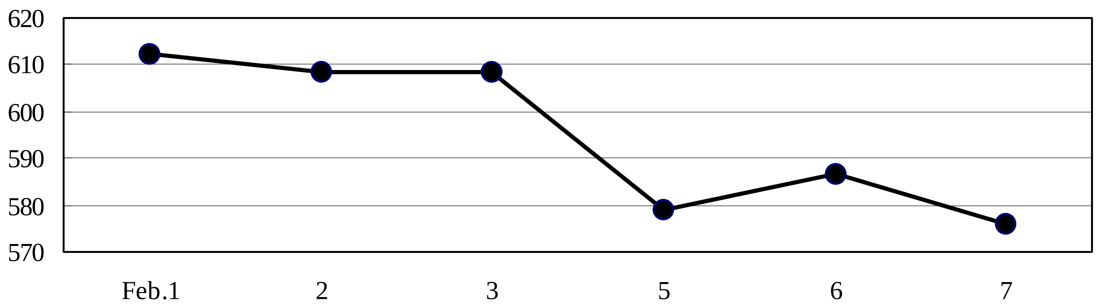
(unit: point, percent, won)

	Equity Indexes			Interest Rates				Exchange Rates	
	KOSPI Index	KOSPI 200 Index	KOSDAQ Index	Corp. Bond Yields (3 years)	Gov't Bond Yields (3 years)	Call Rate (1day)	CD Yields (91days)	Won/ USD	Won/ 100 JPY
2000 July	705.97	89.35	115.80	9.17	8.07	5.12	7.06	1,116.0	1,018.25
Aug.	688.62	86.54	108.59	8.98	7.79	5.11	7.05	1,109.0	1,042.10
Sept.	613.22	76.47	90.17	9.04	8.07	5.05	7.05	1,115.0	1,030.88
Oct.	514.48	64.00	74.68	8.59	7.64	5.33	7.02	1,139.0	1,045.91
Nov.	509.23	63.48	67.26	8.35	7.16	5.32	6.94	1,213.5	1,092.26
Dec.	504.62	63.35	52.28	8.14	6.74	5.36	6.88	1,261.0	1,101.31
2001 Jan.	617.91	77.98	84.36	7.38	5.68	5.26	5.94	1,258.0	1,080.29
Feb.1	612.30	77.27	82.70	7.27	5.63	5.28	5.91	1,258.0	1,079.83
2	608.48	76.70	82.66	7.08	5.48	5.23	5.89	1,248.0	1,082.86
3	-	-	-	7.08	5.48	5.19	5.89	1,253.0	1,083.35
5	579.16	72.87	77.97	6.97	5.38	5.30	5.86	1,262.0	1,088.87
6	586.58	73.81	79.72	6.89	5.28	5.29	5.83	1,260.0	1,093.28
7	576.19	72.44	77.80	6.83	5.20	5.36	5.80	1,262.0	1,097.87

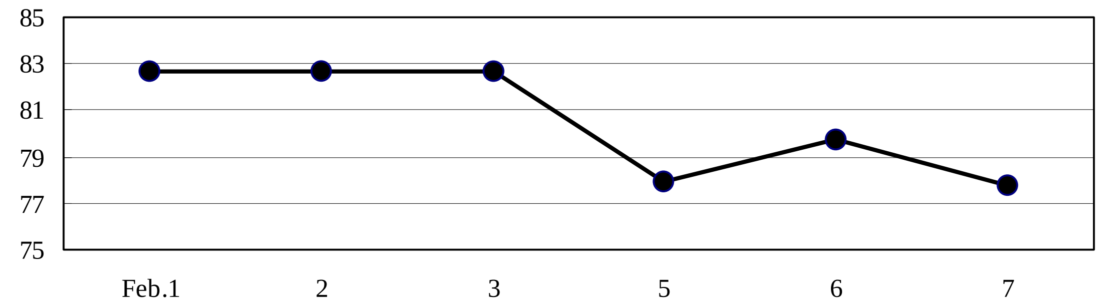
Note : End of Period

2. Daily Trends

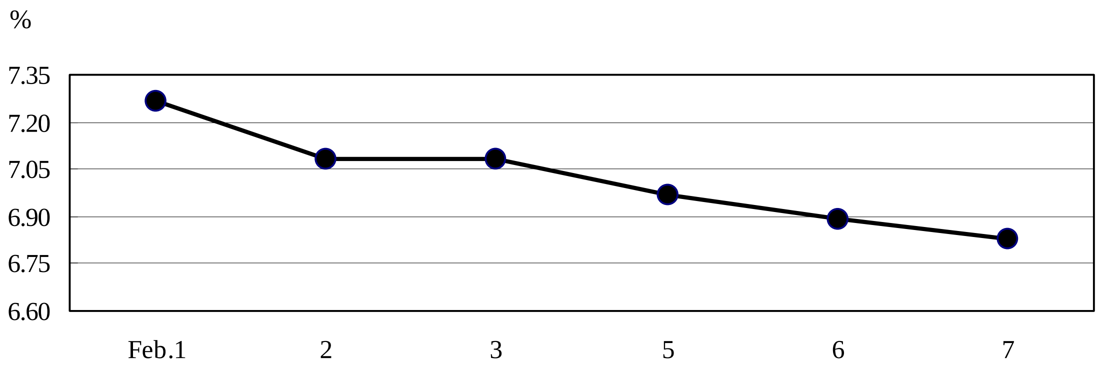
1) KOSPI



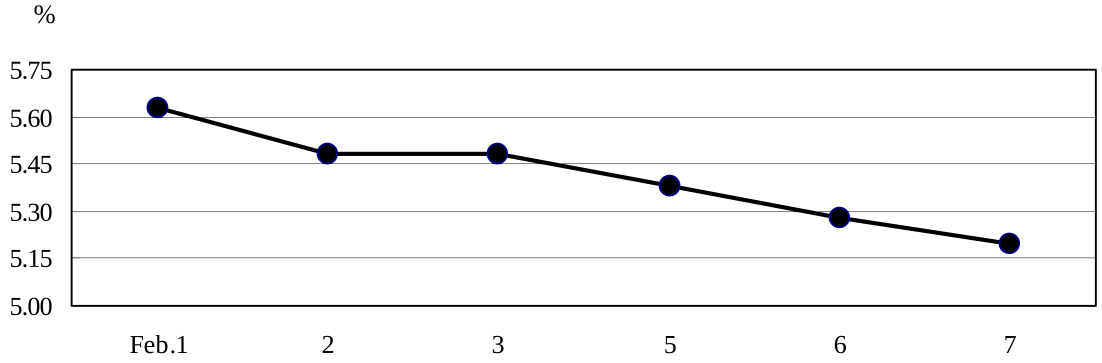
2) KOSDAQ Index



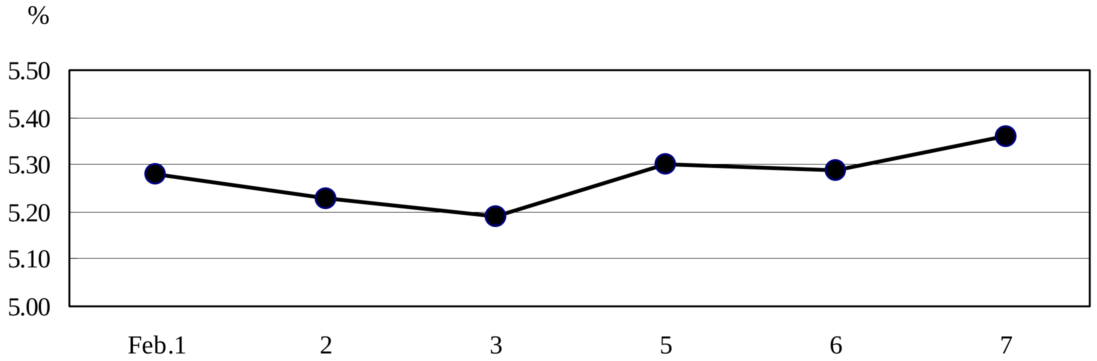
3) Yields on Corporate Bond (3 Years)



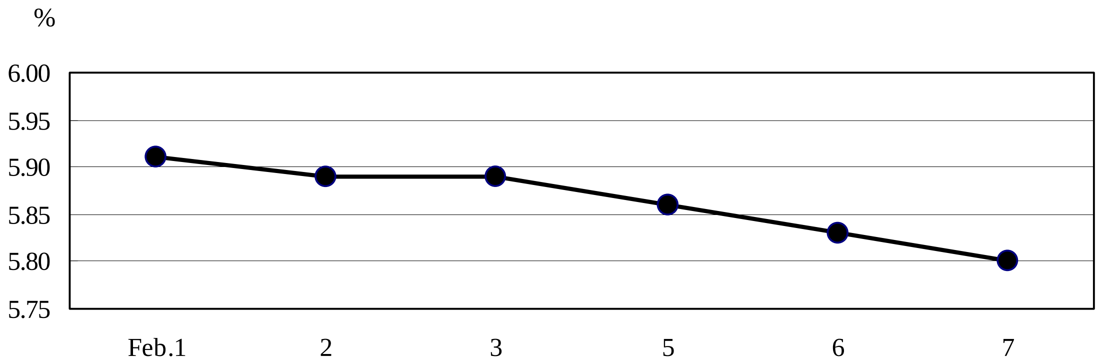
4) Yields on Government Bond (3 Years)



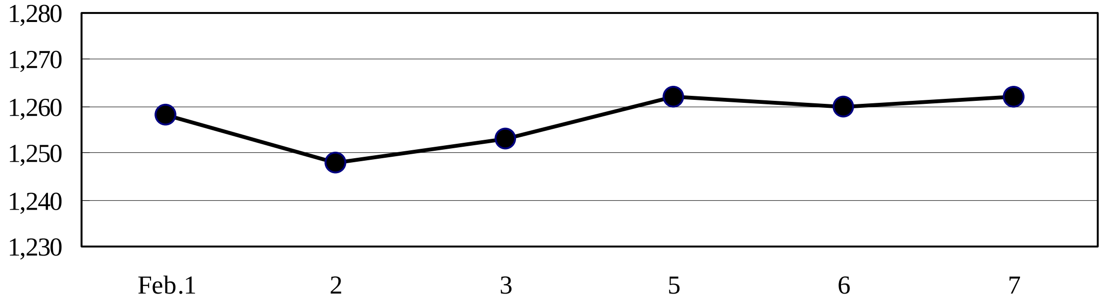
5) Call Rate (1 Day)



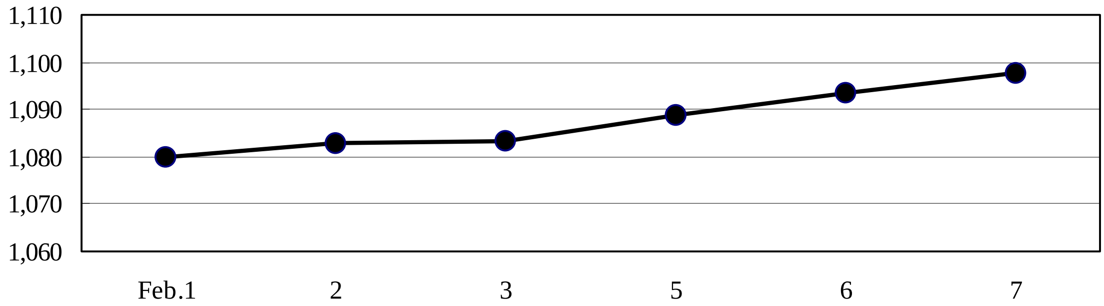
6) Yields on CD Rate (91Days)



7) Won/US Dollar



8) Won/100 Japanese Yen



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