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Weekly Newsletter

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Continuous Credit-risk Assessment System to Launch In March

In line with the introduction of the Continuous Credit-risk Assessment System (CCAS) announced on January 31, 2001, the FSS revised the Enforcement Rules for Supervision on Banking Business on February 19, 2001. The primary purpose of the revision is to provide minimum operational criteria and the regulatory basis to support the CCAS. In addition, the FSS required banks to establish independent operational criteria for the CCAS by the end of February.

Starting in March 2001, banks will begin conducting credit risk evaluations of corporate borrowers based on their operational criteria under the CCAS on a semiannual basis. The FSS will monitor and inspect the operational criteria as well as the status of the CCAS at banks by conducting periodic examinations beginning at the end of March when the annual accounting period of most domestic companies ends.

Review of Forward Looking Criteria and Future Regulatory Approaches

In December 2000, the FSS conducted a comprehensive review of compliance levels with the Forward Looking Criteria (FLC) among banks to assess overall progress since their adoption in December 1999. The review indicated that the FLC is increasingly becoming integrated into the lending practices of most banks and has led to improvements in overall loan asset quality.

The review showed that, as of the end of 2000, loans classified as normal increased by 6.6 percentage points whereas loans classified as sub-standard or below decreased by



4.9 percentage points from the previous year. And of new loans made by banks in 2000, unsecured loans backed only by borrower credit reached 78.8 percent, an increase of 7.9 percentage points from the previous year.

As an important step to encourage more reliable and efficient credit allocation by banks, the FSS will induce banks to promote advanced credit evaluation models to better assess borrower credit risk and to enhance the credibility and reliability of ratings produced by such models. In particular, the FSS will promote the pooling of corporate borrower information that can be shared among the banks and encourage utilization of credit evaluation models incorporating such factors as industry trends and outlook, business operating status, profitability, and other credit risk factors in making loan decisions.

Moreover, to encourage a “loan culture” that relies on borrower credit in making loan decisions, the FSS will place a priority on maintaining consistent monitoring and inspection of lending practices at banks. The FSS will also organize workshops at which the lending performances of model banks will be highlighted and set as an industry benchmark, and place a renewed emphasis on the professional training of FSS examiners in charge of the FLC to ensure effective enforcement compliance with, and implementation of the FLC.

Regulations on KOSDAQ Market Operation Revised

On February 23, 2001, the FSC/FSS approved the regulatory revisions submitted by the Korea Stock Dealers Association (KSDA) that are aimed at enhancing the soundness of the KOSDAQ market by expanding the criteria for revoking the registration of firms that are bankrupt or receive negative opinions from external auditors. In addition, the KSDA plan also calls for the establishment of a database to improve management of program trading and to increase information exchanges with the Korea Futures Exchange (KFE). The plan is slated to go into effect from February 26, 2001.

Under the revised regulations, program trading will be separately recorded into index arbitrage trading and non-arbitrage trading, and securities companies will be required to submit data related to program trading to the KSDA. This will facilitate easier access to critical information on futures trading needed by the KSDA to conduct consolidated surveillance of futures trading, and will lay the foundations for greater information exchanges between the KSDA and KFE. Moreover, the KFE will also introduce a “side-car” system by which quotations for program trading will be halted if prices of the KOSDAQ 50 FUTURES move dramatically.

The criteria for the revocation of registration of firms in the KOSDAQ market will be strengthened as follows.

In the Case of Bankrupt Firms

Before	After
Failure to resolve insolvency or account suspension within one year from the date of bankruptcy or suspension	<ul style="list-style-type: none"> - Failure to resolve insolvency or account suspension within one year from the date of bankruptcy or suspension - Failure to conduct the detailed procedures for management rehabilitation such as signing MOU with the creditor banks and applying for commencement of company reorganization procedures under the Corporate Reorganization Act (including composition under the Composition Act) within 6 months from date of bankruptcy or suspension - Court decision to commence the public auction of major business assets of companies including immaterial assets



In the Case of Corporations with Negative Net Worth and with Negative Opinion from External Auditors

	Before	After
Negative net worth for two consecutive years	Revocation of Registration	Same as before
Adverse opinion or disclaimer of opinion for two consecutive years	Revocation of Registration	Same as before
Adverse opinion or disclaimer of opinion following the fiscal year that recorded negative net worth	None	Revocation of registration
Negative net worth following the fiscal year in which adverse opinion or disclaimer of opinion occurs	None	Revocation of registration
One-time adverse opinion or disclaimer of opinion from external auditor	Designation as issues demanding attention to investment	Designation as administrative issues

Standardization of Surcharge Criteria and Strengthened Punishments against “Window Dressing” Accounting Practices

In order to set standardized criteria for the imposition of surcharges and strengthen enforcement of punitive sanctions against “window dressing” accounting practices by financial institutions, the FSS revised the “Regulations on Examination and Discipline of Financial Institutions” effective from March 1, 2001.



The revision is essentially an overhaul of the existing regulations by integrating related provisions contained in the Financial Holding Company Act and the Credit-specialized Financial Business Act.

Under the revised regulations, violations of any of the following rules will be subject to surcharges:

- Ceilings on investment in securities (e.g. investment in securities exceeding the total equity capital after subtracting the capital contribution to subsidiaries)
- Ceilings on stockholdings (e.g. stockholdings of companies other than its subsidiaries that exceed 5% of the total outstanding stocks)
- Credit extension ceilings (e.g. credit extension in excess of 25% of total equity capital to a single borrower)
- Ceilings on stockholdings in subsidiaries (e.g. holding stocks issued by its subsidiaries that exceed equity capital of the financial holding company)
- Restriction on subsidiaries

And to strengthen the enforcement of punitive sanctions against “window dressing” accounting practices by financial institutions, the article pertaining to recommendations for the dismissal of directors will be expanded to include cases where customers of a financial institution incur losses, and when a financial institution avoids the imposition of prompt corrective actions by the submission of false financial statements or failure to state important matters in financial statements intentionally or due to gross negligence.

Corrective Measures Imposed on Ailing Non-Life Insurance Companies

In line with the ongoing efforts to complete the final phase of the second stage restructuring of domestic non-life insurance companies, the FSC/FSS imposed corrective measures against four non-life insurance companies - Regent, Daehan, Kukje and First Fire & Marine insurance companies - that failed to meet the required 100% solvency ratio as of end-June 2000 or end-September 2000.



For Regent and Daehan, the measures were taken due to their failure to fulfil capital increase requirements as stipulated in the MOU and self-rescue plans for management normalization that both companies had submitted to the FSS to avoid prompt corrective action (PCA).

In addition, on-site evaluation of the assets and liabilities of Regent and Daehan Fire & Marine Insurance companies indicated that liabilities exceeded assets at the two firms by KRW56.0 billion and KRW40.8 billion, respectively, making them classified as non-viable financial institutions. The FSC/FSS subsequently notified both insurance companies of its scheduled decision to designate them as non-viable financial institutions and gave them an opportunity to respond to and appeal the scheduled decision.

For Kukje Fire & Marine Insurance Company and First Fire & Marine Insurance Company, the FSC/FSS issued Management Improvement Requirements to both companies on November 24, 2000, obligating them to submit revised management improvement plans to the FSC/FSS by February 24, 2001. After reviewing the plan submitted by Kukje Fire & Marine, the FSC/FSS rejected the plan as being infeasible. The FSC/FSS's scheduled decision to designate Kukje as a non-viable financial institution came after it was determined that the firm's liabilities exceeded its assets by KRW45.3 billion. The notification issued to Kukje also gave it an opportunity to respond to and appeal the decision.

Meanwhile, the management improvement plan submitted by First Fire & Marine Insurance, which outlined strategies to raise its solvency margin ratio above the 100% minimum by end-March 2001 and above 130% by end-March 2002, was approved by the FSC/FSS.

(Appendix)
1. Major Financial Statistics

(unit: point, percent, won)

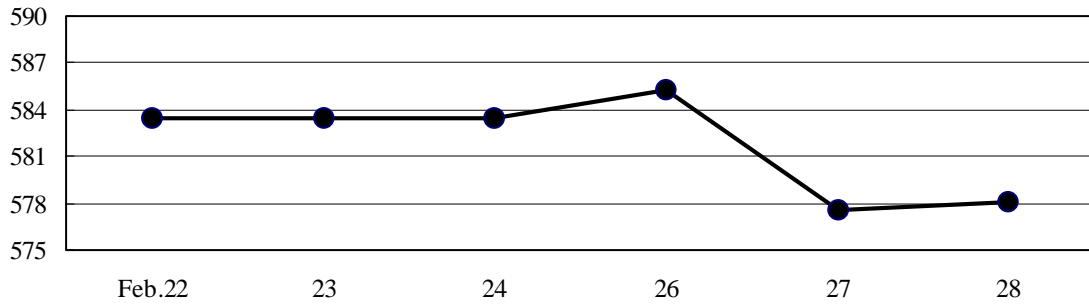
	Equity Indexes			Interest Rates				Exchange Rates	
	KOSPI Index	KOSPI 200 Index	KOSDAQ Index	Corp. Bond Yields (3 years)	Gov't Bond Yields (3 years)	Call Rate (1day)	CD Yields (91days)	Won/USD	Won/100 JPY
2000 July	705.97	89.35	115.80	9.17	8.07	5.12	7.06	1,116.0	1,018.25
Aug.	688.62	86.54	108.59	8.98	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.22	583.41	72.93	80.18	6.86	5.66	5.11	5.62	1,242.0	1,071.15
23	583.52	72.90	80.57	7.04	6.00	4.98	5.65	1,246.0	1,066.78
24	-	-	-	7.03	6.00	5.08	5.67	1,248.0	1,077.26
26	585.32	73.09	81.25	6.99	5.87	5.07	5.68	1,248.0	1,074.47
27	577.57	72.06	78.12	6.92	5.74	5.05	5.69	1,246.0	1,072.29
28	578.10	72.14	76.76	6.77	5.43	5.05	5.68	1,249.0	1,075.33

Note : End of Period

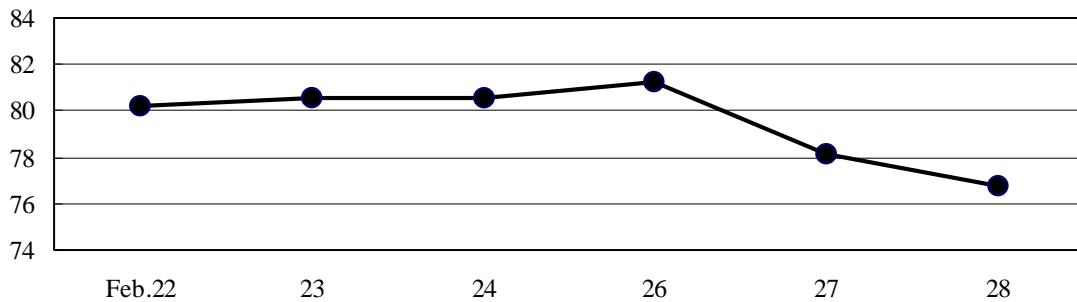


2. Daily Trends

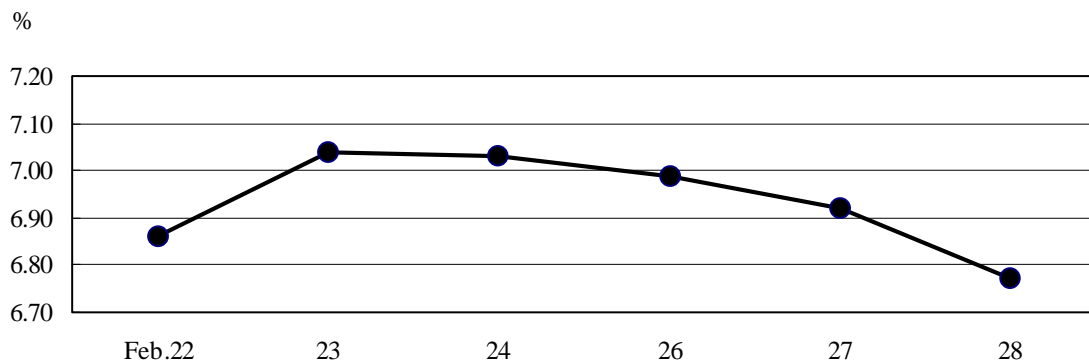
1) KOSPI



2) KOSDAQ Index

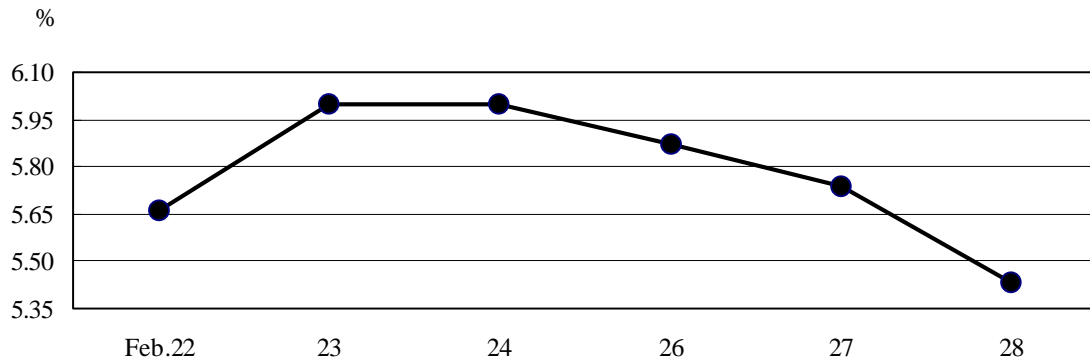


3) Yields on Corporate Bond (3 Years)

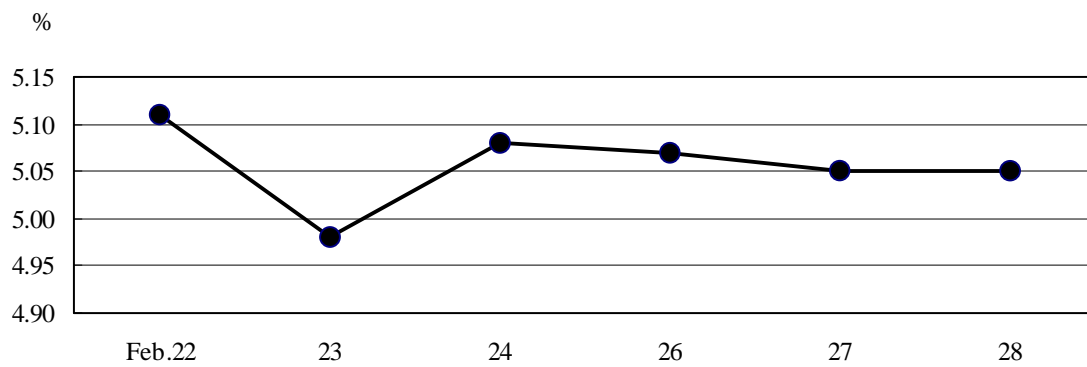




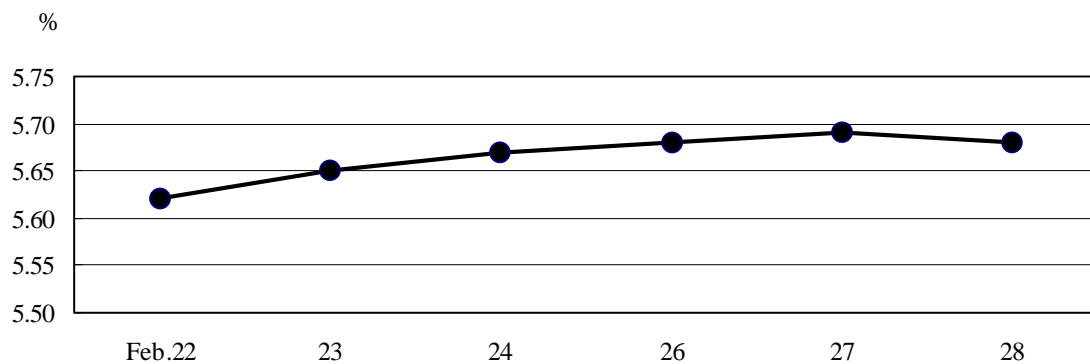
4) Yields on Government Bond (3 Years)



5) Call Rate (1 Day)

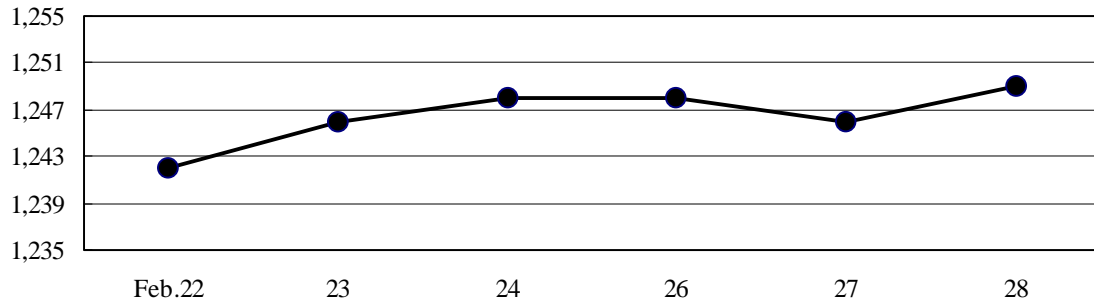


6) Yields on CD Rate (91Days)

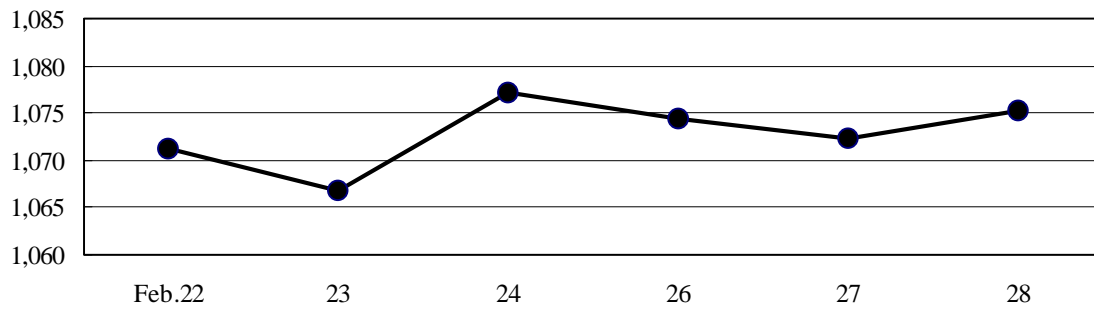




7) Won/US Dollar



8) Won/100 Japanese Yen





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