



**Volume II No. 12**

**April 14, 2001**



# **Weekly Newsletter**

**Special Issue :**

**FSC's Major Policy Objectives for 2001**

**Major Financial Issues from Apr. 5 to Apr. 11**

**Domestic Banks Report Performance of  
Overseas Branches in 2000**

**Portfolio Investment by Foreign Investors in March**

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



## Special Issue : FSC's Major Policy Objectives for 2001

### 1. Main Policy Direction

**T**he financial industry is increasingly shaping the back-bone of knowledge-based economy of the 21st century of global and digital age. Fully recognizing such trend, financial regulatory authorities have taken policy directions which are to ensure strengthening the financial industry for the stable and sound financial markets and future economic growth.

Accordingly, the government has shifted its focus from government-led restructuring policies to market-oriented approaches for continuous restructuring financial markets. Further, financial institutions will be encouraged to be more actively engaged in “software” reform to strengthen profitability and competitiveness.

### 2. Continuous Financial and Corporate Restructuring

#### Reform in the Financial Sector

- **Preventive Supervisory and Prompt Corrective Action Measures:** The terms and conditions of Management Improvement Arrangement, which is to be signed between ailing financial institutions and authorities, will be intensified to prevent managerial risk before PCA is enforced.
- **Continuing Reduction of Bad Loans:** *By monitoring commercial banks' progress, on quarterly basis, with their efforts to reduce the ratio of substandard and below to total loans to the targeted 5% or below by the end of this year*
- **Bank Mergers Among Sound Banks:** *To be more globally competitive by achieving greater economies of scale and by creating universal banking system*  
The merger trend has been set off by the financial holding company and the merger between Kookmin Bank and Housing & Commercial Bank (H&CB), and other banks



are encouraged to follow suit.

### **Reform in the Corporate Sector**

- **Effective Credit Risk Evaluation:** *To activate the corporate credit risk assessment system in full scale, by which creditor banks can assess credit risk of each of their debtor companies for the prevention of further increase of ailing assets, and, when necessary, for the timely exit of non-viable companies from the market* The monthly progress results of the system will be used as input factors when evaluating management performance, and the system in all the banks will be reviewed during the month of April.
- **Quick Resolution of Ailing Companies:** *To speed up the CRV establishment procedure, which is one of market-based corporate restructuring programs* The Korea Asset Management Corporation (KAMCO) will provide the CRV with liquidity assistance from the restructuring funds raised from the IBRD and other investors.
- **Sound Accounting Practices:** *To stiffen measures against such accounting malpractices as window dressing* Review of quarterly financial reports by CPAs will become mandatory gradually starting with large companies. Also, the yearly quota for CPAs to pass the exam will be increased to 1,000 from the current 555, to adequately meet the auditing needs. Any companies who engage in deceptive financial accounting and reporting will be sanctioned through such ways as demanding immediate loan collection or imposing penalty interest rates.
- **Transparent Disclosure:** Companies and external auditors who engage in deceptive financial accounting and reporting will be disclosed on the Internet.

### **3. Software-Level Reform**

The government will look into ways in which financial institutions' software-level reform could be facilitated. For instance, such measures as to improve the financial



infrastructure, disseminate international best practices, and monitor general progress with the reform are being considered. Meanwhile, financial institutions will be encouraged to voluntarily engage in innovative restructuring process to strengthen their competitiveness.

- **Profit-Based Management:** To induce more profit-oriented management the profitability indicators will be given more importance than before when evaluating the overall soundness of financial institutions.
- **Credit Based Loans:** The financial institutions are encouraged not to impose any collateral condition on the loans that are extended to financially sound companies, which have high credit ratings.
- **Toughened Risk Management System:** Financial institutions' risk management system will be closely reviewed on a regular basis, and the review results will be taken into consideration for financial institutions' management evaluation. Best practices will be selected among the leading financial institutions and circulated for the rest to emulate.
- **Supervision of Electronic Financial Transactions:** The proportion of the IT part in the overall evaluation will be increased. In addition, financial institutions' accountability, compensation standards and notification duties to their customers will be more clearly defined to ensure smooth electronic transactions.

#### **4. To Strengthen the Prudential Regulations**

Continuous efforts will be exerted to improve the quality of financial supervision through more efficient prudential regulations and market-friendly, consumer-oriented supervisory tools.

- **New BIS Standards:** The new BIS standards, which take account of such potential market risk factors as the interest rate and exchange rate volatility, will be applied from January 2002. The preparatory tasks, including full research and analysis of



the new system, are scheduled to be completed by this year.

- **Universal Banking Supervision:** Under the current trend of universal banking service, comprehensive examination methods will be introduced to prevent the financial accidents involving many financial institutions.
- **On-Site Supervisor:** The FSS will dispatch on-site supervisors to the financial institutions, whose internal control system is deemed inadequate.
- **Market-Friendly Supervision:** Any financial institutions which are recognized for their good management performance will be rewarded with exemption for a certain period from the required overall on-site examination. The scope of examination, which has been assigned to self-regulatory institutions, will be expanded. Further, accounting firms can be allowed to conduct the examination. Also, the Bank of Korea and Korea Deposit Insurance Corp. (KDIC)'s joint examination with the FSS will be more actively encouraged.

## **5. Financial Market Stability**

To promote the stability of financial markets, the investment pool for the stock markets and corporate financing channels will be expanded.

- **Reorganization of Stock Markets:** The reorganization plan for the stock markets will be prepared to cope with the global trends of consolidation among the stock exchanges. Also, the electronic Alternative Trading System(ATS) will be allowed to diversify trading patterns.
- **Expansion of Stock Investment Pool:** To induce long-term stock investment, a quarterly basis dividend system will be introduced and tax exemption will be awarded to the long-term investors. Also, the stock investment by pension funds will be encouraged to eliminate the legal restrictions.
- **Mezzanine Financing:** Regulatory impediments will be lessened to reinforce



financial institutions' right to claim equities of venture firms in return for the financing.

- **Project Financing:** A new measure is underway to induce project financing, which is determined by the expected cash flow from the project.

## **6. Effective Measures to the Opening of Financial Market**

- **Foreign Exchange Risk Management:** The FSS will examine financial institutions' foreign exchange risk management system during the first half of this year. In particular, their overseas branches and off-shore funds will be under close scrutiny.
- **Multilateral Cooperation:** Ways to advance supervisory tools will be sought after; for instance, steps will be taken to strengthen cooperative ties with OECD and international financial supervisory authorities. A special task force will be formed, which is to take charge of the preparation for the 2002 Integrated Financial Supervisors Conference in Seoul.

## **Major Financial Issues from Apr. 5 to Apr. 11**

### **Domestic Banks Report Performance of Overseas Branches in 2000**

**A**s of end-2000, a total of 109 overseas branches of domestic banks were in operation in 24 countries around the world. In 2000, the overseas branches posted a combined US\$30 million in after-tax losses, which marked a decrease of US\$930 million from the US\$960 million in combined losses recorded in 1999. The drastic reduction in losses at the overseas branches was mainly attributed to a sharp decrease in loss provisions through the transfer of bad assets from the branches to their main offices, and the implementation of business reorganization measures including the closure of poorly performing overseas branches and downsizing workforces.

Among the 109 overseas branches, 23 branches posted losses compared with 33 in 1999, and 8 banks posted combined profits from their overseas branches while 5 banks posted combined losses.

The combined assets of the 109 overseas branches stood at US\$27.1 billion as of end-2000, which was down US\$5.5 billion from US\$32.6 billion as of end-1999. The drop in combined assets was due mainly to the reduced scale of asset management in areas such as lending, and the transfer of poorly performing overseas assets to main offices.

## Portfolio Investment by Foreign Investors in March

**A**s of the end of March 2001, the total number of registered foreign investors in Korea stood at 12,038, an increase of 123 from the previous month. There were 4,610 individual investors and 7,428 institutional investors.

### Number of Foreign Investors

	2000 Dec.	2001 Jan.	2001 Feb.	2001 Mar.	Change (Mar. – Feb.)
Individual	4,535	4,559	4,580	4,610	30
Institution	7,213	7,256	7,335	7,428	93
Total	11,748	11,815	11,915	12,038	123

Note : end of period

Foreign investors purchased stocks worth 3.97 trillion won and sold 3.93 trillion won in March, ending the month as net buyers of 41.1 billion won worth of stocks on the Korea Stock Exchange (KSE). Despite their net purchase, the market value of foreign investors' equity holdings fell to 63.01 trillion won from 67.80 trillion won in February even as their market share rose to 30.2% from 29.6% in February.

In the KOSDAQ market, foreign investors were net buyers of stocks worth 42.2 billion won in March. The market value of foreign equity holdings decreased to 3.08 trillion won down 298.4 billion won from February. The total market share of foreign investors rose from 7.9% in February to 8.1% in March.

### Foreign Investment in KSE/KOSDAQ

(unit: billion won)

	KSE		KOSDAQ	
	Net Purchase <sup>1)</sup>	Total Market Value of Stock Holdings <sup>2)</sup>	Net Purchase <sup>1)</sup>	Total Market Value of Stock Holdings <sup>2)</sup>
<b>2000. 12</b>	452.1	56,558.5 (30.1%)	38.1	2,033.5 (7.0%)
<b>2001. 1</b>	2,733.7	73,669.9 (30.4%)	229.9	3,865.4 (8.3%)
<b>2001. 2</b>	369.0	67,799.0 (29.6%)	-10.2	3,376.2 (7.9%)
<b>2001. 3</b>	41.1	63,006.2 (30.2%)	42.2	3,077.8 (8.1%)

Note: Figures in parentheses denote percentage of total stock holdings.

1) During the period;

2) Outstanding at the end of the period;

In the domestic bond market, foreign investors were net sellers of 35.0 billion won in bonds in March, and their total bond holdings fell to 532.1 billion won from 593.8 billion won as of end-February. The total market share of foreign investors fell to 0.12% in March from 0.14% in February. Special purpose bonds, including Monetary Stabilization Bonds and Industrial Financial Debentures, accounted for 56.6% of foreign investors' total bond holdings while corporate bonds accounted for 25.1%.

### Foreign Investment in Bonds

(unit: billion won)

	Net Purchase <sup>1)</sup>	Value of Bond Holdings <sup>2)</sup>
<b>2000. 12</b>	- 8.4	692.1 (0.16%)
<b>2001. 1</b>	- 0.1	589.5 (0.14%)
<b>2001. 2</b>	68.0	593.8 (0.14%)
<b>2001. 3</b>	-35.0	532.1 (0.12%)

Note: Figures in parentheses denote percentage of total bond holdings.

1) During the period;

2) Outstanding at the end of the period;



**(Appendix)**
**1. Major Financial Statistics**

(unit: point, percent, won)

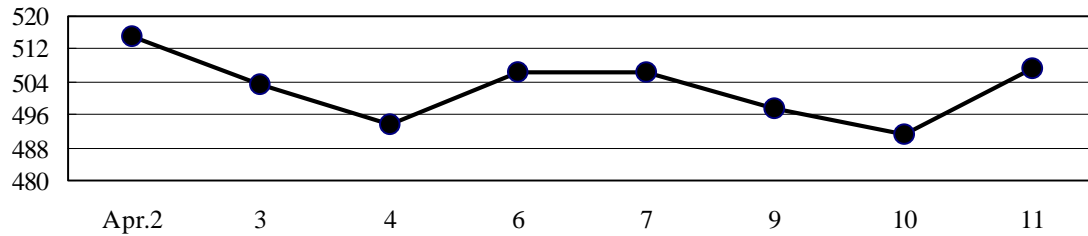
	Equity Indexes			Interest Rates				Exchange Rates	
	KOSPI Index	KOSPI 200 Index	KOSDAQ Index	Corp. Bond Yields (3 years)	Gov't Bond Yields (3 years)	Call Rate (1day)	CD Yields (91days)	Won/USD	Won/100 JPY
2000 Oct.	514.48	64.00	74.68	8.59	7.64	5.33	7.02	1,139.0	1,045.91
Nov.	509.23	63.48	67.26	8.35	7.16	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	578.10	72.14	76.76	6.77	5.43	5.05	5.68	1,249.0	1,075.33
Mar	523.22	65.16	68.43	7.69	6.31	4.94	5.70	1,335.0	1,056.17
Apr.2	515.20	64.12	68.29	7.95	6.66	5.01	5.74	1,347.0	1,064.82
3	503.26	62.62	66.24	7.81	6.46	5.00	5.81	1,344.0	1,064.98
4	493.69	61.42	64.34	8.03	6.70	4.99	5.87	1,386.0	1,098.72
6	506.22	63.02	66.51	7.95	6.58	5.05	5.87	1,343.0	1,072.26
7	-	-	-	7.95	6.58	4.79	5.87	1,337.0	1,079.44
9	497.46	61.81	64.81	7.89	6.50	5.00	5.87	1,341.0	1,073.92
10	491.21	60.96	64.56	7.80	6.44	5.00	5.84	1,334.0	1,071.49
11	507.53	63.19	67.18	7.75	6.40	5.01	5.84	1,320.0	1,064.52

Note : End of Period

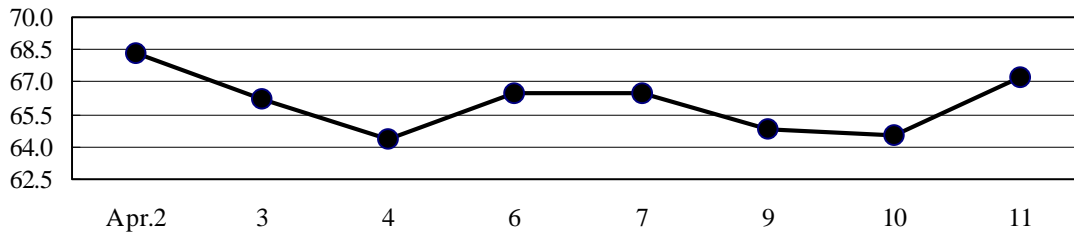


## 2. Daily Trends

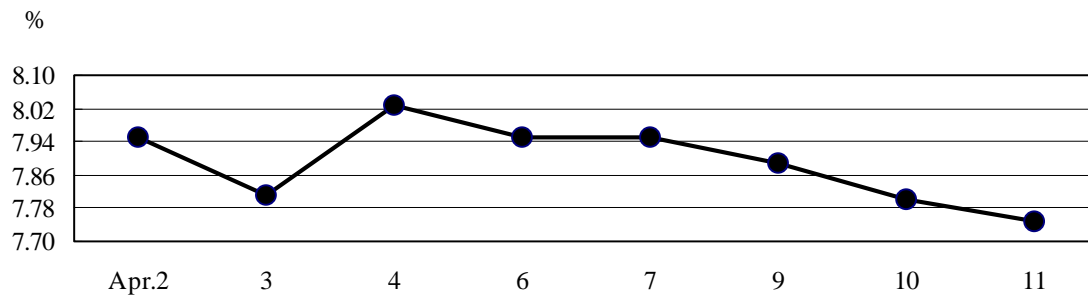
### 1) KOSPI



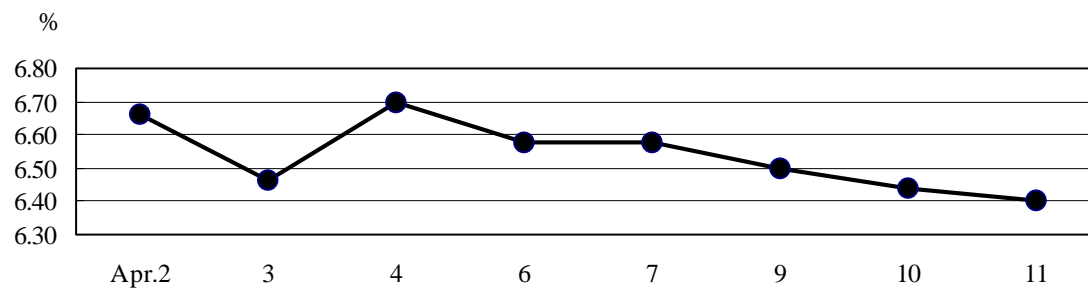
### 2) KOSDAQ Index



### 3) Yields on Corporate Bond (3 Years)

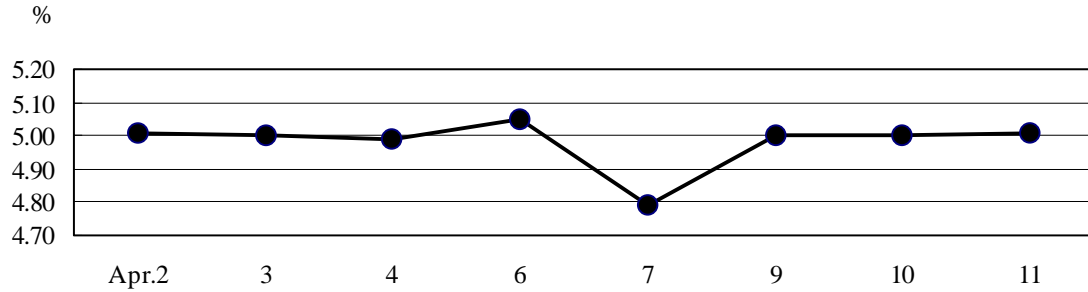


### 4) Yields on Government Bond (3 Years)

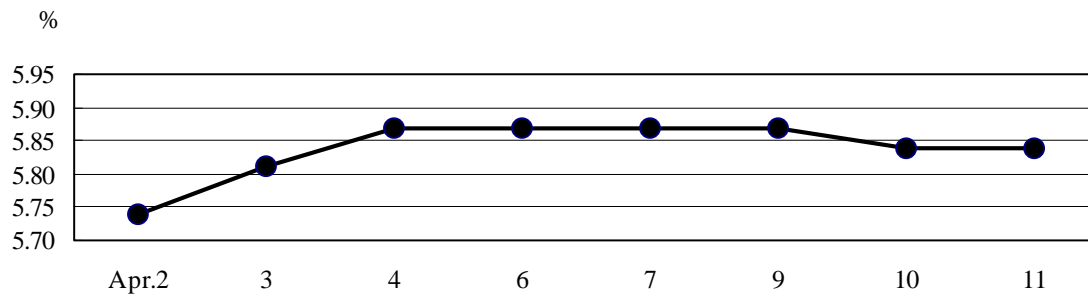




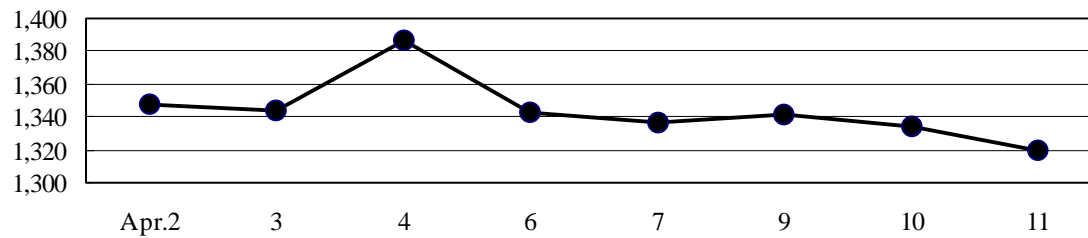
### 5) Call Rate (1 Day)



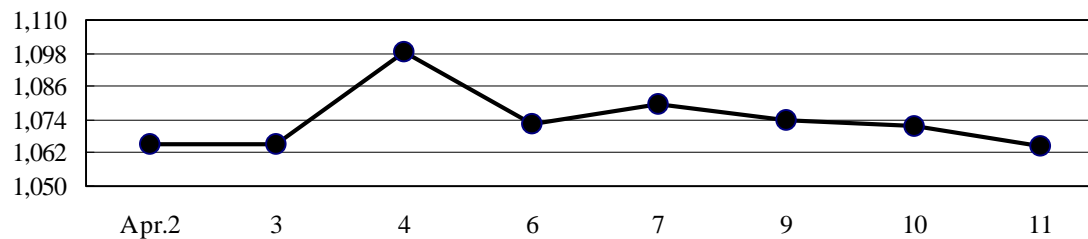
### 6) Yields on CD (91 Days)



### 7) Won/US Dollar



### 8) Won/100 Japanese Yen





Financial Supervisory Service

---

**Main Office**

27, Yoido-dong, Youngdeungpo-gu, Seoul 150-743, Korea  
Tel: 82-2-3771-5114 Fax : 82-2-3771-5985  
Http://www.fss.or.kr

**Overseas Offices**

**New York**

14<sup>th</sup> floor, 780 Third Avenue New York, NY 10017 U.S.A  
Tel : 1-212-350-9388 Fax : 1-212-350-9392  
E-mail : newyork@fss.or.kr

**London**

3<sup>rd</sup>. Floor 1, Minster Court, Mincing Lane, London EC3R 7AA, U.K  
Tel : 44-207-621-8490 Fax: 44-207-929-1677  
E-mail : london@fss.or.kr

**\* Frankfurt Resident**

Messturm 28. OG. Friedrich-Ebert-Anlage 49, 60308 Frankfurt am Main, Germany  
Tel : 49-69-7434-8722 Fax: 49-69-7434-8729  
E-mail : frankfurt@fss.or.kr

**Tokyo**

Yurakucho Denki Bldg. South Kan 1051, 7-1, Yurakucho 1-Chome, Chiyoda-ku, Tokyo,  
Japan  
Tel : 81-3-5224-3737 Fax : 81-3-5224-3739  
E-mail : tokyo@fss.or.kr

**\* Hong Kong Resident**

Rm 1208-9, Alexandra House 20 Chater Road, Central, Hong Kong  
Tel : 852-2526-6508 Fax: 852-2868-5276  
E-mail : hongkong@fss.or.kr

**If you have any questions, suggestions, and/or comments, please feel free to contact the International Cooperation Office at (82-2) 3771-5975, fax (82-2) 3771-5985, or e-mail us at soykim@fss.or.kr**

