



**Volume II No. 13**

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# **Weekly Newsletter**

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## Special Issue : FSC/FSS Announce Revitalization Plan for Mutual Savings & Finance Companies

**T**he FSC/FSS announced a plan for the revitalization of domestic mutual savings & finance companies (MSFCs). The plan is aimed at enhancing the role of MSFCs as financial intermediaries for the middle and low-income classes and includes measures to improve the competitiveness of MSFCs through consolidation, to strengthen their capital structures, and to restore public confidence in MSFCs. The Enforcement Decree of the Mutual Savings & Finance Company Act and the related Regulation are set to be revised during April and May and to go into effect in May and June, respectively.

### **Improving Competitiveness**

#### *Promoting mergers and formation of financial holding companies*

To promote mergers and formation of financial holding companies among the MSFCs, the plan allows MSFCs merging with others to open up new “sub-branch offices” in areas without any branch office of any MSFC. Sub-branch offices refer to facilities that are smaller than branch offices and operate with a limited number of employees. The plan also removes current acquisition limits on the purchase of shares in other MSFCs in cases of mergers. The incentives to be granted under the new plan are shown in the table below.

**Merger Incentives for MSFCs**

	Before	After
Opening of branch or sub-branch	<ul style="list-style-type: none"> <li>May open the same number of new branches in the merged MSFC area as the number of the merged MSFC</li> </ul>	<ul style="list-style-type: none"> <li>Same as before</li> <li>May open the same number of new sub-branches in areas without any MSFC branch as the number of the merged MSFC</li> </ul>
Ceiling on purchase of shares in other MSFCs shares	<ul style="list-style-type: none"> <li>Up to 15% of voting shares</li> </ul>	<ul style="list-style-type: none"> <li>May exceed 15% ceiling, provided that the purchase of shares is for the completion of merger within 6 months from the date of the purchase</li> </ul>



MSFCs that consolidate to form a financial holding company are to be given the same incentives as those given to mergers among MSFCs.

***Encouraging business tie-ups among MSFCs***

The Federation of MSFCs will be induced to set up a joint electronic network and MSFCs will be encouraged to join this network by the first half of 2002. And to promote greater business cooperation, the new system will group three to five MSFCs together to work jointly on new product development and support customers from other MSFCs within the same group.

***Promoting resolution of non-viable MSFCs through P & A***

Currently, any healthy MSFC seeking to acquire a non-viable MSFC must make a single lump-sum payment to the Korea Deposit Insurance Corporation (KDIC) to cover the deposit insurance payments made by the KDIC to the depositors of the non-viable MSFC before it completes the acquisition. To alleviate the financial burden faced by the acquiring MSFCs in meeting the payment to the KDIC, the acquiring MSFCs will be permitted to use assets of the acquired MSFC, including cash and deposits, to make the deposit repayments to the KDIC under the new plan. The Federation of MSFC will also provide financial support to acquiring MSFCs, which will be given the same incentives for new sub-branch openings as in the case of a merger.

**Enhancing Capital Structure Soundness and Business Operation**

***New name for MSFCs and capital increases***

Following a revision of the Mutual Savings & Finance Company Act, MSFCs are to be renamed as “Mutual Savings Bank.” MSFCs will be encouraged to increase their capital to 200% of the present capital requirement before the revised act goes into effect.

***Disposition of non-performing loans***

Under the plan, MSFCs will be granted a grace period from the imposition of Prompt Corrective Action (PCA) measures if their BIS capital adequacy ratio falls below 4%



due to sales of bad debts. The FSC/FSS will encourage MSFCs to dispose of their remaining bad debts to the Korea Asset Management Company (KAMCO) or to foreign financial institutions through the issuance of Asset-Backed Securities (ABS) or other methods. Moreover, the FSS will require MSFCs that hold bad debts above the industry average to submit action plans for resolution of the bad debts and will subsequently review the implementation of the action plans.

### ***Promoting business operation***

To support the diversification of business operations, the FSC/FSS will allow MSFCs to expand business activities at MSFCs on the condition that no business conflict exists with other financial institutions, such as assuming an agent role for the recruiting of new credit card members, handling individual pension funds or sales of government bonds. In addition, the plan allows MSFCs to hire contract-based full-time employees, as opposed to commission-based part-time employees, to attract new depositors and loan customers.

## **Restoring Public Confidence in MSFCs**

### ***Enhancing supervision and examination***

Using a wide variety of sources, the FSC/FSS will closely monitor the management status of MSFCs with high likelihood of financial irregularities. The FSC/FSS will also send resident examiners at MSFCs that are found to have engaged in illegal activities for on-site supervision and guidance.

### ***Improving corporate governance and management***

All MSFCs will be required to employ compliance officers, and those with large assets will be required to nominate outside directors and establish audit committees. Because inappropriate lending to major shareholders is an important aspect of management, the FSC/FSS will stiffen administrative measures and penalties against such improper lending practices. Moreover, all prospective individual investors or business entities seeking to acquire MSFCs will be required to meet strict acquisition requirements by the FSC/FSS.



## **Major Financial Issues from Apr. 12 to Apr. 18**

### **FSC/FSS Revise Regulations on External Audit and Accounting**

**I**n accordance with recent revisions to the Act on External Audit of Corporations and the Certified Public Accountants Act, the FSC/FSS revised the Regulation and the Enforcement Rule on External Audits and Accounting.

The revisions of the Regulation on External Audit and Accounting primarily deal with the transfer of the authority to enact or revise auditing standards from the FSC to the Korean Institute of Certified Public Accountants (KICPA).

As a result of revisions to the Certified Public Accountants Act, the criteria for establishing accounting firms were eased from authorization to registration. Accordingly, the FSC/FSS has also revised related articles on the Regulation on External Audit and Accounting.

With the revision of the Enforcement Rule on External Audits and Accounting, document-based audit reviews may now be complemented by on-site inspections.

### **Plan to Shorten Settlement Period for Stock Trading**

**O**n April 18<sup>th</sup>, 2001, the FSS announced a plan that will shorten the settlement period for stock trading from two days (T+2) to one day (T+1). A task force consisting of working level officials from the FSS and representatives from companies involved in stock trading has been formed to come up with detailed plans to reduce the settlement period for stock trading to one day. A timetable for the plan is shown below.

### Timetable for New Settlement Period

Measures	Date
Introduce “Delivery versus Payment (DVP)” system for settlement between institutional investors	May 2001
Encourage participation of investment trust management companies in the current “Institutional Affirmation & Settlement System”(IASS)	Aug. 2001
Standardization of messages and codes, and introduction of new IASS for full automation of all settlement procedures	End-2003
Integration of local settlement system into international trading confirmation system for cross-border stock trading	End-2004
Full implementation of T+1 settlement	End-2004

### Audit Opinions for Firms Closing Books as of End-2000

**T**he FSS released external audit opinions for the financial statements of 6,548 domestic companies that closed their books at the end of December 2000.

As shown in the table below, the portion of companies that received an “unqualified” audit opinion increased to 89.2% in 2000, which is up 1.3 percentage points from 1999. The increase is noteworthy as the total number of “unqualified” opinions rose in spite of the implementation of more rigorous audit standards from last year. In addition, there were 476 (7.3%) “qualified” opinions, 66 (2%) “adverse” opinions, and 162 (2.5%) “disclaimer of opinion.”

#### Distribution of Audit Opinions

(unit : %)

	Unqualified Opinion	Qualified Opinion	Adverse Opinion	Disclaimer of Opinion	Total
1998	6,198 (88.5)	660 (9.4)	26 (0.4)	117 (1.7)	7,001 (100)
1999	5,748 (87.9)	599 (9.1)	44 (0.7)	150 (2.3)	6,541 (100)
2000	5,844 (89.2)	476 (7.3)	66 (1.0)	162 (2.5)	6,548 (100)

## Corporate Direct Financing Increases in 1<sup>st</sup> Quarter of 2001

**D**uring the 1<sup>st</sup> quarter of 2001, the total amount of direct financing by domestic corporations increased to 21.7 trillion won, up 20.6% from 18.0 trillion won recorded during the same period of 2000. The increase reflected the greater issuance of stocks through rights offerings and bonds, which amounted to 4.6 trillion won and 17.1 trillion won, respectively, up 21.7% and 20.3% from the same period of 2000.

### Direct Financing by Type of Issuance

(unit : billion won, %)

	Jan.- Mar. 2000	Jan.- Mar. 2001	% Change
Stocks	3,762.6 (20.9)	4,580.7 (21.1)	21.7
Bonds	14,212.4 (79.1)	17,093.3 (78.9)	20.3
ABS	11,643.0 (64.8)	8,956.5 (41.3)	-23.1
Others	2,569.4 (14.3)	8,136.8 (37.5)	216.7
Total	17,975.0 (100.0)	21,674.0 (100.0)	20.6

Salient features of direct financing trends during the first quarter of 2001 are as follows. First, the issuance of corporate bonds excluding asset-backed securities (ABS) increased to 8.1 trillion won, up 216.7% from the same period of 2000. Moreover, the issuance of bonds with maturity of over 2 years amounted to 6.5 trillion won, which accounted for 80.3% of the total corporate bonds issued, up 8.7 percentage points from the same period of last year, and reflected the recent trends towards longer-term maturity bonds. The issuance of corporate bonds with 'BBB' grade also increased to 2.8 trillion won, up 405.3% from the same period of 2000.

Second, the portion of direct financing accounted for by the top 4 chaebols, excluding issuance of ABS, decreased to 40.5%, which is down by 3.6 percentage points from the same period of last year. However, the total amount of direct financing by the top 4 chaebols including ABS increased to 5.2 trillion won, up 84.5% from the same period in 2000.

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

(unit: point, percent, won)

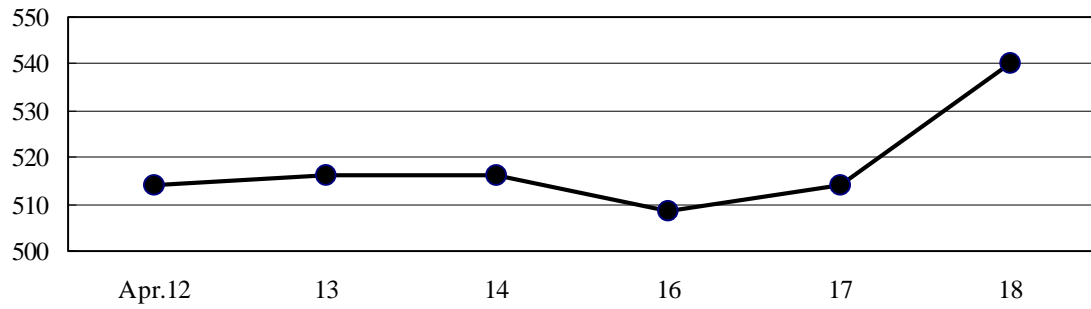
	Equity Indexes			Interest Rates				Exchange Rates	
	KOSPI Index	KOSPI 200 Index	KOSDAQ Index	Corp. Bond Yields (3 years)	Gov't Bond Yields (3 years)	Call Rate (1day)	CD Yields (91days)	Won/ USD	Won/ 100 JPY
2000 Oct.	514.48	64.00	74.68	8.59	7.64	5.33	7.02	1,139.0	1,045.91
Nov.	509.23	63.48	67.26	8.35	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.12	514.21	64.05	68.32	7.74	6.38	4.99	5.83	1,318.0	1,069.37
13	516.10	64.25	68.62	7.74	6.40	4.84	5.83	1,324.0	1,064.74
14	-	-	-	7.74	6.40	4.95	5.83	1,323.5	1,065.45
16	508.35	63.15	68.07	7.76	6.42	5.00	5.83	1,330.0	1,066.56
17	513.97	63.92	68.31	7.74	6.40	5.00	5.83	1,324.0	1,072.06
18	540.00	67.39	72.19	7.80	6.47	4.98	5.83	1,314.0	1,067.42

Note : End of Period

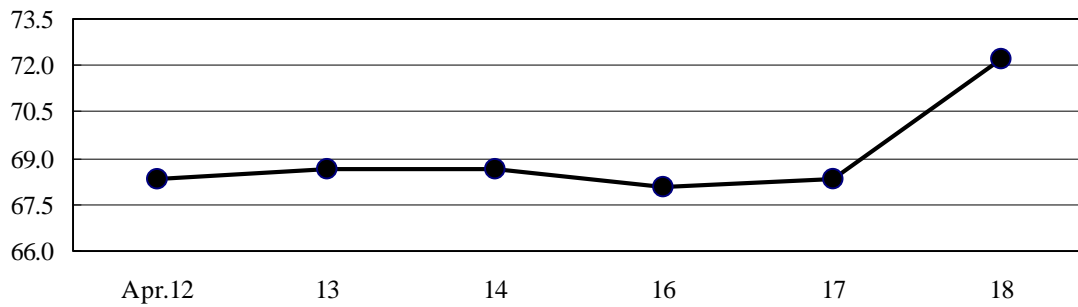


## 2. Daily Trends

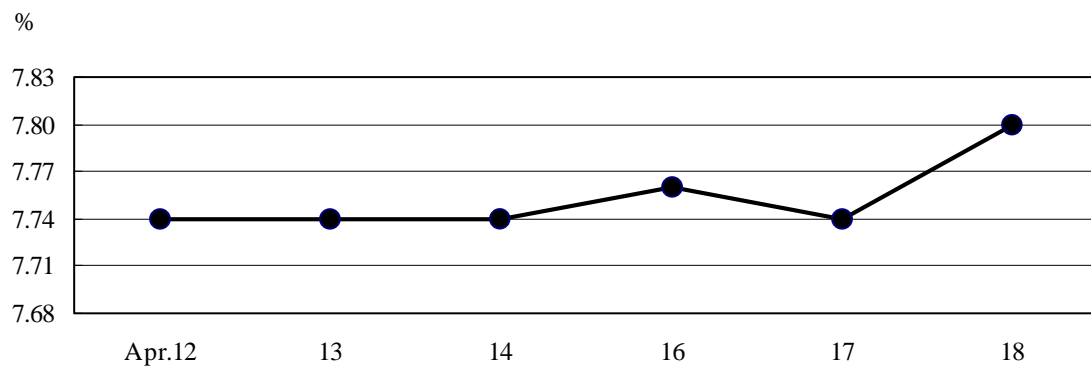
### 1) KOSPI



### 2) KOSDAQ Index

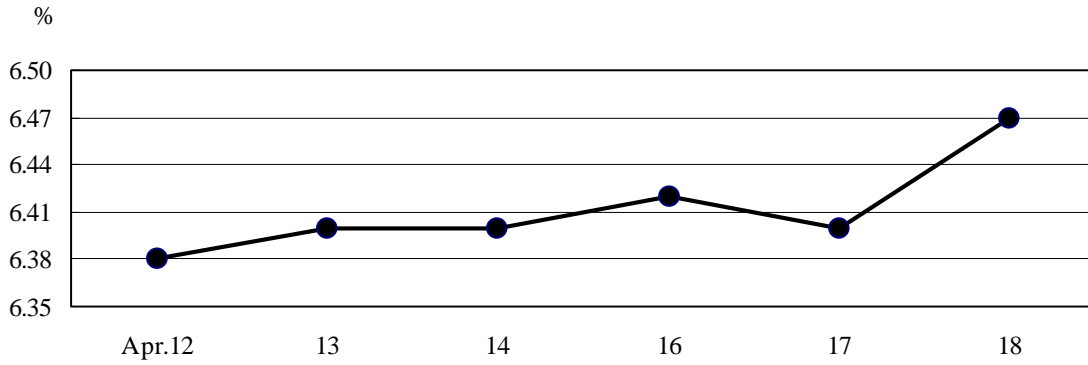


### 3) Yields on Corporate Bond (3 Years)

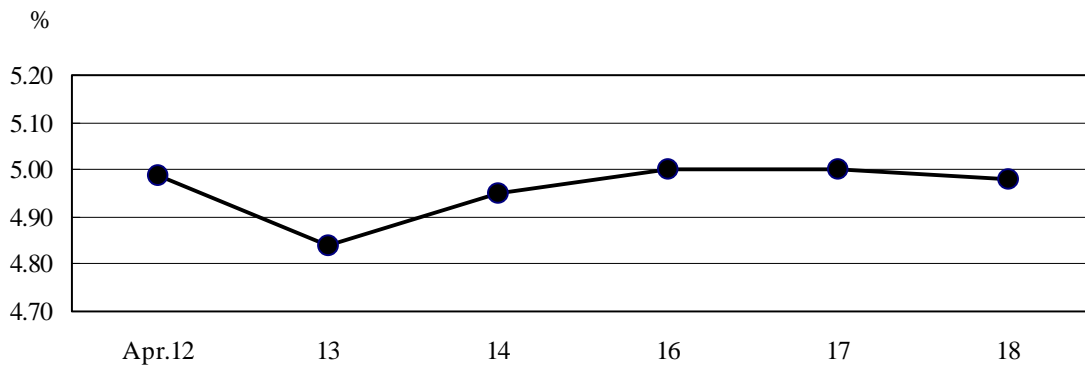




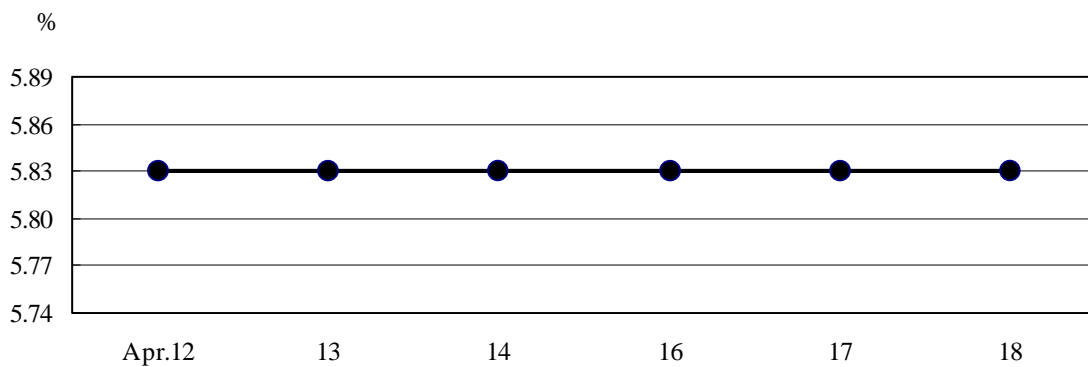
#### 4) Yields on Government Bond (3 Years)



#### 5) Call Rate (1 Day)

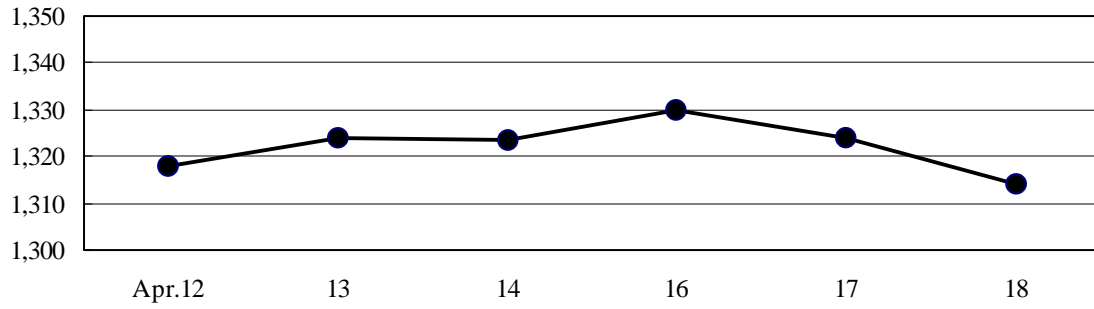


#### 6) Yields on CD (91 Days)

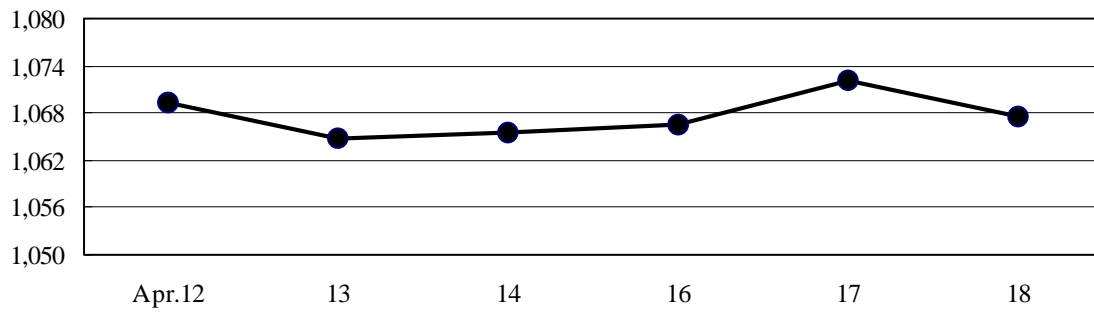




**7) Won/US Dollar**



**8) Won/100 Japanese Yen**





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