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# **Weekly Newsletter**

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## FSC/FSS Revise the “ Regulation on Supervision of Securities Companies”

**T**he FSC/FSS revised the “Regulation on Supervision of Securities Companies,” effective May 2001, to bring the computation method for net capital ratio in line with international best practices and institute more rigorous rules of business conduct for securities companies. The revised measures are primarily aimed at improving capital soundness of securities companies and providing better protection to investors through more transparent and fairer trading practices than before. An abridged summary of the revisions is presented below.

### Revisions Related to Net Capital Ratio

	Before	After
Required maturity of subordinated borrowings for inclusion in net capital	More than one year	More than two years
Limit on the amount of subordinated borrowings for inclusion in net capital	150% of net capital	100% of net capital
Risk model for gross risk amount	Standard risk model specified in the regulations	Either the standard risk model or internal risk model set up by each securities company
Semiannual review of net capital ratio by external auditors	Not required	Required

### Rules of Business Conduct for Securities Companies

#### *General principles*

- As a way to ensure consistent and uniform supervision of financial markets, the FSS provides general principles for rules of business conduct to be observed by securities companies to ensure that issues arising from supervisory and



regulatory vacuum created by rapidly changing market conditions are effectively dealt with and resolved in a timely fashion.

***Greater responsibilities for individual investors***

- Securities companies shall assume and bear greater responsibilities for transactions with individual investors than for those with authorized institutional investors.

***Introduction of “No Action Letter”***

- The FSS shall institute a “no action letter” supervisory system to address uncertainties regarding the regulatory compliance of certain business activities in a timely manner. Under the system, securities companies may refer the business activities to the FSS for guidance by FSS officers in charge of the business activities in question. The FSS then must issue a “no action letter” and make its content publicly available.

***Ban on unfair practices by securities companies***

The following unfair practices by securities companies through abuse of their superior position shall be banned.

- Front running upon receiving large trade orders from clients
- Soliciting clients for purchase of stocks securities companies hold
- Trading stocks through proprietary accounts by securities companies for 24 hours after making analysis of the stocks public
- Indiscriminate solicitation of day-trading and system-trading to unsuitable individual investors
- Executing orders for unfair trade, e.g., orders intended to manipulate prices

***Ensuring suitability of investment solicitation by securities companies***

Securities companies shall be required to provide investors only with investment solicitations that are commensurate with the investors’ investment objectives and



risk capacities. To ensure suitability of investment solicitations to clients, securities companies shall be banned from engaging in the following activities.

- Excessive trading in a client's account to generate commissions against his or her best interests (“churning”)
- Solicitation for high-risk securities (e.g., derivatives) without verifying client information, including his or her financial status
- Withholding important trading information from clients

***Fair sale of beneficiary certificates***

- Securities companies shall be banned from unfair practices involving the sale of beneficiary certificates, such as giving improper benefits to fund managers and excessive sales promotion, for high sales volume to the detriment of investors.

***Reasonable commission fees and restrictions on those eligible for commission fees***

- Ban on unreasonably discriminatory commission fees for identical trading among clients
- Restriction on companies or persons eligible to receive commission fees (for prevention of illegal securities transactions)

***Maintaining records of transaction activities***

- Securities companies shall be required to maintain records of their business activities and make them available for access by clients within six business days after clients’ request for the records.

***Restriction on purchase solicitation for treasury stocks or subordinated bonds to individual investors***

- Purchase solicitation for treasury stocks or subordinated bonds to individual investors shall be banned except for those with highest or second-highest credit ratings from at least two credit rating agencies and those publicly offered for capital increase by listed securities companies.

*Lower reserve requirement ratio for securities transaction*

- The reserve requirement ratio for securities transactions for brokerage business has been lowered to 20% of the previous reserve ratio.

## Sharp Reduction in Bad Loans at Commercial Banks during 1<sup>st</sup> quarter of 2001

**A**s of end-March 2001, the combined total amount of loans classified as “substandard” or below at domestic commercial banks fell 4.2 trillion won to 27.7 trillion won from 31.9 trillion won at the end of 2000. The ratio of substandard or below loans to total loans also fell from 8.9% to 7.6%, marking a drop of 1.3 percentage points from end-December 2000. Moreover, the ratio of net substandard or below loans, which is substandard or below loans minus total loan loss provisions, to total loans as of end-March 2001 dropped to 4.1% from 4.5% at the end of 2000. The continuing reduction in bad loans was attributed to a series of measures taken by the government and the FSS/FSC to create “clean banks” with the ratio of substandard or below loans to total loans at less than 5%, which is on par with the leading international banks.

### Trend of “Substandard” or Below Loans

(unit: trillion won, %)

	End-of				(A) – (B)
	1999. 12	2000. 6	2000. 12 (A)	2001. 3 (B)	
Substandard or below	44.7	43.3	31.9	27.7	4.2
Ratio <sup>1)</sup>	13.6	12.4	8.9	7.6	1.3

Note: 1) total substandard or below loans / total loans

The measures include a government-led overhaul of the system for early disposal of bad or non-performing loans, under which relevant regulations have been revised to allow commercial banks to write off loans classified as “estimated loss” by themselves. The “Corporate Restructuring Vehicle Act” was also enacted to facilitate early and efficient



disposition of bad loans to companies under debt “workout” programs by commercial banks.

To promote continuous disposition of bad loans by commercial banks, the FSS/FSC set the target for the ratio of substandard or below to total loans at 6% by end-June 2001 and 5% by the end of the year. Accordingly, commercial banks will be encouraged to expedite the resolution process for bad loans through write-offs, sales to the Korea Deposit Insurance Corporation (KDIC) and foreign investors, issuance of asset backed securities (ABS), and use of corporate restructuring vehicles.

In line with these efforts, the FSS/FSC have also received plans for the disposition of bad loans by commercial and specialized banks and have been closely monitoring compliance with the respective plans on a quarterly basis.

## Plans for Greater Protection of Credit Card Holders' Rights

**A**mid the rapidly growing number of credit card holders, a task force under the guidance of the FSS and comprising representatives from credit card issuers, the Korea Non-Bank Financing Association and consumer groups has been at work since March 16, 2001, to come up with ways to better protect the rights of credit card holders. Assumption by credit card issuers and merchants of charges disputed by credit card holders in non-face-to-face transactions such as online transactions, credit limit increases with the consent of the credit card holders, and protection of privacy in debt collection are some of the notable measures that are expected to go into effect in July 2001.

As a way to better protect credit card holders from disputed charges such as charges arising from the use of lost or stolen cards in non-face-to-face transactions, one important measure by the task force requires credit card issuers and merchants to assume such charges. Credit card issuers are also to be barred from raising credit limit without the explicit consent of the credit card holders.



To protect credit card holders from abusive or invasive debt collection practices, credit card issuers will also be advised and encouraged to respect the privacy of credit card holders in debt collection activities. Some of the collection practices by credit card issuers that will be barred include disclosing private information to third parties without justifiable cause, releasing false information, notification of collection action disguised as legal notice to the credit card holders, and unannounced and harassing visits to credit card holders at work.

Under the plan by the task force, credit card issuers will be advised to prepare the newly required terms and conditions for credit card holders by June for full compliance starting in July 2001.

## **Reorganization of FSS to Enhance Functions of Examination and Audit Review**

**I**n April 27, 2001, the FSS underwent a major reorganization that streamlined the operating structure of the organization from a total of 34 departments and offices to a total of 29. The basic directions of the reorganization are as follows.

The first is directed at streamlining the FSS by integrating and reducing the number of departments with similar functions. As a result of the streamlining, the Capital Market Supervision Department was merged into the Securities Supervision Department and the Review & Enforcement Department into the Examination Planning & Coordination Department. Also, the three Bank Examination Departments (I, II and III) were reduced to two (I and II), and the two Securities Examination Departments (I and II) were integrated into the Securities Examination Department. Likewise, the two Insurance Examination Departments (I and II) were combined into the Insurance Examination Department, and the Investigation Planning & Coordination Department and the Investigation Departments (I and II) were transformed into the Investigation Departments I and II.

The second direction aims to strengthen the FSS's examination and investigation functions by increasing the number of officers in charge of those functions. According



to this direction, a number of officers in the supervisory departments and support offices are to be reassigned to the examination and investigation departments.

The third is directed at enhancing the FSS functions of audit review against deceptive financial accounting practices. In line with this direction, the Accounting System & Audit Review Department was newly established by integrating the Disclosure Investigation & Audit Review Office and the Accounting System Office.



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

(unit: point, percent, won)

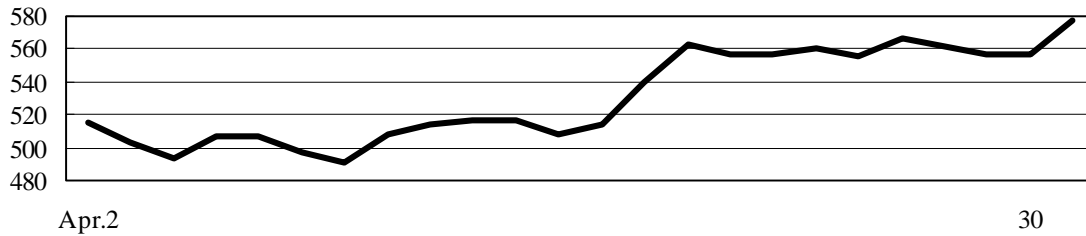
	Equity Indexes			Interest Rates				Exchange Rates	
	KOSPI Index	KOSPI 200 Index	KOSDAQ Index	Corp. Bond Yields (3 years)	Gov't Bond Yields (3 years)	Call Rate (1day)	CD Yields (91days)	Won/ USD	Won/ 100 JPY
Apr.2	515.20	64.12	68.29	7.95	6.66	5.01	5.74	1,347.0	1,064.82
3	503.26	62.62	66.24	7.81	6.46	5.00	5.81	1,344.0	1,064.98
4	493.69	61.42	64.34	8.03	6.70	4.99	5.87	1,359.0	1,077.29
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
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
19	563.31	70.55	74.90	7.81	6.48	4.99	5.83	1,301.0	1,064.04
20	556.29	69.62	73.50	7.91	6.60	4.94	5.83	1,313.0	1,074.91
21	-	-	-	7.91	6.60	5.10	5.83	1,318.0	1,075.48
23	560.94	70.26	75.88	8.00	6.72	5.02	5.83	1,313.0	1,074.91
24	555.64	69.57	75.72	8.00	6.72	4.99	5.83	1,309.0	1,078.25
25	566.34	71.01	76.97	8.04	6.75	5.00	5.84	1,307.0	1,069.56
26	561.62	70.37	76.34	8.17	6.93	5.02	5.86	1,313.0	1,071.84
27	556.63	69.67	75.32	8.11	6.85	4.86	5.89	1,324.0	1,069.47
28	-	-	-	8.07	6.85	4.90	5.86	1,324.7	1,066.59
30	577.36	72.45	78.97	8.05	6.80	5.00	5.92	1,320.0	1,065.38

Note : End of Period

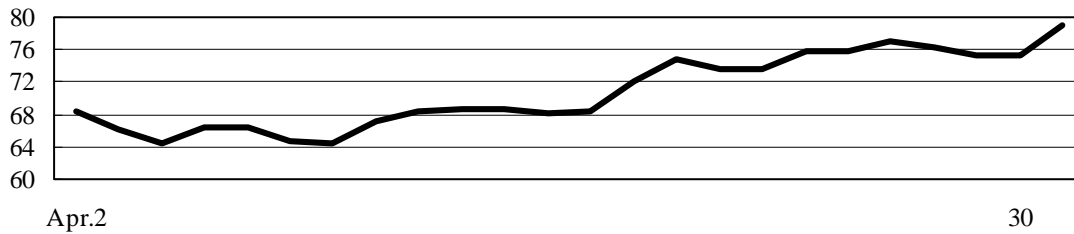


## 2. Daily Trends

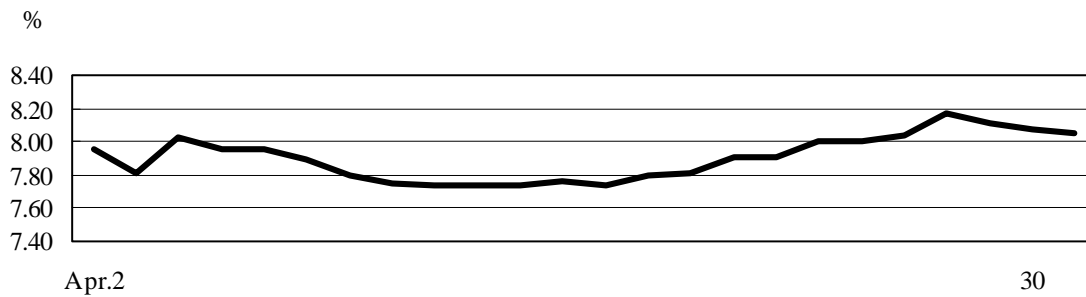
### 1) KOSPI



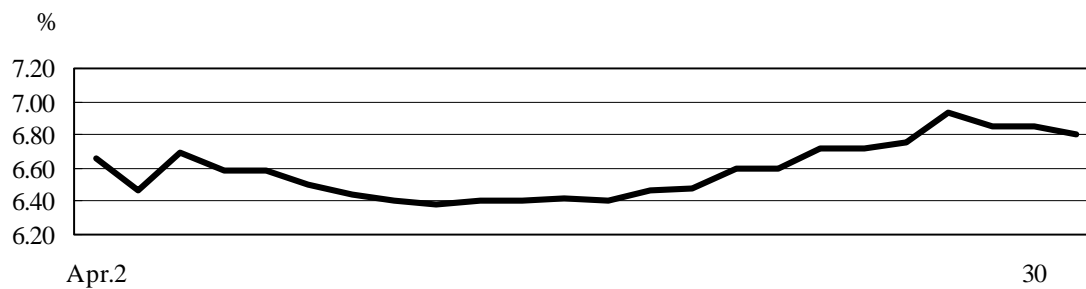
### 2) KOSDAQ Index



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

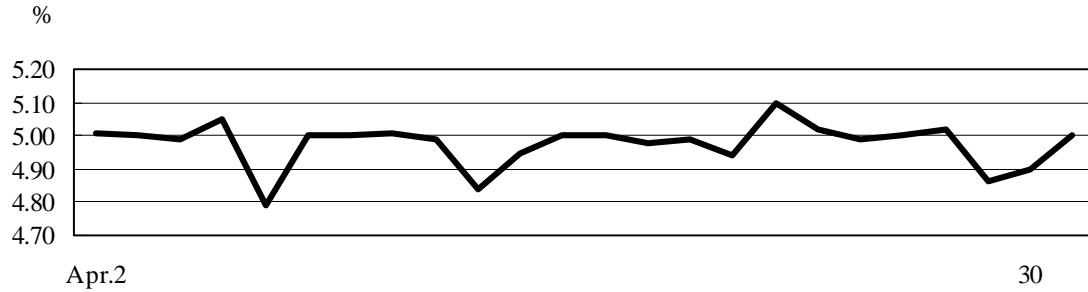


### 4) Yields on Government Bond (3 Years)

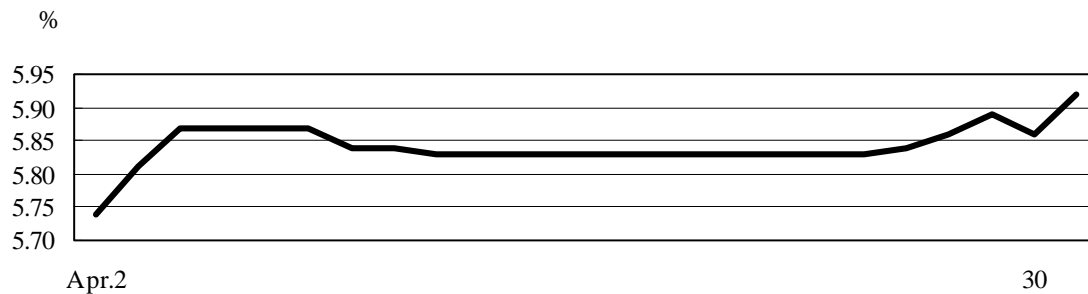




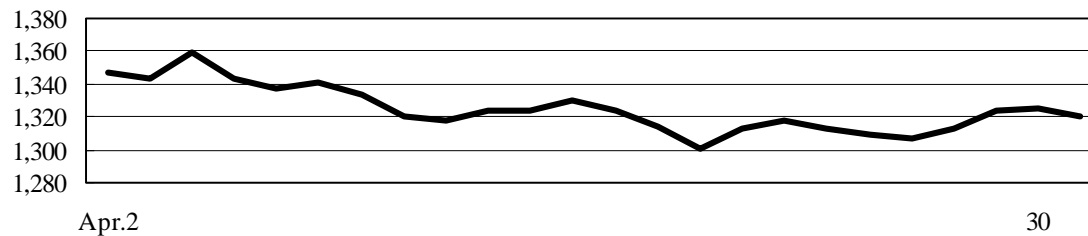
### 5) Call Rate (1 Day)



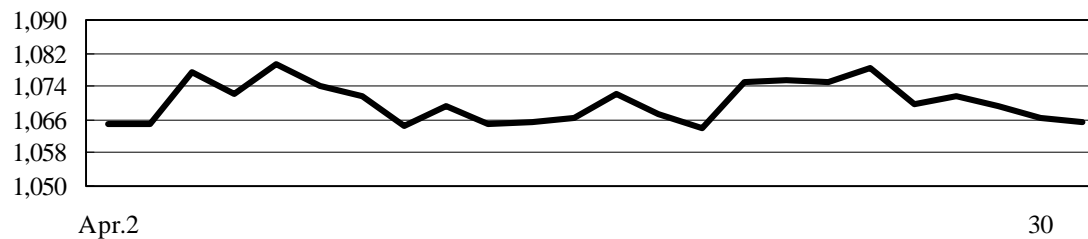
### 6) Yields on CD (91 Days)



### 7) Won/US Dollar



### 8) Won/100 Japanese Yen





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