



Volume II No. 15

May 12, 2001



Weekly Newsletter

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On-site Inspection of Continuous Credit-Risk Assessment System

From April 16 to 20, 2001, the FSS conducted on-site inspection on the status of the Continuous Credit-Risk Assessment System (CCAS) instituted by domestic banks for credit evaluation of corporate borrowers. The inspection indicated that the operational criteria used by banks to identify potentially non-viable companies were largely in place and used appropriately. (See Weekly Newsletter Vol. II, No. 3 for details on CCAS.)

In accordance with the minimum guidelines set by the FSC/FSS, most banks incorporated into their CCAS operational criteria (1) interest coverage ratio below 100% for three consecutive years, (2) loans classified as “precautionary” or below under the Forward Looking Criteria, (3) a set of internal guidelines for identifying potentially non-viable companies and (4) minimum credit exposure (from 1 billion won to 10 billion won) depending on banks. A total of 1,187 corporate borrowers were subject to credit assessment by banks.

Despite the progress by the banks in instituting and utilizing the CCAS, many of the banks inspected by the FSS failed to establish more specific and objective criteria for their CCAS in regard to rapid deterioration of their corporate borrowers’ credit ratings and their excessive reliance on loans from non-banking institutions and other secondary sources. The inspection also showed that companies that failed to receive “unqualified” audit opinion or suffered losses were excluded from the list of potentially non-viable companies by their own creditor banks. Those banks were advised to include such companies in their CCAS by the FSS inspectors.

Starting in May, domestic banks began classifying their corporate borrowers under the CCAS into four categories: 1) viable companies with normal management, 2) viable companies with temporary liquidity problems, 3) viable companies with structural liquidity problems, and 4) non-viable companies for immediate liquidation. The FSS will monitor and review the progress of banks on their plans and follow-up actions for corporate borrowers under CCAS on a quarterly basis.



Plans to Enhance Competitiveness in Credit Card Industry

On May 4, 2001, the FSC/FSS announced a set of measures to resolve emerging problems and to enhance competitiveness in domestic credit card industry. A summary of the measures for domestic credit card businesses that are expected to go into effect in the second half of 2001 is presented below.

Starting in the second half of 2001, entry into domestic credit card market is to be expanded after the FSC/FSS revise the criteria for licensing of credit card business, including the capital adequacy and business operating capacity necessary for credit card business.

To correct the imbalance of transaction volumes between the core business of credit payment settlement and non-core businesses such as cash advances and loan services to credit card holders, the new measures will require the ratio of account balance of non-core credit card business to account balance of core credit card business not to exceed 100%. The FSS will conduct quarterly review of credit card companies for compliance with the new measure.

The new measures will also bar credit card companies from issuing cards to unqualified individuals and give more protection to card holders by requiring more favorable terms and conditions for credit card use, such as requiring credit card companies to assume a greater amount of charges disputed by credit card holders.

The FSC/FSS will encourage greater competition among the credit card companies to lower the service charges to card holders to a more reasonable level.

The FSC/FSS will also strengthen supervision of credit card companies through more strict management guidelines and higher standards of corporate governance, such as appointment of outside directors, audit committees and compliance officers.

The revisions to the relevant regulations are expected to be completed by May or June and go into effect by June or July.



14 Business Groups Ordered to Submit Combined Financial Statements

On May 9, 2001, the Securities and Futures Commission (SFC) released the official list of 14 large business groups, or chaebols, that are required to submit combined financial statements (CFS) for fiscal year 2000. In 2000, there were 19 chaebols subject to the CFS requirement. The five chaebols that were excluded from the 2000 list are SK, Hanhwa, Dongkuk Steel, Dong-A, and Jinro.

Among the chaebols removed from the 2000 list, SK, Hanhwa, and Dongkuk Steel were excluded because the total amount of assets reported in a single consolidated financial statement accounted for more than 80% of the total amount of assets of all affiliates. Meanwhile, Jinro was excluded because the total assets of affiliates that are excluded from the CFS accounted for more than 50% of the total assets of all affiliates, and Dong-A was excluded from the list of chaebols subject to the CFS since it was removed from the list of large business groups as designated by the FTC in 2000.

Accordingly, a total of 616 companies under 14 business groups are subject to the CFS in 2001. For each business group, the company responsible for the CFS is determined according to the size of total assets, the closing month of accounting period, etc. The audit reports on the CFS for the 14 chaebols should be submitted to the SFC by the end-June 2001.

Chaebols Required to Report CFS

No	Group	Company Responsible for Producing CFS	Total Number of Companies Included in CFS
1	Samsung	Samsung Electronics	166
2	Hyundai	Hyundai Heavy Industries	74
3	LG	LG Chemical	127
4	Hanjin	Korean Air	24
5	Lotte	Hotel Lotte	27
6	Doosan	Doosan	19
7	Ssangyong	Ssangyong Cement	30
8	Hansol	Hansol Paper	27
9	Dongbu	Dongbu Construction	17
10	Tongyang	Tongyang Major	36
11	Kolon	Kolon	25
12	Saehan	Saehan	20
13	Young Poong	Young Poong	15
14	Samyang	Samyang	9

Detailed Management Plans for M&A Mutual Funds by Private Placement

In accordance with revision of the “Securities Investment Trust Company Act,” the FSS announced detailed management plans for M&A mutual funds for private placement. A brief summary of the plans to the funds is presented below.

Summary of Plans for M&A Mutual Funds

Fund type	<ul style="list-style-type: none"> • Close-end
Duration of fund	<ul style="list-style-type: none"> • A minimum of one year
Qualified investment	<ul style="list-style-type: none"> • Stocks, debt, and liquid assets
Fund manager	<ul style="list-style-type: none"> • Fund investors or third party trustees
Reporting requirements to the FSC	<ul style="list-style-type: none"> • Equity shares exceeding 5% in the invested company must be reported within 5 days from the date of the acquisition. • Any further acquisition of shares greater than 1% of the total shares in addition to the 5% threshold must also be reported within 5 days from the date of the acquisition. • When reporting share purchases greater than 5%, the purpose of the investment—either M&A or others—must also be reported.
Type of distribution	<ul style="list-style-type: none"> • Shares in the fund must be distributed through third party trustees.
Maximum number of investors in the fund	<ul style="list-style-type: none"> • 49 investors for initial distribution • Up to 99 investors after initial distribution
Remuneration for fund management	<ul style="list-style-type: none"> • Performance-based remuneration or other autonomously determined remuneration system can be used.
Distribution upon liquidation	<ul style="list-style-type: none"> • Cash or securities held by the fund are permitted.

Rising Portfolio Investment by Foreign Investors in April

In April, foreign investors purchased stocks worth a total 4.51 trillion won while selling off 3.39 trillion won in shares, thus ending the month as net buyers of 1.12 trillion won worth of stocks on the Korea Stock Exchange (KSE). Accordingly, the market value of foreign investors' equity holdings increased to 71.8 trillion won from 63.0 trillion won a month earlier, and the market share of foreign equity holdings also rose to 31.4% from 30.2% in March.

Meanwhile, in the tech-heavy KOSDAQ market, foreign investors were net buyers of stocks worth a total 170.9 billion won in April. The market value of foreign equity holdings increased to 3.85 trillion won, up 776.8 billion won from March, and the total market share of foreign investors also rose from 8.1% in March to 8.6% in April.

Foreign Investment in KSE/KOSDAQ

(unit: billion won)

	KSE		KOSDAQ	
	Net Purchase ¹⁾	Total Market Value of Stock Holdings ²⁾	Net Purchase ¹⁾	Total Market Value of Stock Holdings ²⁾
2000. 2	369.0	67,799.0 (29.6%)	-10.2	3,376.2 (7.9%)
2001. 3	41.1	63,006.2 (30.2%)	42.2	3,077.8 (8.1%)
2001. 4	1,124.7	71,763.3 (31.4%)	170.9	3,854.6 (8.6%)

Note: Figures in parentheses denote the percentage of foreign stock holdings.

1) During the period;

2) Outstanding at the end of the period;

In the domestic bond market, foreign investors were net purchasers of 40.1 billion won worth of bonds in March, increasing their total bond holdings to 536.4 billion won from 532.1 billion won as of the end-March. The total market share of foreign investors, however, remained unchanged from March at 0.12%. Special purpose bonds, including Monetary Stabilization Bonds and Industrial Financial Debentures, accounted for 57.1% of foreign investors' total bond holdings while corporate bonds accounted for 24.8%.

Foreign Investment in Bonds

(unit: billion won)

	Net Purchase ¹⁾	Value of Bond Holdings ²⁾
2001. 2	68.0	593.8 (0.14%)
2001. 3	-35.0	532.1 (0.12%)
2001. 4	40.1	536.4 (0.12%)

Note: Figures in parentheses denote the percentage of foreign bond holdings.

1) During the period;

2) Outstanding at the end of the period;



(Appendix)

1. Major Financial Statistics

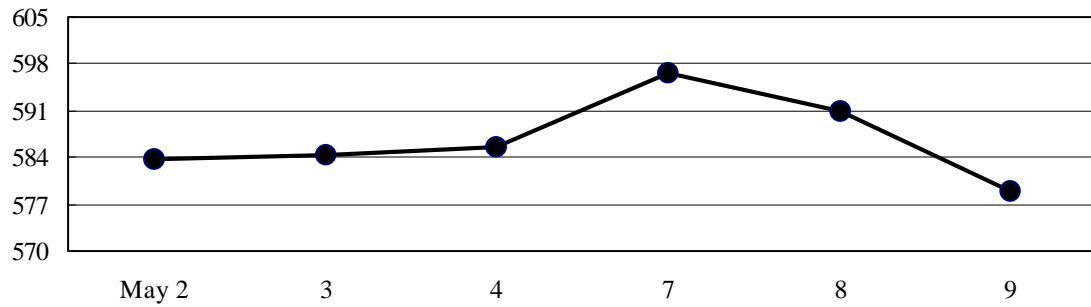
(unit: point, percent, won)

	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	577.36	72.45	78.97	8.05	6.80	5.00	5.92	1,320.0	1,065.38
May 2	583.70	73.29	81.00	7.87	6.57	5.01	5.90	1,304.0	1,069.29
3	584.40	73.37	79.99	7.81	6.50	5.00	5.90	1,294.0	1,064.14
4	585.60	73.51	80.48	7.79	6.45	4.99	5.89	1,298.0	1,070.07
7	596.50	74.86	82.84	7.81	6.50	5.07	5.89	1,299.0	1,070.90
8	590.91	74.09	82.27	7.78	6.47	5.00	5.89	1,299.0	1,067.82
9	578.84	72.53	79.59	7.73	6.42	5.00	5.89	1,304.0	1,071.49

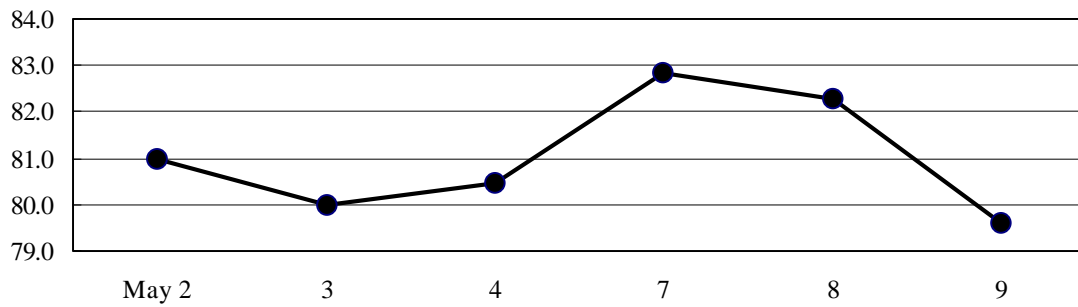
Note : End of Period

2. Daily Trends

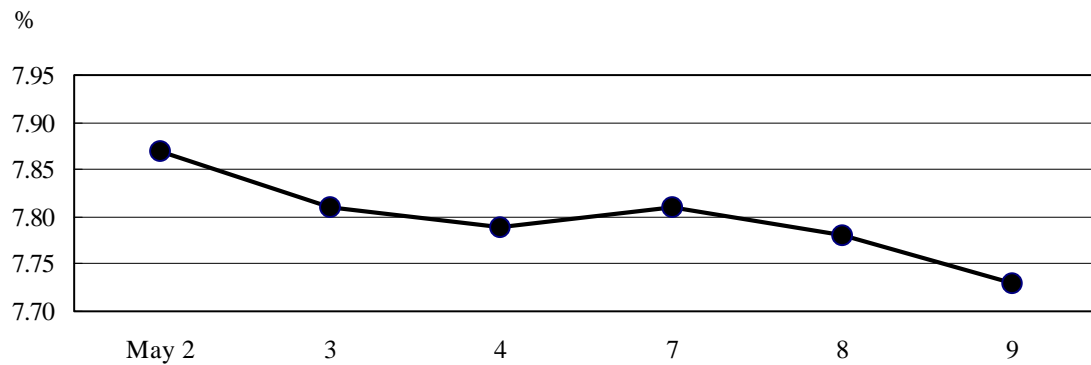
1) KOSPI



2) KOSDAQ Index

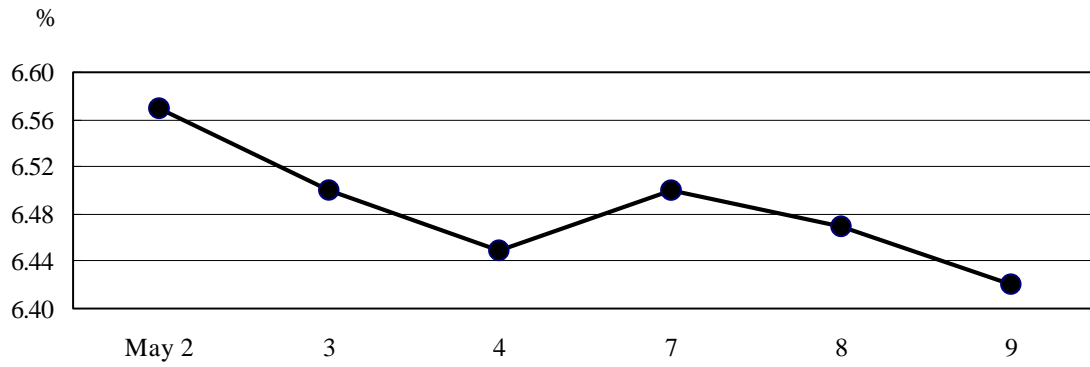


3) Yields on Corporate Bond (3 Years)

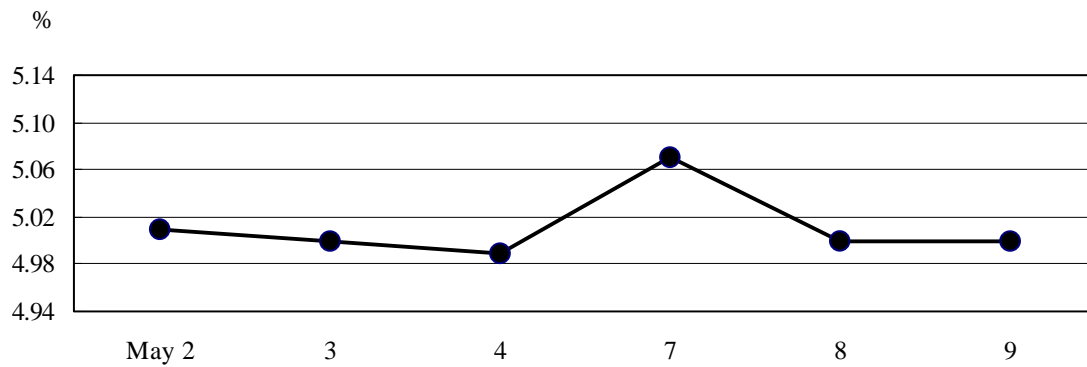




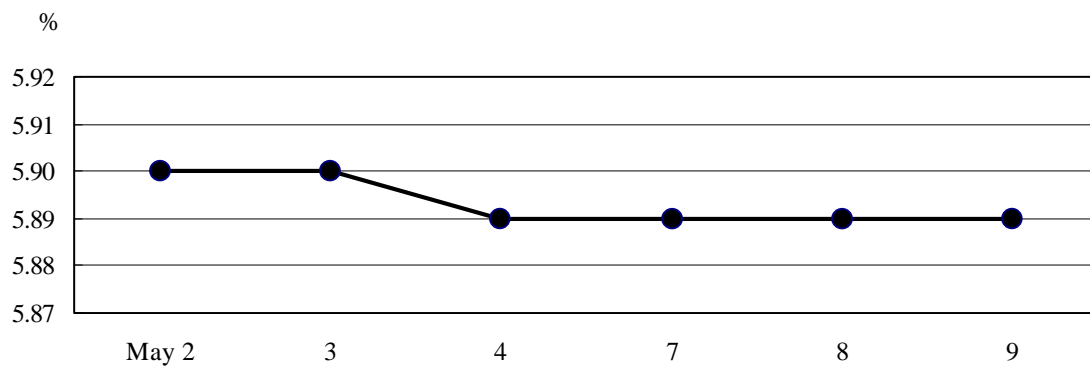
4) Yields on Government Bond (3 Years)



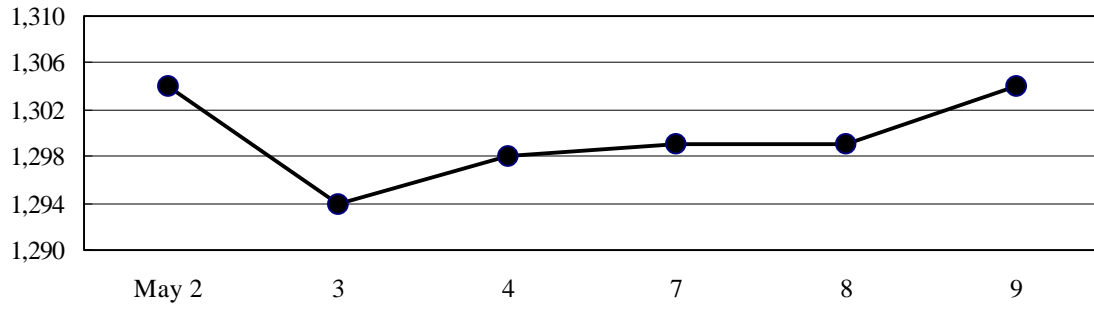
5) Call Rate (1 Day)



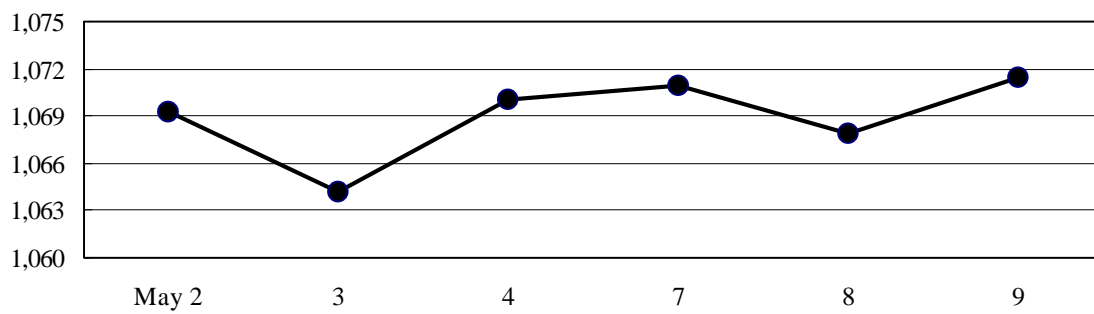
6) Yields on CD (91 Days)



7) Won/US Dollar



8) Won/100 Japanese Yen





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