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FSS HANDBOOK 2021

About FSS HANDBOOK 2021

The FSS HANDBOOK 2021 is a general reference for Korea's financial regulation and supervision that the Financial Supervisory Service publishes in English as a public service. A PDF version of this publication is freely available online at the FSS English homepage (english.fss.or.kr). Please email your inquiry concerning this publication to intlsupport@fss.or.kr. For more up-to-date information that may be available in Korean, please visit the FSS Korean internet website (fss.or.kr).

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CONTENTS

1. Financial Supervisory Service	1
Integrated Financial Supervision	1
Related Oversight Authorities	3
2. FSS-Supervised Financial Institutions	7
General Classification of Financial Institutions	7
Banks	7
Nonbank Financial Institutions	10
Financial Investment Services Providers	11
Insurance Companies	12
Financial Holding Companies	13
Other Financial Services Providers	13
3. Prudential Supervision	15
Classification of Business Activities	15
Business Conduct Regulation	21
Capital Adequacy	36
Prudential Standards	40
Supervisory Review of Financial Products and Services	50
4. Supervisory Evaluation and Rating	53
Supervisory Evaluation	53
Component and Composite Ratings	56
5. Examination, Consumer Protection, and Inclusive Finance	65
Examination	65
Consumer Protection	72
Consumer Complaint Mediation	74
Inclusive Finance	79
6. IT Supervision	83
Supervision of Electronic Financial Services	83
7. Capital Market Supervision	93
Disclosure Rules	93
Unfair Trading and Enforcement	110
Accounting Supervision	115

APPENDICES

A. Incorporation of Financial Service Company	119
B. Legal and Regulatory Structures	132
C. FSS Financial Statistics	135
D. FSS DART	136
E. Selected Financial Sector Data	137

TABLES

1. Basel III Capital Requirements and Phase-in Arrangements	37
2. Capital Requirements	37
3. Standard Asset Classification Criteria	42
4. Asset Classification Criteria	43
5. Minimum Allowances for Bank Credit Losses	45
6. Asset Classification for Nonbank Financial Institutions	45
7. Minimum Allowances for Credit Losses of Nonbank Financial Institutions	46
8. Credit Extension Limits for Nonbank Financial Institutions	47
9. Prudential Guidance Ratios for Nonbank Financial Institutions	47
10. Rating Components and Evaluation Factors	55
11. Commercial Bank Component and Composite Ratings	58
12. Capital Adequacy and Prompt Corrective Action	62
13. Supervisory Rating and Prompt Corrective Action	62
14. Remedial Actions under Prompt Corrective Action	63
15. Types of Sanctions	68
16. Financial Dispute Resolution Process	75
17. IT Function Evaluation	89
18. IT Composite Ratings	90
19. Waiting Period for Registration Statement	95
20. Rating Components and Evaluation Factors	116
21. Incorporation Requiring Registration, Authorization, or Approval	120
22. Minimum Incorporation Capital Requirements	122

FIGURES

1. General Examination Process	70
2. General Rulemaking Process	134

ABBREVIATIONS

AEFSC	Act on the Establishment of the Financial Services Commission
CAEL	Capital, Asset Quality, Earnings, and Liquidity
CAMEL-R	Capital, Asset Quality, Management, Earnings, Liquidity, and Risk Management
CAMELS	Capital, Asset Quality, Management, Earnings, Liquidity, and Sensitivity to Market Risk
CET1	Common Equity Tier 1
CIS	Collective Investment Scheme
CPA	Certified Public Accountant
FCPB	Financial Consumer Protection Bureau
FDSC	Financial Dispute Settlement Committee
FISCOMA	Financial Investment Services and Capital Markets Act
FISIS	Financial Statistical Information System
FISP	Financial Investment Service Provider
FSC	Financial Services Commission
FSS	Financial Supervisory Service
IFAS	Insurance Fraud Analysis System
IFRS	International Financial Reporting Standards
KDIC	Korea Deposit Insurance Corporation
LCR	Liquidity Coverage Ratio
MID	Management Improvement Demand
MIO	Management Improvement Order
MIR	Management Improvement Recommendation
NFE	Non-Financial Entity
NCR	Net Capital Ratio
NOCR	Net Operating Capital Ratio
NSFR	Net Stable Funding Ratio
PEF	Private Equity Fund
RAAS	Risk Assessment Application System
RBC	Risk-Based Capital
ROA	Return on Assets
ROE	Return on Equity
SBL	Substandard or Below Loan
SFC	Securities and Futures Commission
SME	Small- and Medium-Sized Enterprise
SPC	Special-Purpose Company

1

Financial Supervisory Service

Integrated Financial Supervision

The Financial Supervisory Service (FSS) is Korea's integrated financial supervisory authority responsible for the safety and soundness of financial institutions across the financial sector. It examines and supervises financial institutions in order to ensure they operate in a safe and sound manner, serve consumers and investors, and comply with rules and regulations. The FSS also performs capital market supervision and undertakes supervision measures to protect investors and consumers from financial firms' malpractices.

The FSS was established on January 2, 1999, pursuant to the Act on the Establishment of Financial Supervisory Organizations that the National Assembly approved on December 29, 1997. Under the law, the FSS is set up as a specially legislated quasi-government supervisory authority charged with financial supervision across the financial sector.

Prior to the creation of the FSS, financial supervision was carried out by four separate sector-specific authorities with the finance ministry exercising significant overarching oversight powers. For bank supervision, the Office of Banking Supervision under the Bank of Korea conducted examination of commercial banks and foreign bank branches, while the finance ministry assumed the primary responsibility for the oversight of government-affiliated policy banks known as specialized banks and nonbank credit institutions. Similarly, securities supervision was shared by the Securities Supervisory Board and the finance ministry, and insurance supervision by the Insurance Supervisory Board and the finance ministry. Supervision of other nonbank financial institutions generally fell under either the finance ministry or Bank of Korea's Office of Banking Supervision.

Significant institutional and systemic shortcomings that came to light during the 1997 Asian financial crisis underscored an urgent need for major financial sector reform, but there was also a broad recognition of changes needed to deal with the evolving financial

market landscape. It ranged from the accelerating convergence of financial services to the blurring of the traditional boundaries between banking and nonbank activities. The confluence of financial market liberalization, deregulation, and globalization that were gathering momentum across countries at the time also pointed to the need for bold systemic reform to improve the effectiveness of Korea's financial regulation and supervision.

Recognizing the imperativeness of reform, the government set up a presidential committee in January 1997 to explore new approaches that were needed to bring about more efficient and more robust financial regulation and supervision. The committee followed up with recommendations that culminated in the creation of the Financial Supervisory Commission, predecessor to the Financial Services Commission, as the integrated regulatory authority on April 1, 1998. This was followed by the creation of the FSS as the integrated supervisory authority on January 2, 1999.

As part of major government reorganization in 2008, the Financial Supervisory Commission took on the policy functions of the Financial Policy Bureau under the finance ministry and became the Financial Services Commission (FSC) on February 29, 2008. The name of the Act on the Establishment of Financial Supervisory Organizations was also changed to the Act on the Establishment of the Financial Services Commission (AEFSC) as part of the reorganization.

Under the two-tier system the AEFSC has created, the FSC assumes the primary responsibility for rulemaking and licensing, major enforcement decisions, and the government's financial market policy, while the FSS principally conducts prudential supervision, capital market enforcement, consumer protection, and other oversight and enforcement activities as delegated or charged by the FSC. The FSS also performs administrative functions in support of the rulemaking and licensing activities of the FSC.

As the government regulatory authority, the FSC is staffed by career civil servants, but the FSS as a specially legislated supervisory authority is staffed by private sector professionals who are not part of the government civil service system. The total number of FSS employees including supervisors, examiners, and support staff at the end of 2020 was 1,981.

ORGANIZATION

The FSS is organized into ten divisions that are further divided into 62 departments and offices (end of 2020). Each department and office under the ten divisions is charged with specific function, tasks, and responsibilities ranging from supervision and consumer protection to administrative support. Each division is headed by a deputy governor and each department by a director general. In addition to its headquarters in Seoul, the FSS maintains 11 regional and district offices nationwide and seven representative offices overseas. The Office of the Chief Executive Auditor, which comprises an internal audit office and an inspection office, is responsible for internal audit, inspection, and compliance.

Fees collected from financial institutions and securities issuers as well as contribution from the Bank of Korea make up most of the FSS's operating budget. The relative share of fees to be contributed by the FSS-supervised financial institutions is determined annually by the FSC on the basis of the total amount of liabilities of FSS-supervised financial institutions at the end of the previous fiscal year, subject to certain restrictions. The relative share to be collected from securities issuers is also determined by the FSC on the basis of the total amount of securities issued. When approving the budget for the new fiscal year, the FSC considers current funding level and other financial factors and conditions. For the fiscal year 2020, the total operating budget was KRW363.0 billion with supervision fees from financial institutions making up approximately 76.8 percent of the total and securities registration fees and contributions from the Bank of Korea each accounting for 24 percent and 2.75 percent of the total, respectively.

GOVERNANCE

The FSS is headed by the governor, the highest-ranking executive. Under the AEFSC, up to four senior deputy governors and nine deputy governors may be appointed under the governor. The chief executive auditor is the officer responsible for internal audit and compliance. The governor is appointed by the president with the recommendation of the chairman of the FSC. The governor, senior deputy governors, and deputy governors (including the chief accountant) each serve a three-year term that may be renewed once. As of June 2020, four senior deputy governors and nine deputy governors were serving under the governor.

Related Oversight Authorities

The FSS coordinates its supervision activities with the FSC, the Bank of Korea, and the Korea Deposit Insurance Corporation in order to ensure timely and effective examination and supervision. The FSS also routinely shares supervisory information with other oversight authorities on a regular basis as part of its safety and soundness mandate.

FINANCIAL SERVICES COMMISSION

As the government regulatory authority, the FSC is vested with broad powers under the AEFSC to set the government's financial market policies, propose amendments to financial legislation to the National Assembly, make rules, grant regulatory licenses, and decide on major enforcement actions. Under the two-tier system created by the AEFSC, the FSS is subject to FSC oversight in respect of its inspection, examination, investigation, and enforcement activities.

The FSC is led by nine commissioners that include the chairman and the vice chairman. Each commissioner serves a three-year term. The chairman is appointed by the president with the recommendation of the prime minister. The vice chairman, who is appointed by the president with the recommendation of the

FSC chairman, concurrently holds the position of the chairman of the Securities and Futures Commission (SFC).

Two standing commissioners are appointed with the recommendation of the FSC chairman. Of the five non-standing commissioners, four are ex-officio positions held by the vice minister of the Ministry of Economy and Finance, the governor of the FSS, the deputy governor of the Bank of Korea, and the president of the Korea Deposit Insurance Corporation. The remaining non-standing commissioner is appointed with the recommendation of the chairman of the Korea Chamber of Commerce and Industry, who recommends an industry representative.

The FSC is a government agency whose officers are barred from holding any political position or engaging in any commercial activity during the tenure on the Commission. The nine commissioners are also barred from participating in the resolution of matters that may raise conflict of interest. Matters coming before the commissioners for resolutions are passed by the majority of the quorum. As part of its regulatory mandate, the FSC deliberates and decides on policy matters directly pertaining to the supervision of financial institutions and the securities markets. (Matters relating to the securities and futures markets are largely delegated to the SFC.)

SECURITIES AND FUTURES COMMISSION

The SFC is a regulatory commission integrated within the FSC structure that performs the oversight of the securities and futures markets. It consists of five members who are appointed by the president for a renewable three-year term. The vice chairman of the FSC concurrently holds the position of the chairman of the SFC. The standing commissioner and three non-standing commissioners are appointed with the recommendation of the chairman of the FSC. The principal role of the SFC is to direct investigations of market misconduct and abuse such as insider trading and market manipulation in the securities and futures markets and to establish accounting and audit standards. In addition, the SFC conducts preliminary review of regulatory matters relating to the securities and futures markets that are to be deliberated by the FSC.

BANK OF KOREA

The Bank of Korea, established in June 1950 pursuant to the Bank of Korea Act, is Korea's central bank. The Monetary Policy Committee, the highest decision-making body within the central bank, sets monetary policies in pursuit of price stability and employment. Because of Bank of Korea's long-standing mandate to preserve a safe and sound banking system, the FSS maintains close cooperative relationship with the Bank of Korea.

In respect of banking supervision, the Bank of Korea may, when deemed necessary, request that the FSS conduct an examination of a specific financial institution or conduct a joint examination with the participation of specialists from the Bank of Korea. The Bank of Korea may also request that the FSS share the findings of examination conducted at the request of the Bank of Korea and take appropriate supervision actions. The information-sharing MOU between the FSS and the Bank of Korea provides for practically unrestricted information exchange for financial supervision and banking safety and soundness purposes unless specifically prohibited under the law on privacy or other applicable grounds.

KOREA DEPOSIT INSURANCE CORPORATION

The Korea Deposit Insurance Corporation was established on June 1, 1996, following the enactment of the Depositor Protection Act on December 29, 1995, to protect depositors and help maintain the stability of the banking system. When deemed necessary for the depositor protection mandate as provided for under the Depositor Protection Act, the Korea Deposit Insurance Corporation may request that the FSS carry out an examination of an insured institution independently or jointly with the Korea Deposit Insurance Corporation. The Korea Deposit Insurance Corporation has signed an MOU with the FSS to facilitate active information sharing on an ongoing basis.

2

FSS-Supervised Financial Institutions

General Classification of Financial Institutions

For supervision purposes, financial institutions that are supervised by the FSS are broadly classified into four types: banks, nonbank financial institutions, financial investment services providers, and insurance companies. Financial holding companies (FHCs) that are established under the Financial Holding Companies Act are also supervised by the FSS.

Banks comprise commercial banks, specialized banks, and foreign bank branches. Nonbank financial institutions on the other hand refer to mutual savings banks, specialized credit finance companies, and mutual credit cooperatives (comprising credit unions, agricultural, fisheries, and forestry cooperatives, and community credit cooperatives). Financial investment services providers (FISPs) comprise securities companies, futures companies, asset management companies, investment advisors, and others engaging in securities trading as brokers and dealers, collective investment schemes, investment advisory services, discretionary investment services, and trust services. Insurance companies refer to life insurance companies, nonlife insurance companies, and "hybrid" insurance companies.

Banks

Banking institutions that the FSS supervises are classified into domestic banks and foreign bank branches. Domestic banks comprise commercial banks and specialized banks, and commercial banks are further divided into national banks, regional banks, and internet banks, which are incorporated pursuant to the Banking Act, the legislation governing banking institutions in Korea.

National banks and internet banks operate nationwide, while regional banks are subject to certain geographic restrictions in their business operations. Specialized banks refer to government-affiliated policy banks that have been established under individual legislation enacted by the National Assembly. The Banking Act in principle recognizes foreign bank branches as equivalent to domestic banks in respect of banking activities and for supervision purposes.

2.1 DOMESTIC BANKS

Domestic banks comprise commercial banks and government-affiliated policy banks known as specialized banks.

2.1.1 Commercial banks

Commercial banks are further classified into national banks, regional banks¹ and internet banks. National banks operate nationwide while regional banks are subject to certain geographical restrictions.

National banks operate throughout the country without any regional restriction. The number of national banks grew from five at the end of 1979 to 16 by the end of 1997 on the back of financial market liberalization. Following the 1997 Asian financial crisis, which caused systemic stresses of unprecedented scale to the banking industry, the number of national banks fell to seven as a result of mergers and dissolutions. From January 1998 to September 2001, a total of five commercial banks (three national banks and two regional banks) were closed through purchase and acquisition, and a total of 11 banks (six national banks, two regional banks, and three specialized banks) were merged to form five banks (four national banks and one specialized bank). As the end of 2020, six national banks were in operation.

Regional banks were first established in 1967 as part of the government's effort to better balance regional economic development and provide financial services to underserved consumers in rural and regional areas. At the end of 1997, there were ten regional banks in operation, but the number fell to six following closures and mergers in the wake of the 1997 Asian financial crisis. Like national banks, regional banks maintain branch banking within their respective localities and primarily serve small- and medium-sized enterprises (SMEs), households, and individual borrowers in their respective regions. As the end of 2020, a total of six regional banks were in operation.

Two internet banks—K Bank and Kakao Bank—started banking services in April and July, 2017, respectively, pursuant to the Banking Act. Internet banks provide online banking services exclusively pursuant to article 2 of the Act on Special Cases Concerning Establishment and Operation of Internet Banks, which took effect on January 17, 2019. Unless specified otherwise in the act, banking

¹ Banking institutions are sometimes divided into domestic banks and foreign bank branches with domestic banks comprising national banks, regional banks, internet banks and specialized banks.

services that internet banks provide are subject to the Banking Act. Both K Bank and Kakao Bank received approval for business following regulatory review and authorization pursuant to the Banking Act. In December 2018, the FSC announced plans to license a new internet bank to further promote innovation and competition in the banking sector. The FSC followed up by amending the Enforcement Decree on the Act on Special Cases Concerning Establishment and Operation of Internet Banks on January 15, 2019.

2.1.2 Specialized banks

Specialized banks were established during the 1960s primarily to supplement the commercial banks in areas where they could not supply sufficient funds due to limited capital and also to support specific industrial sectors that were given priority by the government in its economic development plans. As the banking landscape evolved, however, the specialized banks began to expand their businesses into commercial banking. Their share of capital allocation to the specific sectors they were originally intended to serve is still relatively high. In raising funds, specialized banks primarily rely on public funds and bonds, although they compete with commercial banks for deposits. Five banking institutions operate as specialized banks under their respective legislation. They are the Korea Development Bank, the Export-Import Bank of Korea, the Industrial Bank of Korea, NongHyup Bank, and Suhyup Bank.

2.2 FOREIGN BANK BRANCHES

Foreign bank branches were first permitted to operate in Korea in 1967 as part of government initiatives to stimulate foreign capital investment and improve access to international capital markets. In 1984, the government began to remove restrictions on foreign branch operations in an effort to level the playing field for foreign banks, and in 1991 significantly eased regulations on foreign banks to promote greater competition among banking organizations operating in Korea. For instance, the government allowed foreign banks to open multiple branches under the same standards and procedures as those applied to domestic banks and to compete on equal footing with domestic banks. Traditionally, foreign bank branches in Korea specialized in wholesale banking. As a result of growing market liberalization and deregulation, however, foreign banks have recently been competing with domestic banks on wider-ranging banking businesses.

Nonbank Financial Institutions

For supervision purposes, financial services providers that are not classified as a bank, a financial investment services provider, or an insurance company are collectively referred to as nonbank financial institutions or NBFIs. Nonbank financial institutions are broadly divided into three groups: mutual savings banks, specialized credit finance companies, and mutual credit cooperatives.

2.3 MUTUAL SAVINGS BANKS

Mutual savings banks are regulated depository institutions that provide retail and small business banking in limited scope and scale. Although they are deposit-taking institutions and perform commercial banking activities on a limited scale, they are not classified as banks for supervision purposes because they are incorporated and regulated pursuant to the Mutual Savings Banks Act, not under the Banking Act as is the case for the commercial banks.

2.4 SPECIALIZED CREDIT FINANCE COMPANIES

Specialized credit finance companies comprise credit card companies, leasing companies, installment finance companies, and new technology venture capital companies. All specialized credit finance companies are subject to the FSS supervision. Initially, they were governed by respective legislations. Then, in August 1997, the Specialized Credit Finance Business Act was enacted, incorporating all types of specialized credit finance businesses. Under the Specialized Credit Finance Business Act, credit card companies are only required to obtain authorization/approval for the stability of the system while leasing companies, installment finance companies, and new technology venture capital companies may carry on business after registration with the FSC/FSS.

2.5 MUTUAL CREDIT COOPERATIVES

Credit unions and credit cooperatives, collectively referred to as mutual credit cooperatives, are not-for-profit financial cooperatives that are owned and controlled by members who share a common place of residence, workplace, organization, community or are tied by other associations. Under the law, the following mutual credit cooperatives are recognized:

- Credit unions and their national federation (the National Credit Union Federation of Korea);
- Agricultural cooperatives and their national federation (the National Agricultural Cooperative Federation);
- Fisheries cooperatives and their national federation (the National Federation of Fisheries Cooperatives);

- Forestry cooperatives and their national federation (the National Forestry Cooperative Federation); and
- Community credit cooperatives and their national federation (the Korean Federation of Community Credit Cooperatives).

Of the recognized mutual credit cooperatives, community credit cooperatives and their national federation fall under the oversight of the Ministry of the Interior and Safety, and the rest are supervised by the FSS. By assets, credit unions are the largest.

Financial Investment Services Providers

Financial investment services provider (FISP) refers to a financial services firm authorized or registered to engage in one or more of the six financial investment services as classified in the Financial Investment Services and Capital Markets Act (FISCMA). FISCMA, which was enacted in August 2007 to consolidate six capital market-related acts into one overarching act, provides for function-based supervision of securities and investment services that are collectively referred to as “financial investment services” and reclassifies previous service areas into six new categories of financial investment service: dealing, brokerage, collective investment schemes, investment advisory services, discretionary investment services, and trust services. Under FISCMA, FISPs that have a direct creditor-debtor relationship with investors or are entrusted to hold and administer investors’ assets—dealers, brokers, trust service providers, and collective investment service providers—must obtain authorization from the FSC/FSS; those that have no discretion over investors’ assets—discretionary service providers and investment advisors—need only registration. The Enforcement Decree of FISCMA sets out detailed requirements for authorization and registration depending on the function of financial investment service. The function is grouped into 87 categories in consideration of the type and scope of financial investment services and investor type, and FISPs must obtain authorization or registration for the specific categories that they intend to engage in.

FSS-supervised FISPs are securities companies, asset management companies, futures companies, trust companies, investment advisory companies, and discretionary investment companies. Securities companies are broker-dealers that act as an intermediary between businesses issuing securities and investors buying the securities. Asset management companies engage in the management of beneficiary certificates and mutual fund assets. Futures companies trade futures contracts that are based upon financial instruments and physical commodities. Futures trading began with the establishment of the Korea Futures Exchange in 1999. Trust companies, which act as a fiduciary or trustee of trusts, had been supervised by the Ministry of Finance and Economy until the FSS was established and took over the oversight function in 1998. Banks and securities companies were enabled to concurrently carry on trust businesses in 1983 and 2005, respectively.

In addition to FISPs, the FSS supervises certain entities, collectively referred to as financial investment service-related institutions under FISCMA, that engage in limited activities closely related to financial investment services. They include credit rating agencies, merchant banks, money brokerage companies, and short-term finance companies. Merchant banks provide extensive corporate finance services such as bill discounting and equipment financing. They emerged in the mid-1970s to privately raise foreign capital necessary to keep pace with a rapidly growing economy and changing capital needs of businesses. Money brokerage companies broker funding between financial institutions. The first money brokerage company opened in 2000, and ten companies are currently operating.

Insurance Companies

Insurance companies are financial services companies that offer life, nonlife, and hybrid insurance products and services. The Insurance Business Act broadly classifies insurance into life insurance, nonlife insurance, and hybrid insurance. Whereas life insurance gives protection against death in the form of a payment to a beneficiary, nonlife insurance generally provides property and casualty coverage and includes reinsurance and guaranty insurance. Following a major overhaul of the Insurance Act in 2003, hybrid insurance was created as a separate business category in addition to life and nonlife insurance for products providing coverage for illness, injury, and long-term care.

Insurance provided by mutual aid associations such as the Postal Insurance are supervised by competent government departments in lieu of the FSS. Some criticism has been leveled against the uneven playing field for mutual aid insurance providers because of their exclusion from the Insurance Business Act and the more relaxed regulations they face than insurance companies. In response, supervisory standards have been amended to require mutual aid providers that sell insurance to the public in addition to their members to comply with the same level of regulations as insurance companies. In addition, steps have been taken to enable the FSC/FSS to jointly manage and supervise the financial soundness of mutual aid insurance providers in coordination with their competent authorities.

Financial Holding Companies

Financial holding companies were created by the Monopoly Regulation and Fair Trade Act with the goal of facilitating corporate and financial restructuring in the wake of the 1997 Asian financial crisis. However, because of ownership restrictions under the Banking Act, it was virtually impossible to establish a financial holding company with control over a bank. In this context, the Financial Holding Companies Act, which is independent of the Monopoly Regulation and Fair Trade Act, was enacted in October 2000. The Financial Holding Companies Act provides for group-wide supervision of financial holding companies and their subsidiaries.

Under the Financial Holding Companies Act, a financial holding company is defined as a company of which primary business is to control, through the acquisition of the subsidiary's stock or equity, at least one financial institution or one company that carries on finance-related businesses. To be deemed to have control over a subsidiary, a financial holding company must be the largest shareholder of the subsidiary either alone or with specially related persons. In addition, the combined value of stocks and equities held by the financial holding company in the subsidiary must be at least 50 percent of the subsidiary's total assets. Financial holding companies must obtain authorization from the FSC/FSS and may not engage in own business operations except for the purpose of holding subsidiaries.

Other Financial Services Providers

Postal savings and insurance, community credit cooperatives, and other similar enterprises managed or supervised by government or public agencies are exempted from FSS supervision. Moneylenders engage in the business of providing short-term cash and loan services at higher interest rates than rates charged by the commercial banks and other regulated lenders. They fall under FSS supervision if they are registered with two or more municipal administrative authorities or if the aggregate amount of assets from the most recent accounting period exceeds KRW10 billion. In addition to the institution-based supervision of financial services companies that are incorporated and recognized under the law, the FSS carries on function-based supervision of financial services activities whose business boundaries or risk characteristics are not well established. Such activities include foreign currency-related activities, derivatives trading, electronic financial services, and the sale of corporate, individual, and retirement pension products and pension asset management. In addition, non-financial businesses' securities issuance and distribution, disclosure, and accounting are also supervised, monitored, and audited by the FSC/FSS.

3

Prudential Supervision

Classification of Business Activities

For supervision purposes, business activities that financial institutions may engage in are classified into primary businesses, secondary businesses, and concurrent businesses.

3.1 BANK BUSINESSES

3.1.1 Primary business

Banking services that banks may provide as primary businesses are stipulated under the Banking Act and the subordinate regulations. They include deposit and withdrawal services, issuance of certain types of securities and debt for funding, bill discounting services, and foreign exchange services.

3.1.2 Secondary business

The secondary businesses of banks are any services that are ancillary to primary businesses. Under the negative list system, banks may provide new secondary services unless specifically prohibited by the law. Secondary services that are listed under the Banking Act or are announced by the FSC pursuant to article 18(3) of the Enforcement Decree of the Banking Act may be provided without reporting to the FSC/FSS; other secondary services must be reported at least seven days in advance.

3.1.3 Concurrent business

Concurrent businesses are non-banking services that banks may provide together with primary and secondary banking services. They include buying and selling of derivatives, treasuries, municipal bonds, investment advisory services, trust services, credit card services, bancassurance, and insurance agency services.

For classification purposes, concurrent businesses are divided into three categories: Type 1 businesses requiring mandatory reporting to the FSC/FSS when a bank seeks FSC/FSS authorization/approval or registration; Type 2 businesses open to banks under the existing rules and regulations; and Type 3 businesses posing little or no risk to a bank's safety and soundness such as custodian services for asset securitization and consumer credit information services. In contrast to Type 1 businesses, both Type 2 and Type 3 businesses must be reported to the FSC/FSS at least seven days in advance before a bank conducts the businesses.

3.2 NONBANK BUSINESSES

3.2.1 Mutual savings banks

The businesses of mutual savings banks are largely limited to deposit and loan services that are intended to facilitate micro financing. Unlike banks, mutual savings banks may not engage in concurrent businesses. The primary businesses of mutual savings banks include deposit and loan services, bill discounting services, foreign exchange services, custodian services, intermediary services for government- and public enterprises and financial services firms, issuance of debit- and prepaid card, and payment settlement services. Mutual savings banks may also offer securities broker/dealer services, trust services, and brokerage services for merger and acquisition with authorization/approval from the FSC/FSS as provided for under FISCMA. Installment financing services are also open to certain qualified mutual savings banks. The secondary businesses include the sale of loans, agency services for the sale of gift certificates and lottery tickets, and bancassurance services. To engage in the secondary businesses, mutual savings banks must obtain authorization/approval from the FSC/FSS.

3.2.2 Specialized credit finance companies

Specialized credit finance companies may engage in any credit finance business that they have obtained authorization/approval for or registered with the FSC/FSS. Credit card business requires authorization/approval while leasing, installment finance, and new technology venture capital businesses necessitate registration. In addition to primary businesses, they may also carry on secondary businesses by utilizing their workforce, assets, and facilities. Those seeking to provide new secondary businesses must report them to the FSC/FSS at least seven days in advance.

The primary business of credit card companies is to issue credit cards, settle payments, and manage member merchants. Leasing companies engage in the business of providing facility leasing and deferred payment sales to business enterprises. As lessors, leasing companies generate rental income by granting the lessee a right to use, for a certain period of time, specific property that they

own or have paid for. Deferred sale is a method used by leasing companies to deliver specific property to the lessee, which then uses the property with payments in periodic installments. Installment finance companies conclude a sales/purchase agreement for a good or a service with a seller and a buyer, make payment to the seller for the good or the service purchased by the buyer, and receive regular principal and interest payments from the buyer. New technology venture capital companies help technology start-ups raise capital by underwriting debt and equity issues and offering financing to companies with the "venture" designation. Except for new technology venture capital companies, other specialized credit finance companies may also provide loans, bill discounting services, and factoring services.

Concurrent businesses that specialized credit finance companies engage in include insurance agency businesses, electronic financial businesses, collective investment schemes, investment advisory businesses, trust businesses, foreign exchange businesses, and securitization management businesses.

3.2.3 Credit unions

Businesses activities that credit unions may conduct are largely grouped into credit businesses and welfare businesses. Credit businesses cover deposit/savings and loan services, bill discounting, custodian services, and domestic exchange services. While credit unions may carry on businesses secondary to primary credit businesses, they may not engage in concurrent businesses. Under the law, there is no business activity specified as secondary.

Welfare businesses range from mutual aid services to the creation and operation of facilities intended to contribute to the community including social, cultural, and welfare facilities. FSC/FSS authorization/approval must be obtained to provide mutual aid services. Mutual aid services are exempt from the Insurance Business Act.

Non-members as well members of credit unions may make use of services credit unions offer, provided that loans (including discounted bills to the non-members and other credit unions' members combined) do not exceed one-third of new loans made in the year.

3.3 FINANCIAL INVESTMENT SERVICES BUSINESSES

3.3.1 Primary businesses

The primary businesses for FISPs are classified into six types based on the function: dealing, brokerage, collective investment schemes, investment advisory services, discretionary investment services, and trust services. As FISCMA adopts the function-based regulatory approach, FISPs may jointly deliver different types of financial investment services irrespective of the function. However, dealing

and brokerage businesses may not be concurrently conducted with collective investment schemes because of possible conflict of interest.

Dealing

Dealing refers to proprietary buying and selling of a financial investment product through the company's proprietary account. Dealing also covers issuing or underwriting securities on behalf of an issuer and subscribing to the securities or making offers and accepting bids for the securities. Issuing their own securities and trading financial investment products with other dealers or through brokers are excluded from the scope of dealing.

Brokerage

Brokerage refers to the business of non-proprietary buying and selling of financial investment products through customer accounts. Brokerage services also extend to subscribing to an investment product for a customer or making offers and accepting bids for an investment product. Some cases such as making investment recommendations as an introducing broker are not included in the scope of brokerage.

Collective investment scheme

Collective investment schemes (CIS) pool funds from investors and invest in transferable securities and other financial instruments. CIS operators assume the primary responsibility for investing the pooled assets for the benefit of the investors. Certain cases such as pooling funds from 49 investors or less through a private offering or for the purpose of asset securitization are excluded from CIS.

Investment advisory services

Companies offering investment advisory services engage in the business of providing advice on investment products and investment decisions in respect of such matters as securities to be bought and sold, the methods to be employed, and the timing of the buying and selling. However, indiscriminately giving investment advice to unknown persons or without consideration is not considered as investment advisory services.

Discretionary investment services

Companies providing discretionary investment services make partially or wholly discretionary investment decisions and manage the investments on behalf of customers. However, brokers' making partially or wholly discretionary investment decisions in the course of processing orders from customers without additional consideration is not deemed as discretionary investment services.

Trust services

Trust services refer to the business of managing assets of a trust settler for the benefit of the designated beneficiary. However, trust services for certain assets such as secured debentures and copyright are excluded.

Online crowdfunding services

Online crowdfunding services are intermediary services for sale of debt securities, equity securities, or investment contract securities issued by startups via the internet through other's accounts. Online crowdfunding services providers should take steps to ensure smooth exchange of information between issuers and investors on the internet homepage.

3.3.2 Secondary businesses

Because of the negative-list approach that FISCMA takes for the regulation and supervision of financial investment services, there is no business activity specified as secondary. Financial services providers may engage in any businesses that are secondary to their primary businesses unless specifically provided otherwise under the law. To ensure an orderly process for secondary businesses, financial services firms must report to the FSC/FSS seven days in advance a secondary business to be started. The proposed secondary business may be delayed or denied in consideration of the safety and soundness of the company, investor protection, or risks posed to the market.

3.3.3 Concurrent businesses

The range of services that may be offered by financial services companies as concurrent businesses together with primary and secondary businesses vary widely from insurance agency to payment settlement services. For services classified as Type 1 business, regulatory authorization/approval must be obtained. For services classified as Type 2, 3, or 4, the FSC/FSS must be notified of the new business seven days in advance before the start of the concurrent business.

3.3.4 Businesses of financial investment service-related companies

Merchant banks

The primary businesses of merchant banks include short-term financing activities such as buying and selling of short-term notes, facilitating financing for facilities and operating funds, foreign currency-denominated borrowings, foreign investment, debt issuance, and debt guarantee services. As secondary businesses, merchant banks may provide diverse services ranging from cash management account services to factoring, dealing and brokerage of index-linked on-exchange derivatives, commercial real estate rental services, and trading,

brokerage, arrangement, and agency of certificates of deposit. In addition to primary and secondary businesses, concurrent businesses are also open to merchant banks that have FSC/FSS authorization/approval or registration for the business. Such concurrent businesses cover facility lease services, CIS services, trust services except for money trust, dealing and brokerage of securities, foreign exchanges services, credit information services, and management of securitized assets.

Money brokerage companies

Money brokerage companies provide funding brokerage services for large financial institutions including banks, insurance companies, and securities companies through instruments such as money market products, repurchase agreements, and commercial banks. Money brokerage companies are prohibited from conducting financial investment businesses unless they are closely related to money brokerage services and are authorized or approved by the FSC/FSS. Such businesses include brokerage, arrangement, and agency services of foreign currency-denominated certificates of deposit, repurchase agreements, corporate notes, and over-the-counter derivatives that are based on foreign currencies or interest rates.

Short-term finance companies

Short-term finance companies carry on the business of issuing, discounting, trading, arranging, underwriting, and guaranteeing corporate notes with maturities of up to one year. Companies that are licensed in broker/dealer businesses and engage in corporate note transactions are not considered short-term finance companies.

3.4 INSURANCE BUSINESSES

3.4.1 Primary businesses

The primary businesses for insurance companies are life insurance, nonlife insurance, and hybrid insurance. Whereas life insurance provides benefits to a designated beneficiary upon the death of the insured person (or a similar event) in exchange for regularly paid premium, nonlife insurance gives protection for property losses, personal injuries, and liabilities. Life insurance extends to pension insurance including retirement insurance, while nonlife insurance covers fire insurance, marine insurance, auto insurance, and guaranty insurance. Hybrid insurance covers insurance for injuries, illness, and long-term care. To engage in the insurance business, insurance companies must obtain FSC/FSS authorization/approval for each insurance service they intend to provide.

With some exceptions, the Insurance Business Act makes it illegal to carry on both life and nonlife insurance businesses because of differences in risks covered by each business and the risk of losses in one insurance business spilling over to the other.

3.4.2 Secondary businesses

In addition to businesses secondary to primary businesses, insurance companies may engage in dealing and brokerage businesses for collective investment schemes. The Insurance Business Act does not specify secondary businesses for insurance companies, but the FSC/FSS must be notified at least seven days in advance before an insurance company begins a secondary business.

3.4.3 Concurrent businesses

Insurance companies may carry on certain noninsurance businesses concurrently with their insurance business, provided that the noninsurance businesses do not undermine the safety and soundness of the insurance companies or harm policyholders. The concurrent businesses for insurance companies include securitized asset custody services, electronic money transfer services, foreign exchange services, and retirement pension funds. Concurrent businesses must be notified to the FSC/FSS at least seven days in advance.

Business Conduct Regulation

3.5 BANKS

The Banking Act specifies restrictions on certain businesses and credit practices. It also prohibits certain activities and limits the amount of credit that may be extended to a single borrower or counterparty for safety and soundness purposes.

3.5.1 Anti-consumer business practices

Internal control for prevention of conflict of interest

Banks must operate with Chinese walls and other internal controls that are designed to identify, evaluate, and prevent any conflict of interest that may arise with their customers. Such systems must be integrated into the bank's overall internal control system.

Prohibition on tie-in

When making a loan, banks may not demand a tie-in such as a compensating deposit from borrowers and unjustified claim or security interest from borrowers or guarantors when securing third-party collateral or debt guaranty for a loan.

3.5.2 Prohibitions on investment and lending

Limits on investment in securities

Banks are prohibited from engaging in certain investment activities for safety and soundness purposes. In respect of securities investment, banks must limit their exposure to securities that are susceptible to extreme price volatility or liquidity risks within a reasonable level proportionate to the bank's capital available to readily meet potential losses. Accordingly, investment in equity securities and other types of securities with maturities of over three years excluding sovereign bonds and monetary stabilization bonds are capped at 100 percent of the bank's capital.

Property ownership restrictions

Ownership of land and other real properties that are intended for business operations is limited to 60 percent of the bank capital. The limitation is intended as a safeguard against excessive or prolonged exposure to illiquid assets. The 60-percent ownership rule applies to domestic banks, specialized banks, and foreign bank branches. Ownership of real properties for purposes other than business operations is prohibited unless ownership stems from the acquisition of collateral from defaulted borrowers. The disposition of such property, however, must be completed within three years from the date of the acquisition.

Prohibited lending practices

Banks are prohibited from directly or indirectly offering a loan to borrowers with the bank's shares as collateral, lending to borrowers in exchange for the purchase of the bank's shares, or providing a loan to the bank's employees.

3.5.3 Credit extension limits

Credit extension is regulated to mitigate counterparty credit risk and promote a balanced allocation of financial resources. Whereas the term "lending" generally refers to a loan lent to a borrower and a loan guaranty the borrower has made available to the lender for another party, the term "credit extension" refers to a broader range of lender-provided credits. Thus, credit extension includes not only a loan and a loan guaranty, but also other at-risk exposures to the borrower in the form of line of credit, commercial papers, bonds, and other such instruments in addition to any other transactions that obligate a borrower to pay money or its equivalent to lender. Lending was replaced with credit extension in the Banking Act in April 1999 in the wake of the Asian financial crisis as part of a broad banking sector reform aimed at instituting stricter rules and regulations on corporate lending.

Credit extension to a single counterparty

Credit extension to a single person or a single business may not exceed 20 percent of the bank's capital, respectively. For internet banks, they may extend credit up to an amount equivalent to 15 percent of the bank capital to a single person and may not provide credit to businesses except for small- and medium-sized businesses.

Credit extension to a group of counterparties

The limit on credit extension to a single counterparty and other counterparties that share credit risk with the single counterparty—collectively referred to as the "same counterparty"—is set at 25 percent of the bank's capital. For internet banks, the maximum credit extension to the same counterparty is limited to 20 percent of the bank capital.

Large credit extensions

Credit extension to a single person, a single business, or the same counterparty exceeding 10 percent of the bank's capital, respectively, is deemed a large credit extension. The aggregate amount of such large credit extensions must be less than 500 percent of the capital.

Credit extension to large shareholders

Credit extension to each shareholder may not exceed 25 percent of the bank's capital or an amount equivalent to the shareholder's equity in the bank, whichever is smaller. In addition, the aggregate amount of credit extended to the bank's large shareholders may not exceed 25 percent of the bank's capital. Unlike other banks, internet banks may not extend credit to their large shareholders.

Credit extension to subsidiaries

Credit extension to each subsidiary of a bank may not exceed an amount equivalent to 10 percent of the bank's capital. In addition, the aggregate amount of credit extended to the bank's subsidiaries must be less than 20 percent of the bank's capital.

Parent-subsidiary credit extension

No credit may be extended by a subsidiary bank to its parent bank. Credit extension to a single subsidiary bank may not exceed 10 percent of the subsidiary bank's capital, and the aggregate amount of credit extensions from the parent bank to its subsidiary banks may not be greater than 20 percent of the subsidiary banks' capital.

Lending to bank employees

Banks may not provide a loan to the employees of its parent bank, subsidiary banks, and other subsidiaries in addition to its own employees except for micro loan that is specified by the FSC/FSS.

3.6 NONBANK FINANCIAL INSTITUTIONS

Each group of nonbank financial institutions—mutual savings banks, specialized credit finance companies, and credit unions—are subject to different sets of restrictions and limitations concerning business activities and credit extensions.

3.6.1 Mutual savings banks

Credit extension limits

Although credit extension limits for mutual savings banks are similar to those for banks in that they are proportionate to the capital, there is an extra layer of limits that are based on the absolute amount of lending for mutual savings banks. For a single counterparty, credit extension may not exceed 20 percent of the mutual savings bank's capital. An additional limit of KRW10 billion, KRW5 billion, and KRW800 million is applicable where the counterparty is a corporate borrower, a self-employed business owner, and an individual, respectively.

Moreover, the aggregate amount of credit extensions to a same counterparty—a counterparty and any group of connected counterparties—may not exceed 25 percent of the mutual savings bank's capital. The aggregate amount of large credit extensions—credit extension to a single counterparty exceeding 10 percent of the capital—to a single counterparty must be less than 500 percent of the capital.

Credit extension limits concerning affiliated mutual savings banks

Credit extension limits that mutual savings banks belonging to a business group are specifically required to comply with were instituted in September 2010. For such mutual savings banks, the aggregate of credit extendable to a single counterparty must be less than 20 percent of the parent mutual savings bank's capital on a consolidated basis. Similarly, the aggregate of credit extendable to a same counterparty—a counterparty and any group of connected counterparties—may not surpass 25 of the parent mutual savings bank's capital on a consolidated basis. Thus, mutual savings banks affiliated in a business group are required to satisfy credit extension limits on a consolidated basis in addition to those applicable to a single counterparty and a same counterparty as a stand-alone mutual savings bank.

Other limits on credit extension

Mutual savings banks must also comply with certain requirements when extending credit to individual borrowers and small businesses. For mutual savings banks operating in major metropolitan areas, at least 50 percent of the aggregate credit extended must be made to individual borrowers and small businesses (40 percent for mutual savings banks operating in other areas). Additionally, credit extension for real estate project finances and moneylenders may not exceed 20 percent and 15 percent of the total credit, respectively.

Securities investment

The aggregate amount of securities investment may not exceed 100 percent of the mutual savings bank's capital. Some limits also apply to individual securities investments including the following:

- (a) Stock investments may not exceed 50 percent of the capital;
- (b) The aggregate holdings in stocks and bonds of a company may not exceed 20 percent of the capital, and stock holdings must be less than 15 percent of the company's outstanding shares.
- (c) Where the company in subparagraph (b) above is an affiliated company, the aggregate stock- and bond holdings must be less than 5 percent of the capital;
- (d) Where the company in subparagraph (b) above is unlisted, the aggregate stock- and bond holdings may not surpass 10 percent of the capital, and stock holdings must be less than 10 percent of the company's outstanding shares;
- (e) The aggregate investments in securities issued by collective investment schemes investing in real estates, special assets, and mixed assets must be within 20 percent of the capital; and
- (f) Foreign securities investments must be within 5 percent of the capital.

Some securities are exempt from the above investment limits. Such securities include:

- (a) Securities such as treasuries, municipal bonds, and monetary stabilization bonds held for reserve purposes;
- (b) Securities equivalent to deposits in accordance with the Depositor Protection Act;
- (c) Securities issued by money market funds; and

- (d) Securities obtained as a result of the acquisition of collateral from defaulted borrowers.

Borrowing limits

Mutual savings banks may not borrow funds in excess of an amount equivalent to their capital without FSC/FSS approval. Under regulations, however, approval is deemed to have been granted for borrowings not exceeding 300 percent of the capital. Mutual savings banks may borrow only from financial institutions, the Korea Deposit Insurance Corporation, and the Korea Federation of Savings Banks. Bond issuance is also an option open to them.

Reserve requirements

Mutual savings banks must hold in reserve at least 10 percent of installment deposits and installment savings and 5 percent of other deposits net of the capital in the form of cash, deposits in financial institutions, deposits in the Korea Federation of Savings Banks (80 percent at a minimum), or securities prescribed by the FSC/FSS such as bonds issued by the government or state-affiliated enterprises.

Prohibited business activities

Under the law, mutual savings banks are prohibited from acquiring non-business purpose real estate, providing collateral or guaranty for a loan, extending credit in exchange for the acquisition of the mutual savings bank's shares or for speculative purposes, or offering money, services, or other pecuniary advantage to large shareholders without justifiable reasons.

Restrictions on transactions with large shareholders

In principle, mutual savings banks may not extend credit to shareholders, executives, and employees who hold more than 2 percent of voting shares and persons specially related with them including family members and relatives. In addition, mutual savings banks that intend to acquire shares issued by large shareholders and their specially related persons in excess of 0.01 percent of the mutual savings bank's capital or KRW1 billion, whichever is smaller, must obtain approval from all board members in advance, immediately notify it to the FSC/FSS, and disclose it on the internet homepage. Prior approval from the FSS is also a must where mutual savings banks and their large shareholders sign an agreement to purchase property. Discounting of commercial bills issued by large shareholders is limited to 20 percent of the capital.

In addition, large shareholders of mutual savings banks are expressly prohibited from engaging in the following activities that are not in the interest of mutual savings banks:

- (a) Demanding access to nonpublic information for the purpose of wielding undue influence;
- (b) Exerting undue influence over the management or personnel matters of mutual savings banks in collusion with other shareholders in return for consideration such as pecuniary gains;
- (c) Demanding mutual savings banks to commit illegal acts; and
- (d) Demanding mutual savings banks to engage in non-arm's length transactions with themselves or a third-party on conditions that are not consistent with conventionally accepted conditions.

3.6.2 Specialized credit finance companies

Because specialized credit finance companies are not deposit-taking institutions and perform only limited credit intermediation functions, they are excluded from credit extension limits for a single counterparty and a same counterparty; they are also excluded from large credit extension rules. In respect of credit extension to a major shareholder of a specialized credit finance company, however, credit extension limit is set at 50 percent of the company's capital. Ownership of shares issued by large shareholders is also restricted to 150 percent of the capital.

Restrictions on real property acquisition

Specialized credit finance companies are prohibited from acquiring ownership of real properties for purposes other than business operations. Ownership of real properties for business operation purposes is limited to 100 percent of the capital.

Restrictions on leverage ratio

Specialized credit finance companies are subject to leverage restrictions. Leverage ratio—defined as a ratio of aggregate assets to capital—may not exceed 6 (or 600 percent) for credit card companies; that is, aggregate assets may not exceed capital by a factor of 6. For other specialized credit finance companies, the leverage ratio must be less than 10.

Restrictions on secondary businesses of credit card companies

Credit card companies may offer cash advance and loan services to their card members as secondary businesses in addition to their primary businesses of credit card services. As a safeguard to prevent credit card companies from concentrating in cash advance and loan services, rules on the secondary businesses of credit card companies provide that the average amount of receivables from cash advance and loan services per quarter may not be greater than the aggregate of average credit card receivables per quarter and gross debit card purchases per quarter.

Restrictions on loan businesses of specialized credit finance companies

Receivables generated from lending businesses such as unsecured household loans must be less than 30 percent of the total assets. For calculation, receivables are averaged on a quarterly basis. Credit card assets are excluded.

3.6.3 Credit unions

Credit extension limits

Credit extension to a single counterparty may not surpass the larger of either 20 percent of the capital or 1 percent of the total assets from the previous year's balance sheet. The maximum amount of credit extension permitted differs depending on the case; where 20 percent of the capital is greater than 1 percent of the total assets, the maximum credit extension is KRW5 billion (for those with capital in excess of KRW50 billion, up to KRW10 billion may be extended to corporate members.); otherwise, it is restricted to KRW700 million. Given the asset structure of credit unions that is heavily concentrated in household loans, there is no limit on credit extension to a same counterparty—a counterparty and any group of connected counterparties—or large credit extension.

Reserve requirements

Credit unions must hold at least 10 percent of the member deposits received in the previous month as redemption reserve, and at least 50 percent of the reserve must be deposited at the national federation and the rest held in the form of cash or deposits at other financial institutions.

Securities investment

Securities investment by credit unions are subject to regulatory restrictions in terms of asset class and maximum investment amount. In respect of asset classes, credit unions may invest in (i) bonds issued by the government and state-affiliated enterprises; (ii) corporate bonds; (iii) money market securities of money market funds as provided by FISCMA; and (iv) notes issued or guaranteed by KDIC-insured financial institutions. Credit unions may invest in corporate bonds up to an amount equivalent to either 30 percent of total assets or 60 percent of the aggregate of securities purchases and deposits placed at the national federation and KDIC-insured financial institutions, whichever is smaller. The maximum investment amount for collective investment securities, beneficiary certificates, and notes issued by or guaranteed by KDIC-insured financial institutions is 100 percent of the capital. Where notes are issued by a single company, the maximum amount must not exceed either 20 percent of the capital or 20 percent of surplus funds (capped at KRW2 billion), whichever is larger.

Restrictions on real property acquisition

Credit unions may only own real properties intended for business operations in addition to those obtained as a result of foreclosure.

3.7 FINANCIAL INVESTMENT SERVICES PROVIDERS

3.7.1 Common business activities

FISMA has set forth principles and mechanisms that are specifically designed to address conflict of interest for FISPs. Among them is the assumption and expectation of good faith effort from FISPs to conduct their business fairly and honestly and not to harm investors for their own or another party's benefit. To this end, FISPs must be able to identify and assess all potential conflict of interest on an ongoing basis and manage them appropriately in accordance with the internal control procedures.

Because of significant potential for conflict of interest that can arise from information exchanges or communications between different financial investment service businesses within a company, FISPs must take the due care to set up information barriers pertaining to the buying and selling of investment products, the ownership of such products, and other material undisclosed information. FISPs must also operate with appropriate Chinese walls to prevent their employees from assuming more than one position in multiple financial investment service businesses. They must also ensure appropriate walls for the use of office spaces and IT equipment and facilities.

3.7.2 Sales and investor solicitation

For investor protection purposes, financial investment service regulation divides investors into retail investors and institutional investors on the basis of their investment purpose, level of investment expertise, and risk appetite with a particular emphasis on protecting retail investors.

Know-your-customer rule

When soliciting a retail investor, the FISP must comply with the so-called "know-your-customer" rule by obtaining certain investor information-such as investment objectives, asset holdings, and previous investment experiences-and maintain records of investor signature and acknowledgement. Information verified by an investor must be immediately shared with the investor.

Principle of suitability

When soliciting a retail investor, the FISP must not offer any investment recommendation that is not suitable to the investor in consideration of the

investor's investment objectives, asset holdings, or previous investment experience.

Principle of appropriateness specifically for complex investment products

Before the introduction of the principle of appropriateness, retail investors seeking to invest in complex products without a seller's solicitation were not protected by law as investor protection measures such as the principle of suitability or duty to explain were applied only in case FISPs solicited retail investors first. To provide minimum protection for such investors, the principle of appropriateness was instituted.

Under the principle of appropriateness, FISPs must promptly inform an investor considering investing in complex products without a seller's solicitation when they determine that the product is not appropriate for the investor in consideration of the investor's investment objectives, asset holdings, and previous investment experience and must obtain investor confirmation in writing or through signature or recordings.

Duty to explain (product guidance)

When soliciting a retail investor, the FISP must take the due care to explain investment risk and other specific characteristics of the product it recommends. It must also retain records of investor acknowledgement of the product guidance from the provider. The duty to explain an investment product includes the duty not to make any deliberate omission or misrepresentation about the investment product.

Duty to disclose investor solicitation practices

FISPs must set and disclose to the general public the rules, standards, and procedures with which they must comply when soliciting an investor. In addition, differentiated information must be made available to the public when financial investment service companies solicit retail investors for derivatives and other complex investments.

Introducing broker

FISPs may employ introducing brokers who solicit investors or offer investment advice to investors on behalf of FISPs. Introducing brokers must register with the FSC/FSS. Once registered, they must comply with a set of restrictions and prohibitions that prevent them from entering into a contract on behalf of FISPs or investors, receiving money from investors, brokering money lending, buying and selling financial investment products on commission, and signing an employment agreement with two or more FISPs.

Other restrictions and prohibitions

FISPs may not use nonpublic information for their own or a third-party's benefits without justifiable reasons. They may also not compensate for partial or full losses incurred to investors or promise to do so in advance. Offering or promising to offer certain profits to investors is also prohibited as such practices go against the principle that investors must take responsibility for their investments and associated risks. In addition, FISPs must establish and disclose on the internet homepage their standards and procedures for fee calculation. The standards may not be discriminatory without justifiable reasons. FISPs are also required to immediately deliver contracts and related documents to investors after they sign a contract except where otherwise stated in law. In the case of an investment advice contract, investors are given a 7-day cooling off period to cancel the contract, and the cancellation takes effect immediately when investors send a written notice to FISPs about their intent to cancel the contract.

3.7.3 General broker/dealer requirements

In addition to the common rules and regulations above, FISPs acting as a broker/dealer must observe the following requirements to provide added protection to investors.

Broker/dealer identification

When executing a customer order to buy or sell an investment product, the person handling the order must disclose to the customer whether he or she is a broker or a dealer.

Express customer order

Brokers and dealers must not engage in the buying and selling of investment products through a customer account without receiving an express order to buy or sell from the customer or an agent of the customer.

No abuse of information

Brokers and dealers must not exploit their superior investment and trading information to the detriment of their customers or engage in activities that undermine the integrity of the market.

Notification of settled transaction

When a customer order to buy or sell is executed and settled, brokers and dealers must provide the customer with detailed description of the transaction including the price at which the order was executed and the fees charged within the 20th day of the following month from the date of the settlement.

Credit extension restrictions

Under FISCMA, credit extension by a dealer or a broker means lending money or securities to investors. On one hand, credit extension provides liquidity to securities markets and facilitate trading. However, it may also encourage speculation and distort markets. So FISCMA and related rules and regulations set out specific standards and procedures for credit extension. For instance, dealers may not lend money or extend other credits to investors with intent to solicit an investor to buy securities within three months after they underwrites the securities.

Segregation of proprietary and customer assets

FISPs are required to segregate their proprietary assets from customer assets at all times. All customer investment securities must be promptly deposited at the Korea Securities Depository.

3.8 INSURANCE COMPANIES

3.8.1 Asset management restrictions

The Insurance Business Act provides detailed rules for insurance companies' asset management in order to ensure safe and sound asset management to the benefit of policyholders. The general asset management restrictions and requirements for insurance companies are provided below:

- (a) Real properties may not be acquired for non-operational purposes;
- (b) Credit extension in the form of a loan is prohibited for speculative securities investment or for the acquisition of the shares of the insurance company extending the credit;
- (c) Promising assets as collateral or guaranty for a third-party is forbidden;
- (d) Credit extension to an individual or an entity (and any connected parties) may not exceed 3 percent of the insurance company's assets;
- (e) The aggregate ownership of equity and debt securities issued by an entity (and any connected parties) may not exceed 7 percent of the insurance company's assets;
- (f) The aggregate amount of credit extended to an individual or an entity and the ownership of equity and debt securities issued by the same individual or entity may not exceed 12 percent of the insurance company's assets;

- (g) Large credit extension—defined as any amount in excess of 1 percent of the company’s assets—to an individual (and any connected parties), an entity (and any connected parties), or a controlling shareholder of the insurance company may not exceed 20 percent in aggregate;
- (h) Credit extensions to a controlling shareholder (an entity) and a subsidiary in aggregate may not exceed 40 percent of the insurance company’s capital. If this amount is greater than the amount equivalent to 2 percent of the insurance company’s assets, the latter is the maximum permitted;
- (i) The aggregate amount of equity and debt securities issued by a controlling shareholder (an entity) and a subsidiary may not exceed 60 percent of the insurance company’s capital. If this amount is greater than the amount equivalent to 3 percent of the insurance company’s assets, the latter is the maximum permitted;
- (j) Credit extension to a subsidiary (and any connected parties) of the insurance company may not exceed 10 percent of the insurance company’s capital; and
- (k) The ownership of real estates must be less than 25 percent of an insurance company’s assets.

3.8.2 Restrictions on dealing with subsidiaries and controlling shareholders

Subsidiary

A company owned by an insurance company in excess of 15 percent of the company’s outstanding shares is deemed a subsidiary of the insurance company. An insurance company that seeks to acquire a subsidiary that engages in financial businesses, credit information businesses, and insurance policy maintenance, cancellation, and amendment businesses must obtain approval from the FSC/FSS. The acquisition of others performing support services to an insurance company such as claims adjustment services providers and insurance agency services providers requires notification to the FSC/FSS.

Credit extension to large shareholders

The Insurance Business Act also provides restrictions on an insurance company’s credit extension to its controlling shareholder—a person holding more than 10 percent of the voting shares or exercising dominant influence on managerial matters—to prevent shareholder abuses. For instance, a vote by the board of directors of an insurance company and a public disclosure are required before credit extension in excess of 0.01 percent of the insurance company’s capital or KRW1 billion—whichever is smaller—is made. The same is required for the acquisition of equity or debt securities issued by a controlling shareholder.

Non-arm's length transactions with related parties

The Insurance Business Act prohibits insurance companies from engaging in non-arm's length transactions with related individuals or entities to prevent risk transfers from their controlling shareholders or subsidiaries. Such transactions include (but are not limited to):

- (a) Credit extension to controlling shareholders or subsidiaries in support of recapitalization in another company;
- (b) Asset transfers without consideration to controlling shareholders or subsidiaries; and
- (c) Any non-arm's length transaction and credit extensions unequivocally disadvantageous to the insurance company.

3.8.3 Insurance solicitation

Solicitation is the act of soliciting, negotiating, or procuring the purchase of an insurance product from consumers. For consumer protection, the Insurance Business Act limits individuals and entities that may engage in insurance solicitation to the following:

- (a) Insurance company executives and employees (excluding the company's chief executive officer, outside directors, and auditors and members of the audit committee);
- (b) Insurance solicitors who are registered with insurance associations and employed by an insurance company; an insurance solicitor must be employed by only one insurance company except where an insurance solicitor employed by a life insurance company solicits a buyer for a nonlife insurance company (and vice versa);
- (c) Independent insurance agents (also called insurance agencies) that sell insurance products from multiple insurance companies and conclude an insurance contract on behalf of an insurance company;² and
- (d) Insurance brokers who are FSS-registered independent intermediaries for insurance buyers and sellers; unlike independent insurance agents, insurance brokers may negotiate insurance premiums and contract terms with insurance companies..

² Bancassurance enabling banks, FISPs, and other authorized financial services companies to sell insurance products as independent insurance agents was introduced in May 2003. The authorized bancassurance sellers may solicit insurance buyers face-to-face at designated places or on the internet homepage only.

3.9 MONEYLENDERS

Moneylenders are broadly grouped into private moneylenders providing short-term cash and loan services, collection agencies acquiring debt past due or in default and retrieving delinquent funds, and peer-to-peer lenders providing loan information services and connecting lenders and borrowers on an online platform. Although registration with the FSC/FSS and/or municipal administrative authorities is required, some opt to remain underground. To encourage registration of private moneylenders and reduce underground economic activities, registered moneylenders are permitted to charge higher interest rates than commercial banks and other regulated lenders under the Act on Registration of Credit Business and Protection of Finance Users. As of October 2019, 1,273 moneylenders were registered with the FSC/FSS.

3.9.1 Registration

The following moneylenders must register with the FSC/FSS:

- (a) Moneylenders registered with two or more municipal administrative authorities;
- (b) Moneylenders that intend to provide debt collection services;
- (c) Moneylenders that belong to a business group subject to cross holding restrictions;
- (d) Moneylenders whose largest shareholder is a financial institution that provides lending services;
- (e) Moneylenders with the aggregate amount of assets from the most recent accounting period in excess of KRW10 billion and the outstanding debt to be collected in excess of KRW5 billion; and
- (f) Peer-to-peer lenders.

Other moneylenders must complete registration with the competent municipal administrative authorities. Registration must be renewed every three years to avoid cancellation. Registration requirements by the FSC/FSS differ from those imposed by municipal administrative authorities. For example, the minimum capital required by the FSC/FSS is KRW300 million (KRW5 million for collection agencies) while the minimum capital requirements by municipal administrative authorities are KRW50 million for corporations and KRW10 million for individuals.

3.9.2 Requirements and prohibitions

Matters that are specified in the Act on Registration of Credit Business and Protection of Finance Users must be indicated on contract terms and conditions

and be notified to borrowers. Matters that are considered specifically important such as lending amount and rate and repayment period must be written in hands. Violation of the requirements may lead to monetary penalty.

Lending amount must not surpass a borrower's debt-servicing ability considering the borrower's income and assets. Lending rates—any return that moneylenders receive in exchange for a loan—must not be higher than 24 percent per annum.

3.9.3 Other safeguards for borrowers

Moneylenders with assets greater than KRW50 billion and collection agencies with assets exceeding KRW1 billion are required to appoint a person responsible for establishment of borrower protection plans and compliance with laws and regulations. To ensure sound work ethics, the appointee is prohibited from engaging in regular activities at other for-profit entities. In addition, moneylenders belonging to a business group subject to cross holding restrictions may not extend credit exceeding 100 percent of the capital to shareholders.

Capital Adequacy

3.10 BANKS

The Basel III capital framework for domestic banks began on December 1, 2013. As a result of the implementation of the new capital standards since then, the minimum capital standards and the phase-in arrangements for domestic banks are virtually identical to those put forth by the Basel Committee on Banking Supervision.

In full compliance with the Basel Committee's stricter capital standards, banking regulations provide that domestic banks' common equity tier 1 (CET1) must be at least 4.5 percent of the risk-weighted assets and tier 1 capital 6 percent of the risk-weighted assets. Total regulatory capital, which consists of tier 1 capital and tier 2 capital, must be at least 8 percent of the risk-weighted assets at all times. Capital conservation buffer and countercyclical capital buffer ("CCyB") were also introduced in January 2016. In addition to the Basel capital standards, banks must set aside 10 percent of the net profit, at a minimum, when they pay dividends to shareholders until its total amount reaches their capital stock.

Table 1.

Basel III Capital Requirements and Phase-in Arrangements

(Percent)

	2017	2018	2019
CET1 ratio	4.5	4.5	4.5
Capital conservation buffer	1.25	1.875	2.5
CET1 ratio plus capital conservation buffer	5.75	6.375	7.0
Tier 1 capital	6.0	6.0	6.0
Total regulatory capital	8.0	8.0	8.0
Total regulatory capital plus capital conservation buffer	9.25	9.875	10.5

The domestic systemically important bank (D-SIB) framework was instituted in December 2015. D-SIBs are designated on an annually basis in consideration of 11 indicators including total exposures, assets and liabilities in other financial institutions, assets under custody, outstanding derivatives, and household exposures.

Table 2.

Capital Requirements

(Percent)

	Minimum Requirements	Capital Conservation Buffer	Countercyclical Capital Buffer	
			Non D-SIB	D-SIB
CET1 capital	4.5	7	7-9.5	8-10.5
Tier 1 capital	6	8.5	8.5-11	9.5-12
Tier 2 capital	8	10.5	10.5-13	11.5-14

3.11 NONBANK FINANCIAL INSTITUTIONS

Minimum capital requirements became effective for mutual savings banks on December 31, 1998. The minimum capital rules have since been incorporated into the supervisory guidance standards and used for prompt corrective action evaluations. As part of enhanced prudential standards for mutual savings banks, the minimum capital requirement was set to be raised from 5 percent to 7 percent effective July 1, 2014, for mutual savings banks with KRW2 trillion or more in assets at the end the previous accounting period. For those with less than KRW2 trillion in assets, the minimum ratio has been set at 6 percent from July 1, 2014, to June 30, 2016, and to 7 percent effective July 1, 2016. Beginning in January 2018, mutual savings banks with KRW1 trillion or more in assets must comply with the 8 percent minimum capital requirement.

For prompt corrective action, a mutual savings bank with assets in excess of KRW2 trillion is issued a management improvement recommendation (MIR) for minimum capital ratio below 7 percent, a management improvement demand (MID) for minimum capital ratio below 5 percent, and a management improvement order (MIO) for

minimum capital ratio below 2 percent. Similarly, a mutual savings bank with assets less than KRW2 trillion is issued MIR for minimum capital ratio below 7 percent, MID for minimum capital ratio below 5 percent, and MIO for minimum capital ratio below 2 percent.

A uniform rate of 7 percent minimum capital requirement applies to specialized credit finance companies with the exception of credit card companies to which an 8 percent minimum capital requirement applies. The minimum ratio for credit unions is 2 percent.

3.12 FINANCIAL INVESTMENT SERVICES PROVIDERS

The capital adequacy framework for securities companies was first instituted in April 1997 with the introduction of net operating capital ratio (NOCR). Following the enactment of FISCMA in 2009, it underwent dramatic reform to cover all FISPs including futures companies, asset management companies, and real estate trust companies under the principle of the same regulation for the same business activity. Five years later in 2014, net capital ratio (NCR), a variant of NOCR, was developed to better reflect FISPs' loss-absorbing capacity and risk exposures on a consolidated basis. With the arrival of NCR, two capital adequacy indicators have come into use to assess the capital standing of FISPs. FISPs that are licensed as brokers and dealers (Tier 1 group) are subject to the NCR requirements and the others excluding Tier 2 group remain subject to the NOCR requirements. Tier 2 group is exempt from both NCR and NOCR requirements given the nature of its business activities. Tier 2 group comprises collective investment services operators, and Tier 3 group companies providing investment advisory services, discretionary investment services, and trust services. FISPs that opted for early NCR adoption became subject to NCR in January 2015 and the others that did not opt for it in the following year. In February 2016, the FSS fine-tuned the criteria used to calculate risk amounts reflecting changes in market conditions including individual interest rate risk amount determination for asset-backed securities and the addition of more qualified foreign credit rating service providers. As a follow-up to the "Plans for the Improvement of Capital Regulation to Facilitate Productive Finance" the FSS took steps to reduce funding cost for small- and medium-sized startups, while raising risk management standards for real estate investment. The FSS also made partial remedial revisions to the risk amount component in the net capital ratio calculation.

3.13 INSURANCE COMPANIES

Risk-based capital (RBC) replaced solvency regime for insurance companies in April 2009 and took effect in April 2011 following a two-year grace period that had been given to ensure a smooth transition to the new capital regime. The Insurance Business Act, the governing legislation for insurance business, has set the minimum RBC ratio of 100 percent. RBC functions as a minimum regulatory capital for insurance companies to

be determined on the basis of the risks to which an insurance company is exposed. It is expressed as a ratio of available capital to required capital. In principle, available and required capital must be calculated on a consolidated basis excluding non-insurance companies, non-financial entities, and foreign insurance companies if their data consistency, sufficiency, and objectivity are not satisfactory. Where there is no entity to be consolidated, available and required capital may be calculated on a stand-alone basis. For insurance supervision, the RBC ratio provides the basis for the supervisory rating of insurance companies and any follow-up prompt correction action needed.

3.13.1 Available capital

Available capital—the numerator of the RBC ratio—is the risk buffer available to cover any unpredicted losses that insurance companies may sustain; it is similar to solvency margin under the solvency margin regime. Available capital is calculated by first aggregating an insurance company's core capital, which primarily consists of capital stock (paid-in capital and capital surplus), retained earnings, and accumulated other comprehensive income, and supplementary capital such as subordinated debt and loan loss reserves, then deducting from the aggregate capital items including prepaid expenses, deferred acquisition cost, and goodwill, and any capital shortfalls of the insurance company's subsidiaries.

Subordinated debt is deemed as capital to a certain extent; it may be included in tier 2 capital within 50 percent of the capital. A 20-percent haircut is applied per annum where the remaining maturity is five years or less. Subordinated debt must meet strict requirements to be treated as tier 2 capital. For instance, it must be unsecured and non-redeemable without FSS approval and mature at least five years later. Issuance of subordinated debt must be within 400 percent of the net capital as provided by the Commercial Act and 100 percent of the capital. The purpose of the issuance is also limited to avoiding losses caused by maturity mismatch or ensuring financial soundness.

3.13.2 Required capital

Required capital—the denominator of the RBC ratio measuring the insurance company's total risk—is capital calculated from the insurance company's underlying exposures to insurance risk, interest rate risk, market risk, credit risk, and operational risk considering correlation coefficients.

Prudential Standards

3.14 BANKS

Banking institutions must comply with certain safety and soundness standards in respect of asset quality, liquidity, and other critical aspect of their banking operations. Banks that fail to meet the expected safety and soundness standards are subject to supervisory actions that range from recapitalization and dividend payout restrictions to prompt corrective action.

3.14.1 Liquidity Coverage Ratio

Liquidity is a measure of how well a bank is prepared to convert assets into cash with little or no loss of value in order to meet its liquidity needs in various liquidity scenarios. To help ensure effective bank liquidity supervision, the FSC/FSS has put into effect at the beginning of 2015 the Basel III Liquidity Coverage Ratio (LCR) regime, which replaced the previous won-denominated liquidity ratio requirements that applied to banks.

As set by the Basel Committee on Banking Supervision, the LCR is intended to improve the resilience of a bank's liquidity capacity by requiring high-quality liquid assets sufficient to enable the bank to cope with a "significant stress scenario" lasting up to 30 days. The LCR is defined as a simple ratio of stock of high quality liquid assets to the total net cash outflows over the next 30 calendar days. Commercial banks and specialized banks must maintain a minimum LCR of 100 percent. For foreign bank branches, the minimum LCR is 60 percent. In addition, banks are subject to the net stable funding ratio requirement that supplements the LCR with a time horizon of one year.

3.14.2 Net Stable Funding Ratio

Net stable funding ratio (NSFR) is intended to improve long-term resilience by requiring banks to maintain a stable funding profile in regards to on- and off-balance sheet activities. The standard requires the available amount of stable funding to be over the required amount of stable funding. Meeting the NSFR enables banks to maintain sufficient funds to avoid liquidity risk. The NSFR became internationally effective in January 2018. The minimum NSFR requirements for banks excluding the Export-Import Bank of Korea is 100 percent. Internet banks must also comply with the minimum requirement beginning in January 2020.

3.14.3 Foreign exchange management and requirements

Banks and other financial institutions that are authorized to engage in foreign exchange-related business activities pursuant to the Foreign Exchange Transactions Act ("foreign exchange-authorized institutions") are required to systemically and safely manage foreign exchange liquidity and foreign exchange risk.

The supervisory tools intended to monitor foreign exchange liquidity are foreign currency liquidity coverage ratio, foreign exchange liquidity ratio and stable foreign exchange funding ratio. For the management of foreign exchange risk, open foreign exchange position requirements are in place.

Foreign Currency Liquidity Coverage Ratio

The FSC/FSS has been calculating foreign currency liquidity coverage ratio ("foreign currency LCR") since January 2015 in line with the Basel recommendations and monitoring domestic banks since July of the same year. Later in 2017, the foreign currency LCR regime became mandatory. To help reduce banks' compliance burden, banks that are subject to foreign currency LCR requirements are exempt from foreign exchange liquidity ratio requirements.

The foreign currency LCR, defined as a ratio of the stock of high quality liquid assets denominated in foreign currencies to the total net cash outflows denominated in foreign currencies over the next 30 calendar days, must be 80 percent at a minimum for domestic banks and 60 percent for the Korea Development Bank. The foreign currency LCR requirement does not apply to foreign bank branches, the Export-Import Bank of Korea, and certain banks of which foreign currency-denominated liabilities are less than USD500 million and the foreign currency-denominated liabilities-to-total liabilities ratio is less than 5 percent.

Foreign Exchange Liquidity Ratio

Banks are subject to a three-month foreign exchange liquidity ratio requirement, which is defined as a ratio of foreign currency-denominated assets to foreign currency-denominated liabilities maturing within three months. They must also comply with one-month maturity mismatch ratio (gap ratio) requirements. For foreign-exchange authorized banks, the minimum three-month foreign exchange liquidity ratio is 85 percent. The minimum one-month mismatch ratio—defined as a ratio of net foreign currency-denominated assets (net of foreign currency-denominated liabilities) to aggregate foreign currency-denominated assets—is -10 percent.

Stable Foreign Exchange Funding Ratio

Domestic banks are subject to foreign currency funding ratios relative to the outstanding foreign currency lending that are designed to prevent maturity mismatch between foreign currency borrowing and lending. The stable foreign exchange funding ratio—defined as a ratio of foreign currency funding with maturity longer than a year to foreign currency lending with maturity longer than a year—must exceed 100 percent (excluding the Export-Import Bank of Korea which is subject to the 90 percent requirement). Financial institutions with the outstanding amount of foreign currency lending less than USD50 million are exempt from the stable foreign exchange funding ratio requirement.

Open Foreign Exchange Position

Foreign exchange position refers to the difference between foreign currency-denominated assets and liabilities. For foreign-exchange authorized banks, the limit for aggregate foreign exchange positions (spot and forward positions) is set at 50 percent of the capital. The limit for the net forward position is 40 percent of the capital for foreign exchange-authorized banks and 200 percent for foreign bank branches.

3.14.4 Loan-to-Deposit Ratio

Financial institutions are required to maintain their won-denominated loan-to-deposit ratio on a monthly average basis at or below 100 percent. For calculation purposes, the amount of policy-directed loans is deducted from the loans (the numerator), while the amount of covered bonds is added to the deposits (the denominator).

3.14.5 Asset classification

Bank assets are classified into five different classes: (1) normal; (2) precautionary; (3) substandard; (4) doubtful; and (5) presumed loss. Asset classification is made primarily on the basis of the borrower's debt-servicing ability. It is therefore not only backward-looking (e.g., duration of any nonpayment and the occurrence of any default in the past), but also forward-looking because the borrower's future debt-servicing ability is assessed and reflected in the classification. Loans classified as substandard, doubtful, or presumed loss are collectively referred to as "substandard or below loans" or SBLs for short. The standard asset classification criteria give the due weight to the borrower's debt-servicing ability, the duration of any nonpayment from the borrower, and the occurrence of any default.

Table 3.

Standard Asset Classification Criteria

	Duration of nonpayment of business and household loans	Duration of nonpayment of individual credit card receivables
Normal	Shorter than a month;	Shorter than a month;
Precautionary	More than a month, but shorter than 3 months;	More than a month, but shorter than 3 months;
Substandard	More than 3 months (for estimated collectible amount);	More than 3 months (for estimated collectible amount);
Doubtful	More than 3 months, but shorter than 12 months (in excess of the estimated collectible amount);	More than 3 months, but shorter than 6 months (in excess of the estimated collectible amount);
Presumed loss	More than 12 months (in excess of the estimated collectible amount);	More than 6 months (in excess of the estimated collectible amount);

3.14.6 Borrower's debt-servicing ability

Asset classification on the basis of the borrower's debt-servicing ability is made in consideration of the borrower's debt-paying ability and credit risk factors that include risks to the borrower's cash flows, business, industry, and financial stability. Nonpayment means interest or principal payment not made before the predetermined date with the lender. Asset classifications made on the basis of the duration of a borrower's nonpayment of interest or principal is presented in Table 2.

Where the borrower's business is terminated, the borrower's default becomes final, or the borrower is in bankruptcy proceedings or in the process of business liquidation, the estimated collectible amount from the borrower collateral is classified as "substandard," and the excess amount not covered by the borrower collateral as "presumed loss."

Table 4.

Asset Classification Criteria

Normal

Debt-servicing ability	Duration of nonpayment	Default criteria
Assets that are judged to pose little or no risk to full lender collection given the strength of the borrower's debt-servicing ability in consideration of its overall business soundness, financial conditions, and future cash flows;	-	-

Precautionary

Debt-servicing ability	Duration of nonpayment	Default criteria
Assets that are judged to pose no immediate risk to full lender collection given the borrower's overall business soundness, financial conditions, and future cash flows, but are susceptible to potential risks that may reduce the borrower's debt-servicing ability in the future;	Assets whose interest and principal payments from the borrower have been overdue longer than a month, but shorter than three months;	-

Substandard

Debt-servicing ability	Duration of nonpayment	Default criteria
Assets that are judged to pose significant risks to full lender collection because of the presence of risk factors that may undermine borrower's future debt-servicing ability;	Portions expected to be collected from assets whose interest and principal payments from the borrower have been overdue longer than three months;	Portions expected to be collected from assets whose interest and principal payments from the borrower have been overdue longer than three months;

Doubtful

Debt-servicing ability	Duration of nonpayment	Default criteria
Portions of assets not expected to be collected given the borrower's sharply deteriorating debt-servicing ability that makes full lender collection unlikely;	Portions not expected to be collected from assets whose interest and principal payments from the borrower have been overdue longer than three months, but shorter than 12 months;	-

Presumed loss

Debt-servicing ability	Duration of nonpayment	Default criteria
Portions of assets not expected to be collected given the borrower's sharply deteriorating debt-servicing ability that makes recognition of loan losses unavoidable;	Portions not expected to be collected from assets whose interest and principal payments from the borrower have been overdue longer than 12 months;	Assets that pose significant risks to full lender collection because of borrower default, bankruptcy, business liquidation, or business termination;

3.14.7 Assets subject to classification and allowance for loan losses

Asset classification and allowance for loan losses are applicable to all assets that are inherently vulnerable to credit risk and impairment. For banks, this rule applies to loans and credit guarantees under banking account. The same rule applies to assets subject to credit risk and impairment under the trust account.

3.14.8 Minimum allowance for credit loss for banks

The FSC/FSS requires banks to provide for estimated credit losses within their loan and other asset portfolios as allowances for loan losses, which are presented on the balance sheet as a contra-asset account. The minimum allowances for the five asset classes are presented in Table 4. The FSC/FSS requires banks to make adjustment to loan loss provisions ("adjustment to loan loss provisions") based on International Financial Reporting Standards (IFRS) in order to ensure consistency with the regulatory minimum for loan loss allowances.

Table 5.
Minimum Allowances for Bank Credit Losses
 (Percent)

	Business loans	Household loans	Credit cards
Normal	0.85	1.0	1.1
Precautionary	7	10	40
Substandard	20	20	60
Doubtful	50	55	75
Presumed loss	100	100	100

3.15 NONBANK FINANCIAL INSTITUTIONS

The safety and soundness standards for nonbank financial institutions are similar to those for banks. Some standards for nonbank financial institutions are less stringent than those for banks in consideration of their unique service characteristics and business activities.

3.15.1 Asset classification

Asset classification for nonbank financial institutions is primarily made on the basis of the borrower's transaction history, credit rating, the duration of delinquent payment, and any occurrence of default with some adjustments available for the types of businesses of nonbank financial institutions. Unlike the assets of banks, the assets of nonbank financial institutions are not subject to forward-looking criteria. In addition, for project finance loans of mutual savings banks, asset classification must reflect an assessment of the project finance activity as a measure of the likelihood of future loan collection.

Table 6.
Asset Classification for Nonbank Financial Institutions

Asset type	Mutual savings banks	Credit unions	Merchant banks	Specialized credit finance companies	
	Loan assets	Loan assets	Loan assets	Loan assets excluding household credit	Credit card assets and household credit
Normal	Less than one month	Less than one month	Less than one month	Less than one month	Less than one month
Precautionary	1 to 3 months	Less than 3 months	1 to 3 months	1 to 3 months	1 to 3 months
Substandard	More than 3 months (estimated collection amount)	More than 3 months (estimated collection amount)	More than 3 months (estimated collection amount)	More than 3 months (estimated collection amount)	More than 3 months

Doubtful	More than 3 months (excess of estimated collection amount)	3 to 12 months (excess of estimated collection amount)	3 to 12 months (excess of estimated collection amount)	More than 3 months (excess of estimated collection amount)	3 to 6 months
Presumed loss	More than 12 months (excess of estimated collection amount)	More than 12 months (excess of estimated collection amount)	More than 12 months (excess of estimated collection amount)	More than 3 months (excess of estimated collection amount)	More than 6 months

3.15.2 Minimum allowances for credit losses

Nonbank financial institutions must comply with minimum allowance rules for credit losses by setting aside allowances for credit losses on the basis of asset classifications made.

Table 7.
Minimum Allowances for Credit Losses of Nonbank Financial Institutions
(Percent)

		Normal	Precautionary	Substandard	Doubtful	Presumed loss
Mutual savings banks		1.0	10.0	20.0	55.0	100.0
Credit unions		1.0	10.0	20.0	55.0	100.0
Merchant banks		0.5	2	20.0	50.0	100.0
Specialized credit finance companies	Household loans	1.0	10.0	20.0	75.0	100.0
	Installment finance receivables	1.0	10.0	20.0	75.0	100.0
	Credit card receivables	1.1	40.0	60.0	75.0	100.0
	Credit card loans	2.5	50.0	65.0	75.0	100.0
	Others	0.5	1.0	20.0	75.0	100.0

3.15.3 Credit extension limits

Nonbank financial institutions are subject to credit extension limits on any single counterparty (borrower) and any connected or related counterparties as banks are. Credit extension in excess of 10 percent of the capital to a counterparty and any connected counterparties (a counterparty for the mutual savings bank) is deemed large.

Table 8.
Credit Extension Limits for Nonbank Financial Institutions

	Mutual Savings Banks	Credit Unions	Merchant Banks	Specialized Credit Finance Companies
Single counterparty	Less than 20% of capital; - For an incorporated entity: KRW10 billion; - For a sole proprietor: KRW5 billion; - For an individual: KRW800 million;	Greater of either 20% of capital or 1% of assets;	20% of capital;	-
Counterparty and any connected counterparties	25% of capital;	-	25% of capital;	-
Large credit extension	500% of capital;	-	500% of capital;	-
Credit extension to a major shareholder and any specially related person	No credit extension permitted;	-	Lesser of either 15% of capital or the ratio of capital contribution;	50% of capital;

3.15.4 Prudential guidance ratios

Nonbank financial institutions must comply with safety and soundness guidance ratio requirements that the FSC/FSS has set for prudential regulation and supervision purposes. The ratios for nonbank financial institutions are similar for those for banks.

Table 9.
Prudential Guidance Ratios for Nonbank Financial Institutions

	Mutual Savings Banks	Credit Unions	Merchant Banks	Specialized Credit Finance Companies
Minimum capital ratio	7% ³	Net worth ratio of 2%	8%	Adjusted capital ratio of 7% (8% for credit card companies)

³ The minimum capital ratio required for mutual savings banks with assets of KRW1 trillion or greater was set at 8 percent in January 2018.

Minimum won-denominated liquidity ratio	100%	-	100%	100%
Minimum foreign currency-denominated liquidity ratio	-	-	80%	80%
Maximum won-denominated loan-to-deposit ratio	100%	100%	-	-
Maximum ratio of delinquent loans (more than a month)	-	-	-	10% (credit card companies only)
Minimum loan loss provision ratio	100%	100%	-	-

3.16 FINANCIAL INVESTMENT SERVICES PROVIDERS

Financial services firms that are licensed to offer financial investment services as a FISP must comply with prudential guidance standards set by the FSC/FSS in respect of capital adequacy, asset soundness, risk management, and foreign currency assets and liabilities. FISPs that fail to satisfy the required prudential guidance standards are subject to supervisory actions ranging from recapitalization to restrictions on dividend payouts.

3.16.1 Asset classification

FISPs must classify assets exposed to credit risk and impairment on a quarterly basis into one of the five asset classifications: normal, precautionary, substandard, doubtful, and presumed loss. They must also set aside allowances for credit losses accordingly. Standard requirements for credit loss allowances are 0.5 percent for normal assets, 2 percent for precautionary assets, 30 percent for substandard assets, 75 percent for doubtful assets, and 100 percent for assets classified as presumed loss.

3.16.2 Risk management

FISPs must establish effective risk management systems that can identify, evaluate, monitor, and control risks inherent in or associated with financial investment services. They must also set risk limits and trading limits on an integrated basis for all trading desks, transactions, or financial investment products and services. In addition, they must establish an internal risk management guideline that sets forth NOCR/NCR levels and asset-liability ratio that are to be maintained internally, criteria and limits for high-risk assets, and the composition and operation of a risk management unit. The establishment and revision of the internal risk management guideline must be reported to the FSS.

3.16.3 Soundness of foreign currency-denominated assets and liabilities

FISPs that engage in foreign exchange businesses must comply with spot and forward position limits, liquidity requirements, and maturity mismatch rules that largely correspond to those applied to banks that are authorized to conduct foreign currency transactions.

3.16.4 Restrictions on transactions with a large shareholder

Unless authorized otherwise, no FISP may engage in any of the following activities:

- (a) Acquiring securities issued by a large shareholder;
- (b) Acquiring equity and debt securities or notes issued by an affiliate in excess of 8 percent of the FISP's capital;
- (c) Non-arm's length transaction with a large shareholder or any related party; and
- (d) Any activity or arrangement designed to circumvent the aforementioned restrictions from (a) to (c).

In addition, FISPs may not extend credit to a large shareholder—including any entity and individual specially related to the shareholder—unless such credit extension poses no material risk to their safety and soundness.

3.17 INSURANCE COMPANIES

Prudential supervision tools for insurance companies include regulatory limits such as credit extension limits and investment limits, the asset classification framework, the solvency margin and prompt corrective action regime, and supervisory evaluation and rating.

The supervisory evaluation and rating regime was changed from CAMEL to RAAS—short for risk assessment and application system—in September 2012 for transition to risk-based supervisory evaluation and rating. Under RAAS, each insurance company receives a composite rating from the FSS on the basis of evaluation and rating of seven components of the insurance company's overall financial soundness and business operations.

The seven components are: (1) management risk; (2) insurance risk; (3) interest rate risk; (4) investment risk; (5) liquidity risk; (6) capital adequacy; and (7) earnings. For each of the seven components, quantitative and non-quantitative factors comprising the component are analyzed for a component rating on a 1 to 5 numerical scale (1 the highest rating and 5 the lowest). The component ratings are then aggregated for the insurance company's composite rating on a 1 to 5 numerical scale with three levels (+, 0, or -) for each numerical scale, meaning a total of 15 possible level assignments.

Composite rating is used as the basis for prompt corrective action, which can vary from MIR and MID to MIO. MIR is the least adverse supervisory action and MIO the most adverse. MIR is issued when (1) the composite rating is 3, 2, or 1, and (2) the capital adequacy component rating is 4 or 5, or at least two of the ratings for insurance risk, interest rate risk, and investment risk are 4 or 5. MIO is made for insurance companies that are assigned a composite rating of 4 or 5.

The asset classification framework is intended to help insurance companies manage distressed assets in a more systematic manner and promote sound asset management. Assets are classified into five classes—normal, precautionary, substandard, doubtful, presumed loss—in consideration of borrowers’ debt-servicing ability and history of financial transactions. Although the general asset classification criteria are set forth under the Regulation on Supervision of Insurance Business, insurance companies should establish their own criteria in detail. The asset classification framework applies to any assets that are exposed to credit risk such as loans, securities, and insurance receivables. Insurance companies’ asset classification status is considered in the evaluation of investment risk under RAAS as well as in the calculation of solvency margin and credit loss allowances.

Supervisory Review of Financial Products and Services

3.18 REPORTING AND DISCLOSURE REQUIREMENTS FOR BANKS

Banks are required to report in advance to the FSC/FSS new contract terms and conditions or alterations to existing provisions for financial products and services for supervisory review of their appropriateness and fairness to consumers. Contractual terms and conditions that do not disadvantage or harm consumers, however, may be reported ex-post within ten days of the change. Supervisory action may ensue for new provisions or alterations that fall short of the expected standards.

New contract provisions and alterations subject to reporting for supervisory review include the following:

- (a) Contract terms and conditions that are aimed at circumventing the bank’s legal liabilities stemming from negligence;
- (b) Contract terms and conditions that arbitrarily limit the scope of damages to the counterparty or assign the bank’s liabilities to the counterparty without justifiable cause;
- (c) Contract terms and conditions that impose excessive penalty for delayed payment or otherwise improperly demand damages from the counterparty; and

- (d) Contract terms and conditions that arbitrarily exclude consumer claims or violate consumer rights that are protected under the law.

Banks must also comply with the duty to provide ex-ante disclosures that are material to consumer benefits such as alterations affecting interest rates charged, termination of contracts in effect, and deposit protection.

3.19 REPORTING AND DISCLOSURE REQUIREMENTS FOR NONBANKS

Specialized credit finance companies that set new standard contract provisions or make alterations to existing provisions for financial products and services must file an advance report with the FSC/FSS and disclose them on the internet homepage. Similar reporting is required for contract provision changes sought by the Korean Federation of Savings Banks and the Credit Finance Association of Korea. Ex-post reporting within ten days of the change may be allowed in case (i) alterations to existing provisions do not affect the rights and obligations of financial consumers; (ii) standard provisions are utilized; (iii) terms and conditions are identical to those already reported by other mutual savings banks and specialized credit finance companies; and (iv) terms and conditions are revised in accordance with FSC/FSS demand.⁴ Supervisory action may be taken for changes that are contrary to consumer interest.

3.20 REPORTING AND DISCLOSURE REQUIREMENTS FOR FINANCIAL INVESTMENT SERVICES PROVIDERS

Before the amendment of FISCMA in 2018, financial investment services providers had to report to the FSC/FSS in advance the enactment and revision of standard contract provisions. However, under the amended Act, they may report it ex-post to the FSC/FSS and the Korea Financial Investment Association, the self-regulatory organization for the securities and investment industries, within seven days of the change taking place. Where the enactment or revision of standard contract provisions could have a material impact on consumer rights or obligations, it should be reported to the FSC/FSS in an ex-ante manner.

The Korea Financial Investment Association may set the standard contract provisions for investment products for its member firms in order to help prevent unfair contract terms and conditions from being circulated and ensure an orderly market. It should file an advance report to the FSC/FSS if it intends to establish or revise standard contract provisions unless the provisions are for the use of professional investors. Supervisory action may be taken for changes that seem contrary to investor interest.

⁴ The FSC/FSS may demand a change in standard provisions and financial terms and conditions if they are not in compliance with laws and regulations or if they could undermine the benefits of financial consumers.

3.21 SUPERVISORY REVIEW OF INSURANCE PRODUCTS AND SERVICES

Insurance products consist of a set of basic documents such as an insurance policy, a business operations manual, and a document on the calculation on insurance premium and policy reserves. If insurance companies draw up or revise basic documents in compliance with relevant statutory standards concerning the creation and revision of basic documents, they may offer them without pre-supervisory review (“discretionary insurance product”). However, if the new or revised product is subject to mandatory reporting for supervisory review (“nondiscretionary insurance product”), insurance companies must report it and submit documentation to the FSC/FSS at least 30 days prior to the expected date of the sale.

Supervisory review of an insurance product consists of an ex-post after-sale review for discretionary insurance products and an ex-ante pre-sale review for nondiscretionary insurance products. Discretionary insurance products may be offered to consumers without FSS supervisory review in principle. However, to mitigate the risk of consumer harm from discretionary insurance products, the FSS conducts an ex-post supervisory review on a quarterly basis to identify and focus on defective discretionary insurance products. Under this intensive review regime, insurance companies must submit a list of insurance products sold during a quarter until the last day of the following month from the end of each quarter.

4

Supervisory Evaluation and Rating

Supervisory Evaluation

The FSS evaluates financial institutions' business operation and health and assigns an overall rating. Supervisory rating was first introduced for banks in October 1996 following Korea's membership in the OECD and the Bank for International Settlements. The rating regime was soon expanded to other types of financial institutions. It took effect for securities companies in January 1999, insurance companies and specialized credit finance companies in January 2000, mutual savings banks and specialized banks in July and August, respectively, of 2000, and financial holding companies in December 2000.

4.1 COMMERCIAL BANKS AND FOREIGN BANK BRANCHES

For the evaluation and rating of commercial banks and their operations in foreign countries, the FSS replaced CAMELS (Capital adequacy, Asset quality, Management, Earnings, Liquidity, and Sensitivity to market risk) with CAMEL-R for risk management beginning in the fourth quarter of 2012 (Table 10). The evaluation of each of the six components is based on a combination of quantitative and non-quantitative factors. (Ratings for the management and risk management components are assigned using only non-quantitative metrics.) For the evaluation and rating of domestic banks' overseas banking operations and foreign bank branches, ROCA—short for Risk management, Operational control, Compliance, and Asset quality—is employed. Supervisory rating for internet banks has been suspended until the end of 2018 pursuant to article 102 of the Regulation of Supervision of Banking Business but is set to resume in 2020.

4.2 SPECIALIZED BANKS

The supervisory rating for each of the five specialized banks is assigned on the basis of the evaluation of six components: capital adequacy, asset quality, compliance, risk management, earnings, and liquidity or CACREL. For the evaluation of the earnings component of the Korea Development Bank and the Industrial Bank of Korea, only non-quantitative metrics are used. Similarly, the earnings component is excluded for the rating of the Export-Import Bank of Korea; in respect of liquidity, the Export-Import Bank of Korea is also not subject to liquidity coverage ratio rules that are applicable to commercial banks. In addition, the foreign branch operations of the specialized banks are evaluated on the basis of asset quality, compliance, and risk management only.

4.3 NONBANK FINANCIAL INSTITUTIONS

For the evaluation and rating of nonbank financial institutions, the five components of CAMEL—Capital adequacy, Asset quality, Management, Earnings, and Liquidity—are used.

4.4 FINANCIAL INVESTMENT SERVICES PROVIDERS

A newly revised common supervisory rating system for FISPs took effect in April 2009 after FISCMA took effect on February 4, 2009. The revised common rating system divides the evaluation criteria into common evaluation and business-specific evaluation. The common evaluation criteria comprise capital adequacy, earnings, and internal controls and account for 60 percent of the supervisory evaluation and rating. On the other hand, the business-specific criteria, which account for 40 percent of the supervisory evaluation and rating, comprise components that vary with the type of financial investment service business. Thus, for brokers and dealers, the evaluation components are liquidity and stability. Similarly, for real estate trust services providers, the other components are liquidity and asset soundness. For financial firms that engage in multiple financial investment service businesses, varying weights are assigned on the basis of the earnings from each business. Supervisory rating of FISPs was terminated in April 2015 with the determination that the unique business characteristics of FISPs including their limited proprietary assets do not warrant periodic supervisory evaluation and rating.

Table 10.

Rating Components and Evaluation Factors

Component	Quantitative Evaluation Factors	Non-Quantitative Evaluation Factors	Assigned Weight
Capital adequacy	<ul style="list-style-type: none"> • Total capital ratio; • Tier 1 capital ratio; • Common equity tier 1 ratio; • Leverage ratio; 	<ul style="list-style-type: none"> • Compliance with supervisory guidelines; Capital adequacy taking into account risk characteristics and magnitudes; Adequacy of the composition of capital, the likelihood of future capital impairment; Management's approach to preserving capital soundness; 	20%
Asset quality	<ul style="list-style-type: none"> • Ratio of loans with increased risk of losses; • Ratio of loans classified as substandard or below (SBLs); Ratio of loans with delinquent payment; • Loan loss provision ratio; • Seasonally adjusted delinquency rate; 	<ul style="list-style-type: none"> • Appropriateness of credit risks management; Identification, measurement, and assessment of credit risks; Appropriateness of credit extension policy; Appropriateness of asset classification practices; Adequacy of allowances for loan and other credit loss; Appropriateness of loan management; Identification and management of problematic loans; 	25%
Management	-	<ul style="list-style-type: none"> • Soundness of governance structure; • Appropriateness of management policy formulation and implementation; Appropriateness of performance-based remuneration; • Assessment of business efficiency and improvement plans; • Assessment of internal controls and other operational aspects of business; Compliance with laws and regulations and remedial measures recommended by supervisors following an examination; Compliance with corporate social responsibility (CSR); 	15%
Earnings	<ul style="list-style-type: none"> • Return on assets; • Cost-asset ratio; • Cost-income ratio; • Risk-adjusted return on equity; 	<ul style="list-style-type: none"> • Risks to the size and components of earnings; Appropriateness of earnings structure; Appropriateness of expense structure; • Business effectiveness and capacity to generate future earnings; 	10%
Liquidity	<ul style="list-style-type: none"> • Liquidity coverage ratio; • Foreign exchange liquidity ratio; Won-denominated loan-to-deposit ratio; • Stable foreign exchange funding ratio; 	<ul style="list-style-type: none"> • Appropriateness of liquidity risk management; Volatility variables and factors for liquidity; • Appropriateness of funding structure and operation; Stress test operation and management; 	15%

Risk management -	<ul style="list-style-type: none"> • Appropriateness of risk governance structure and policy management; • Status of risk management processes and controls; • Appropriateness of risk identification, measurement, and evaluation; 15%
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4.5 INSURANCE COMPANIES

The supervisory evaluation and rating regime was changed from CAMEL to RAAS—short for risk assessment and application system—in September 2012 for transition to risk-based supervisory evaluation and rating. Under RAAS, each insurance company receives from the FSS a composite rating on the basis of evaluation and rating of seven components of the insurance company’s overall financial soundness and business operations.

The seven components are: (1) management risk; (2) insurance risk; (3) interest rate risk; (4) investment risk; (5) liquidity risk; (6) capital adequacy; and (7) earnings. For each of the seven components, quantitative and non-quantitative factors comprising the component are analyzed for a component rating on a 1 to 5 numerical scale (1 the highest rating and 5 the lowest). The component ratings are then aggregated for the insurance company’s composite rating on a 1 to 5 numerical scale with three levels (+, 0, or -) for each numerical scale, meaning a total of 15 possible level assignments.

Composite rating is used as the basis for prompt corrective action, which can vary from MIR and MID to MIO. MIR is the least adverse supervisory action and MIO the most adverse. MIR is issued when (1) the composite rating is 3, 2, or 1, and (2) the capital adequacy component rating is 4 or 5, or at least two of the ratings for insurance risk, interest rate risk, and investment risk are 4 or 5. MIO is made for insurance companies that are assigned a composite rating of 4 or 5.

4.6 FINANCIAL HOLDING COMPANIES

In January 2008, LOPECM—short for lead subsidiary, other subsidiary, parent company, consolidated earnings, capital adequacy, and management—which had been used for financial holding companies, was replaced by RFI (risk management, financial condition, and impact).

Component and Composite Ratings

Component rating is determined on the basis of the evaluation of quantitative and non-quantitative evaluation factors. The quantitative and non-quantitative evaluation factors are aggregated to generate the component rating. The component ratings are then aggregated using varying weights to determine a preliminary composite rating (5

possible ratings, 15 possible levels). The final composite rating is assigned following a full evaluation of the institution's overall business conditions and capability, supervision issues and concerns, assessment of results from off-site monitoring and ongoing supervision, market conditions, and other relevant factors not fully captured in the preliminary composite rating (5 possible ratings, 15 possible levels).

As a general rule, supervisory evaluation and rating takes place when the FSS conducts a full-scope examination. In addition, the FSS conducts CAEL evaluation—capital adequacy, asset quality, earnings, and liquidity—of financial firms on the basis of the filings of Business Report that financial firms are required to periodically provide to the FSC/FSS.⁵

4.7 ADJUSTMENT TO COMPOSITE RATING

The composite rating may be adjusted following the quarterly CAEL composite rating in accordance with the criteria established in the supervisory regulations. Under the rules, rating adjustment may be made when:

- (a) The quarterly CAEL composite rating of quantitative factors drops by more than two or more ratings from the institution's most recent composite rating;
- (b) The quarterly CAEL composite rating of quantitative factors deteriorates for two consecutive quarters from the institution's most recent composite rating;
- (c) An institution is assigned a composite rating of 1, 2, or 3, but the capital adequacy or the asset quality component of the quarterly CAEL composite rating is assigned a rating of 4 or 5; or
- (d) The FSS makes the judgment that rating adjustment is necessary because of the institution's worsening business conditions, heightened risk of asset deterioration, or other difficulties.

4.8 PROMPT CORRECTIVE ACTION

Prompt corrective action is a remedial measure taken after the FSC/FSS makes the determination that a financial services firm demonstrates heightened risk of stress or failure primarily on the basis of the evaluation of its capital adequacy and the result of supervisory rating. The supervisory rating the FSS assigns to an institution becomes the basis for prompt corrective action, which may vary from MIR and MID to MIO. For a bank, MIR may be issued when (1) the composite rating is 3 or better, and (2) the rating for capital adequacy or asset quality is 4 or 5. For an insurance company, MIR may be issued when (1) the composite rating is 3 or better, and (2) either the rating for the capital adequacy component or the ratings for two of the insurance risk, interest

⁵ Unless exempted otherwise, publicly traded companies including financial services providers are required to make available regular regulatory filings known as the Business Report with the FSC/FSS; it is filed for the first and the third quarters of the accounting year (Quarterly Report), for the first six months of the year (Semiannual Report), and for the year (Annual Report).

rate risk, and investment risk components are 4 or worse. For securities companies, MIR may be made when the rating for the capital adequacy component is 4 or worse. MID is issued when a bank, a securities company, or an insurance company is assigned a composite rating of 4 or worse, while MIO is limited to a failing financial institution.

Table 11.
Commercial Bank Component and Composite Ratings

Ratings	Strong	Satisfactory	Less than satisfactory	Deficient	Critically deficient
Capital adequacy	<ul style="list-style-type: none"> Capital level strong relative to risks, well above industry average; 	<ul style="list-style-type: none"> Capital level satisfactory relative to risks, worse than strong; 	<ul style="list-style-type: none"> Capital level insufficient relative to risks or asset risks, below industry average; 	<ul style="list-style-type: none"> Capital level deficient relative to risks; Capital support from external sources needed; 	<ul style="list-style-type: none"> Capital level critically deficient relative to risks; Viability uncertain; Immediate capital support from external sources needed;
Asset quality	<ul style="list-style-type: none"> Strong asset quality and credit practices; Minimal risk; Minimal supervisory concern; 	<ul style="list-style-type: none"> Satisfactory asset quality and credit practices; Modest level of supervisory attention needed; 	<ul style="list-style-type: none"> Less-than-satisfactory asset quality; Trends indicative of asset quality deterioration or risk exposures; Improvement needed in credit practice and risk management; Higher level of supervisory concern than before; 	<ul style="list-style-type: none"> Deficient asset quality; Levels of risk and deteriorating assets significant and poorly controlled; Institution's viability uncertain if left unchecked; 	<ul style="list-style-type: none"> Critically deficient asset quality; Institution's viability questionable;

Management	<ul style="list-style-type: none"> • Strong performance by management and board of directors; • Management and the board amply capable of addressing existing and potential risks and problems; 	<ul style="list-style-type: none"> • Satisfactory performance by management and the board of directors; • Management and the board effectively addressing weaknesses and risks; 	<ul style="list-style-type: none"> • Less-than-satisfactory performance by management and the board of directors; • Improvement needed in risk management practices; • Insufficient response to the institution's problems, risks, and conditions; 	<ul style="list-style-type: none"> • Deficient management and board performance; • Inadequate risk management; • Strengthening or replacing management or the board may be necessary; 	<ul style="list-style-type: none"> • Critically deficient management and board performance; strengthening or replacing management or the board is necessary;
Earnings	<ul style="list-style-type: none"> • Strong earnings; • Earnings more than sufficient to support banking operations and maintain high capital and allowance levels; 	<ul style="list-style-type: none"> • Satisfactory earnings; • Earnings above industry average and sufficient to support banking operations and maintain high capital and allowance levels; • Recent earnings experiencing slight decline; 	<ul style="list-style-type: none"> • Less-than-satisfactory earnings; • Earnings fluctuating and unsustainable, insufficient to fully support banking operations and maintain high capital and allowance levels; 	<ul style="list-style-type: none"> • Deficient earnings; • Earnings erratic, fluctuating, experiencing substantive drops, and insufficient to support banking operations and maintain high capital and allowance levels; 	<ul style="list-style-type: none"> • Critically deficient earnings; • Losses and capital erosion a serious threat to the institution's viability;

Liquidity	<ul style="list-style-type: none"> • Strong liquidity levels and fund management practices; • Reliable access to fund sources to meet present and anticipated liquidity needs; 	<ul style="list-style-type: none"> • Satisfactory liquidity levels and fund management practices; • Slight decline in liquidity, increased reliance on external funds; Modest weaknesses in fund management practices; 	<ul style="list-style-type: none"> • Liquidity levels or fund management practices in need of improvement; • Insufficient liquid assets or increased reliance on interest rate-sensitive funds; • Unable to secure funds at competitive terms; • Evidence of material weaknesses in fund management practices; 	<ul style="list-style-type: none"> • Deficient liquidity levels or inadequate fund management practices; • Unable to secure ample funds at competitive terms; 	<ul style="list-style-type: none"> • Critically deficient liquidity levels and fund management practices; • Immediate external support needed to meet maturing obligations or other liquidity needs; • Viability of the institution threatened;
Risk management	<ul style="list-style-type: none"> • Strong risk management; • Minimal risk levels; • Effective risk management systems for identifying, measuring, monitoring, and controlling risk; 	<ul style="list-style-type: none"> • Satisfactory risk management; • Risk levels under control; • Some weaknesses in risk management but well controlled by management; 	<ul style="list-style-type: none"> • Material risk levels likely to adversely affect capital and earnings; • Deficiencies in risk management; 	<ul style="list-style-type: none"> • Material risk levels threatening earnings and capital; • Significant default risk; • Risk management system too deficient to effectively identify, measure, monitor, and control risk; 	<ul style="list-style-type: none"> • Significant risk levels threatening the institution's viability; • Wholly inadequate risk management practices;

Composite rating	<ul style="list-style-type: none"> • Institution sound in nearly all aspects; • No matters of supervisory concern; • Minor weaknesses but can be addressed in an ordinary, routine manner; • Not susceptible to vagaries of business conditions or financial markets; • Strong management performance and risk management; 	<ul style="list-style-type: none"> • Institution fundamentally sound; • Moderate weaknesses present, but well within the capabilities of the management or minimal supervisory action; • Institution generally stable and capable of withstanding business fluctuations; • Broadly satisfactory risk management; 	<ul style="list-style-type: none"> • Institution exhibiting a degree of supervisory concern in financial conditions, management performance, and compliance; • Institution in need of more than routine supervisory concern; • Institution less capable of withstanding business fluctuations and more vulnerable to external developments and conditions than institutions with composite rating of 1 or 2; • Failure unlikely in consideration of the institution's overall business and financial conditions; 	<ul style="list-style-type: none"> • Institution exhibiting generally deteriorating financial conditions; • Wide-ranging and serious financial and management deficiencies requiring close supervisory attention; • Institution not likely to withstand business fluctuations; • Failure a distinct possibility; • Unacceptable risk management practices; 	<ul style="list-style-type: none"> • Institution exhibiting alarmingly deteriorating financial conditions, and failure highly probable; • Significant risk to deposits; • Immediate external support required to remain viable; • Greatest supervisory concern in need of immediate supervisory action; • Severity of risks and other problems beyond the ability or willingness of the management to address or control;
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Table 12.
Capital Adequacy and Prompt Corrective Action

	Capital adequacy	Prompt Corrective Action		
		MIR	MID	MIO
Banks and bank holding companies	BIS capital adequacy ratio	< 8%	< 6%	< 2%
	Tier 1 capital ratio	< 6%	< 4.5%	< 1.5%
	CET1 capital ratio	< 4.5%	< 3.5%	< 1.2%
Nonbank financial holding companies	Capital relative to required capital	< 100%	< 75%	< 25%
Financial investment Service providers	Net capital ratio	< 100%	< 50%	< 0%
	Net operating capital ratio	< 150%	< 120%	< 100%
Insurance companies	Risk-based capital ratio	< 100%	< 50%	< 0%
Merchant banks	Capital ratio	< 8%	< 6%	< 2%
Mutual savings banks	Capital ratio	< 7%	< 5%	< 2%
Specialized credit finance companies	Adjusted capital ratio	< 7%	< 4%	< 1%
Credit card companies	Adjusted capital ratio	< 8%	< 6%	< 2%

Table 13.
Supervisory Rating and Prompt Corrective Action

Supervisory rating	MIR	MID	MIO
Financial holding companies	• Composite rating of 3 and component rating of 4 or 5 for either financial condition or capital adequacy component;	• Composite rating of 4 or 5;	-
Specialized credit finance companies	• Composite rating of 4 and component rating of 3 or better for either capital adequacy or asset quality component;	• Composite rating of 4 and component rating of 4 or 5 for either capital adequacy or asset quality;	• Composite rating of 5;
Credit card companies	• Composite rating of 3 or better and component rating of 4 or 5 for either capital adequacy or asset quality component;	• Composite rating of 4 or 5;	-
Others	• Composite rating of 3 and component rating of 4 or 5 for either capital adequacy or asset quality component;	• Composite rating of 4 or 5;	-

Table 14.

Remedial Actions under Prompt Corrective Action

	MIR	MID	MIO
Potential supervisory actions	<ul style="list-style-type: none"> Operational improvement in organization and personnel; Capital increase or write-off; Restrictions on expansion into new businesses; 	<ul style="list-style-type: none"> Branch closings and restrictions on new branch openings; Dismissal of company officers; Partial suspension of business operations; 	<ul style="list-style-type: none"> Retirement of company stocks; Appointment of outside administrator; Merger;
Execution of business improvement plan	<ul style="list-style-type: none"> MIR triggered if business improvement plan rejected or incompletely executed; 	<ul style="list-style-type: none"> MID triggered if business improvement plan rejected or incompletely executed; 	<ul style="list-style-type: none"> MIO triggered if business improvement plan rejected or incompletely executed;

5

Examination, Consumer Protection, Inclusive Finance

Examination

The FSS examines financial institutions pursuant to authority conferred by article 37 of the AEFSC and other financial statutes. FSS examiners perform full-scope and targeted examinations of financial institutions to help ensure appropriate safety and soundness standards and enforce compliance with laws and regulations.

FSS examiners conduct full-scope examination to evaluate financial institutions' overall financial, management, operational, and compliance performance. The selection of financial institutions that are to undergo a full-scope examination is made in advance during the annual examination planning. The determination of the timing and duration of a full-scope examination and the number of examiners to be assigned is normally made with due consideration given to the size, the complexity, and the risk profiles of the subject institution, findings from the previous examination, and issues of supervisory concerns that have been raised from off-site monitoring.

A targeted examination is limited in scope and is intended to address a narrow range of supervision matters and concerns such as incidents of irregularity and unsound business activity.

Off-site monitoring also constitutes an important component of financial institution examination that complements on-site examination. For normal off-site monitoring, FSS examiners analyze financial and operational reporting from financial institutions, evaluates quantitative safety and soundness measures, and work to identify areas of weaknesses and risks in need of supervision action. If necessary, FSS examiners conduct an on-site inspection and meet with the subject institution's senior executives to address issues of supervisory concern.

5.1 OFF-SITE MONITORING

FSS examiners conduct off-site monitoring on an ongoing basis to help identify and address financial institutions' areas of weakness, deficiency, vulnerability, and risk. Off-site monitoring usually involves analyzing financial and operational reporting from financial institutions, evaluating quantitative safety and soundness measures, and addressing issues of supervisory concern. For data collection and analysis, FSS examiners make use of wide-ranging sources such as Business Report filings that financial institutions submit regularly to the FSC/FSS, internal reports, and meetings with senior executives and employees. Impact analysis of the subject institution's business strategy on its risk profiles is also carried out as routine part of off-site monitoring. Various IT support systems also facilitate off-site monitoring. When deemed necessary, FSS examiners also visit the subject institution in person to obtain additional information on unusual activities or areas of supervisory concern.

The findings of off-site monitoring often form the basis for on-site examination and other supervisory actions. The relationship manager assigned to each financial institution also participates in the off-site monitoring.

5.2 PRE-EXAMINATION PREPARATION

Planning for examination of financial institutions consists of quarterly and annual examination plans. The annual examination plan provides the basic examination parameters and activities for the year with a particular emphasis on supervision policy objectives. It thus sets financial institutions (and branches) to be selected, the types of examination to be carried out (safety and soundness, compliance, on-site, off-site), the tentative dates, the number of examiners to be assigned, and the scope of the examination activities.

The selection of financial institutions to undergo an examination during the year is influenced by supervisory ratings and risk levels, incidence of unsound or improper business practices and irregularities, lax business management, and policy agenda. For full-scope examination, the selection is made in an incentive-compatible way with due consideration given to governance improvement, conformity with supervisory objectives, and assessment results from the internal audit council. After the annual examination planning is completed, a quarterly examination plan is set detailing the order of financial institutions to be examined, the dates and the duration of the examinations, the number of examiners to be allocated, and other details. The finalized quarterly examination plans are shared with the Bank of Korea and the Korea Deposit Insurance Corporation.

As part of the pre-examination planning, FSS examiners gather information on the subject institution from a number of sources including off-site monitoring and previous supervisory evaluation and ratings and apprehend the institution's overall financial and business status. A pre-examination team is also formed to lay the groundwork for the upcoming examination. The subject institution is given a prior notice providing examination and purpose and schedule at least one week ahead of the commencement

of the examination. Under an unusual circumstance in which giving a prior notice may compromise or jeopardize the intended performance of the examination, no advance notice may be given to the subject institution. As a pre-examination step, the FSS conducts a "partnership meeting" where FSS examiners engage the executives of the subject institutions and brief them on the areas of examination focuses.

5.3 ON-SITE EXAMINATION

FSS examiners start off a full-scope on-site examination by meeting with the senior managers of the subject institution to give them appropriate guidance and expectations on the examination to be conducted. As part of the examination process, the examiner-in-charge may obtain statements and documentations from the subject institution's managers and employees and, if necessary, from other related parties. The scope of the examination may be expanded to include additional branches and other institutions if evidence of misconduct by the subject institution and other institutions exists, and the misconduct identified requires more extensive inspection.

Upon the completion of the full-scope on-site examination, the examiner-in-charge meets with the management and the board directors of the subject institution to communicate the supervision and examination policies of the FSS and areas of weakness and other supervisory concerns that came to light as a result of the examination.

5.4 POST-EXAMINATION ACTION

Upon the completion of a full-scope on-site examination, the examiner-in-charge prepares the examination report detailing the examination findings that include corrective actions to be taken to address unsatisfactory or deficient areas. When drafting the report, the examiners listen to the opinions of the subject institutions about the examination findings and reflect reasonable ones on the findings. For more serious violations of laws and regulations, enforcement actions are recommended.

The examination report and enforcement action recommendations are reviewed internally at the examination department and at the Enforcement Review Office to ensure proper, fair, and objective post-examination actions.

5.5 ENFORCEMENT ACTION

Post-examination enforcement actions are taken for violations of rules and regulations that have been identified during an examination. Adverse actions are imposed on the institution and its executives and employees as a supervisory measure to help ensure not only sound management of the institution but also contribute to the stability of the financial system. The types of enforcement actions are specified in laws such as the AEFSC, the Banking Act, FISCMA, the Insurance Act, and the Mutual Savings Banks Act. Such laws specifically provide for enforcement against financial firms, which can also be enforced by the Commercial Act as listed companies, because the firms' business activities hold economic importance and are closely related to public interest.

Enforcement typically takes the form of administrative sanctions against the subject institution and individuals involved in a rule violation. The types of sanctions that may be imposed on financial institutions and individuals are shown in Table 15.

Table 15.

Types of Sanctions

Financial institutions	<ul style="list-style-type: none"> • Revocation of business authorization, approval, or registration • Whole or partial business suspension • Branch closure, whole or partial suspension of branch operations • Cease and desist order • Transfer of business contracts to an unaffiliated party • Order for public announcement or disclosure notice for wrongdoing • Institutional warning
Individuals	<ul style="list-style-type: none"> • Senior executives: Recommendation for dismissal, work suspension, disciplinary warning, admonition • Employees: Dismissal, work suspension, pay reduction, reprimand, disciplinary warning
Monetary penalty	<ul style="list-style-type: none"> • Civil fine • Administrative fine
Other sanctions	<ul style="list-style-type: none"> • Management caution, demand for improvement of company rules, measures or business operations • Order for corrective measures, commitment letter • Order for restitution • Referral for criminal penalty

A senior executive who receives an enforcement action heavier than disciplinary warning cannot be appointed as an executive again for a period specified in finance-related laws and regulation.

Sanctions imposed on the financial institution or its employees may be appealed. To help ensure the fairness and objectivity of the appeal process, the Supervision Coordination Department administers the appeal and notifies the subject institution or employees of the result of the review within 60 days from the day the appeal was filed. When necessary, the review period may be extended by an additional 30 days.

The financial authorities revised the enforcement regulation to ensure financial companies play an active role in supporting companies affected by COVID-19 and other force majeure without worrying about enforcement actions. Financial support for companies affected by disasters, asset-based loans, investment in innovative companies, regulatory sandbox-related business activities, and others specified in the enforcement regulation are now exempted from enforcement actions.

In order to increase the transparency of examinations, the FSS hears from the subject financial institution before making a final decision on the enforcement action to be taken. FSS examiners record feedback or opinions from financial companies on major findings on an “examination progress report” in order to ensure they fully listen to

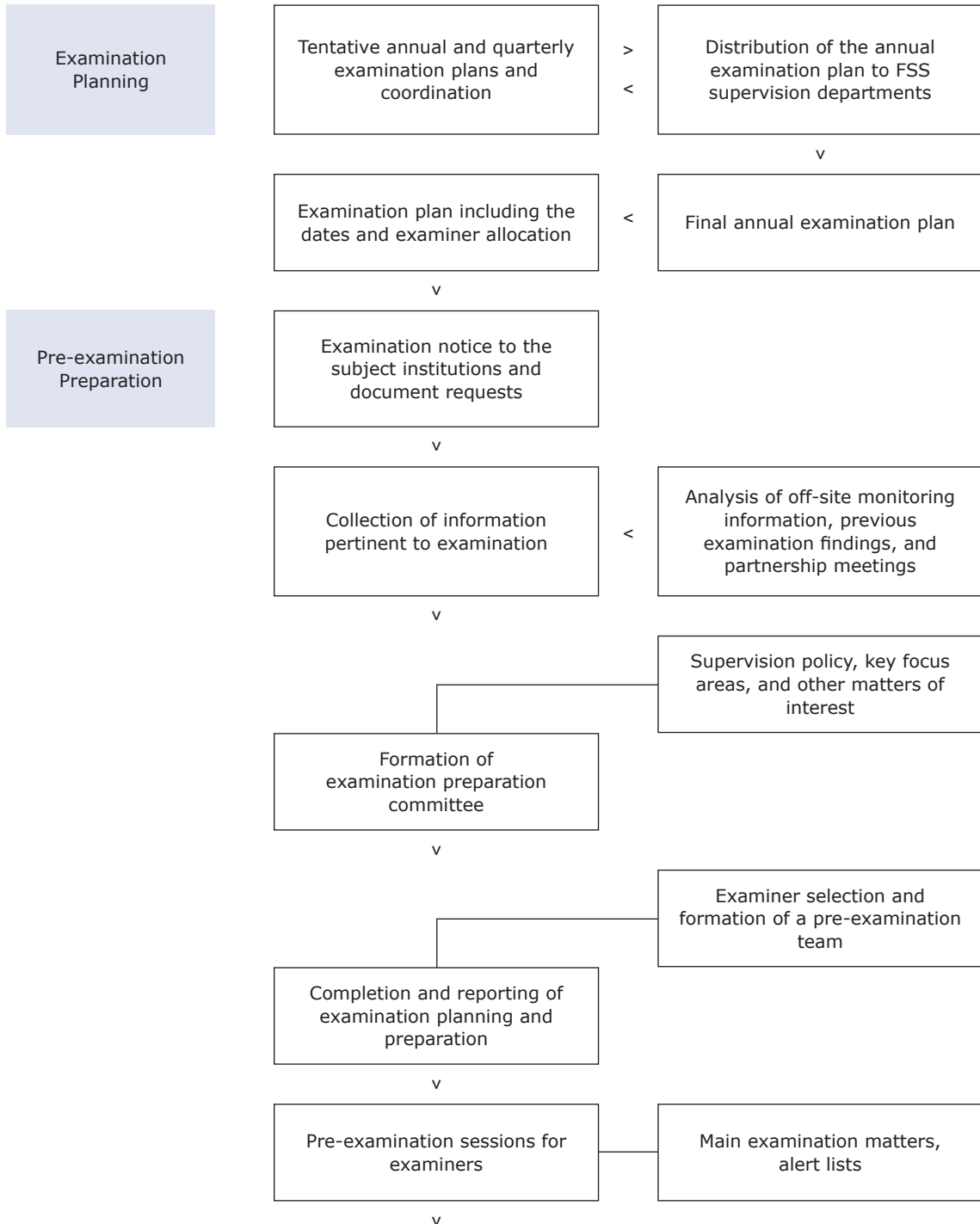
financial firms' views on major findings and reflect some of the view that are found reasonable in the post-examination action.

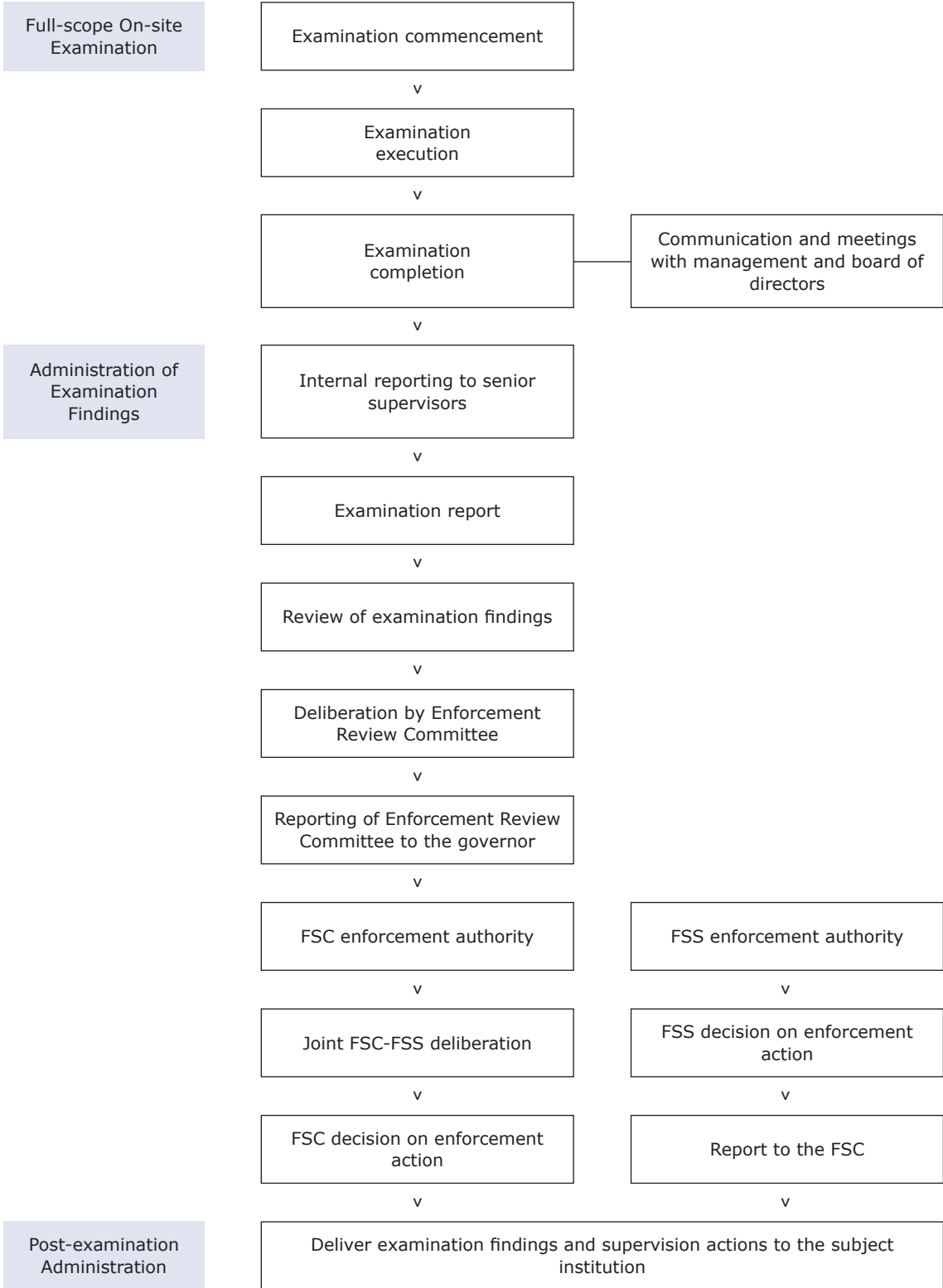
When the FSC or the FSS Governor makes a final decision on the enforcement action, the FSS notifies the subject financial firm of the examination report, which includes actions taken against the institution or the employee(s) involved. If the examination was conducted jointly with or upon request of the Bank of Korea or the KDIC, the examination report is also sent to the related institutions.

The subject financial institution also has to conduct follow-up management. Here, the management means facilitation of the implementation of examination findings by carrying out systematic, comprehensive analysis on the evaluation and response measures. The department that conducted the examination handles follow-up management of matters requiring supervisory actions needed to be addressed and delegates the authority to the head of the internal audit division or the financial institution to be responsible for implementation of matters acted on-site.

For swift processing of examination results, the FSS set standard examination processing periods at 180 days for full-scope examination, 152 days for compliance examination, and 90 days for prudential examination.

Figure 1.
General Examination Process





Consumer Protection

Information asymmetry tends to be more pronounced between the sellers and buyers of financial products and services than that between the sellers and buyers of manufactured goods or general consumer services. In addition, entry barriers set by regulation tends to create a mismatch in bargaining power between the sellers and buyers of financial products and services. Consumer protection is aimed at leveling the playing field and helping consumers overcome the disadvantages of insufficient expertise and bargaining power that hold them back from making informed decisions.

The FSS works to protect consumers. Consumer protection activities that the Financial Supervisory Service performs can be broadly divided into ex ante and ex post measures. Ex ante measures include such activities as enforcing standard contract provisions for financial products and services and disclosures and providing consumer counseling and financial literacy, while ex post measures refer to activities that are intended to rectify abuses and malpractices of financial services providers and help bring about remedy to consumers who are harmed by financial firms' misconduct.

In May 2012, the FSS consolidated its consumer protection functions and established the Financial Consumer Protection Bureau (FCPB) in order to provide more effective consumer protection. The FCPB's main responsibilities and functions are to administer consumer complaints, provide consumer counseling and dispute mediation services, and take supervisory actions on financial firms' misconduct. In addition, the FCPB conducts wide-ranging financial education programs to help improve consumer financial literacy and help consumers make more informed decisions. The FCPB also holds the consumer protection deliberation committee to set policy directions for consumer protection and inspect and discover unfair business conduct and areas requiring improvement. Moreover, it consults with other departments on conduct supervision policy as well as policy updates that require information sharing and issues alerts to financial consumers on matters causing consumer loss to prevent further damage.

As part of its consumer protection mandate, the FCPB also evaluates financial firms' consumer protection practices and consumer complaint administration systems. When deemed necessary, the FCPB may review complaints filed against financial firms and conduct on-site inspections. In respect of product and service disclosures, the FCPB works to improve financial firms' disclosure standards and practices to help consumers make informed decisions. In addition, the FCPB also provides personal finance counseling services to help consumers exercise responsible and sound personal finance, management debt, and understand financial products.

While the FSS is the principal supervisory authority that carries out financial consumer protection, various government and public agencies including the Korea Financial Telecommunications and Clearings Institute (KFTC), the KDIC, and the Korea Consumer Agency and consumer advocacy and civic organizations perform similar services in certain consumer protection areas.

The Financial Consumer Protection Act (implemented on March 25, 2021) integrates financial consumer protection-related provisions that were separately specified in sector-specific laws. The new law bases itself on information provision to consumer protection prior to selling, regulation of sales practices, and stronger remedial actions, and systematically re-classifies financial products and sellers from the perspective of consumers.

The FSS's consumer protection takes a two-pronged approach: preventive consumer protection and consumer rights protection. Preventive protection involves financial education, conduct examination, review of terms and conditions of financial products, and financial firm disclosures. As part of the effort, the FSS serves as a watchdog for systemic risk in the financial markets by operating an early warning system for early identification of and quick response to financial market risks. It also supervises financial firms to help them stay financially sound by implementing capital requirements, conducting supervisory ratings, and taking prompt corrective orders.

In order to provide effective consumer damage prevention and remedy, the FSS set out model guidelines on financial consumer protection with financial associations in 2006 and updated the guidelines in 2013 to reflect global demand for stronger consumer protection after the global financial crisis. The guidelines call for appointment of an independent Chief Consumer Officer that oversees the overall consumer protection activities of a financial firm, operation of a group dedicated to consumer protection within the firm, and development of consumer protection procedures that stretch from product development to product distribution. Financial firms are also asked to build infrastructure to enhance access to financial products and services and better protect consumers that may get excluded from financial services such as people with disabilities.

In 2016, the FSS introduced a supervisory assessment on consumer protection to conduct an annual review of consumer protection systems across financial firms' business activities from product development to follow-up management. It grades financial firms based on assessment outcomes and discloses the grades to the public to help consumers make informed choices. Moreover, in an effort to reduce the information asymmetry, the FSS operates a website called FINE to enable financial consumers to easily access financial information they need. The website allows its users to compare financial products, view financial transactions, and see practical and comprehensive financial information. Moreover, to enhance financial literacy, the FSS performs "One Company-One School" program to offer financial education to students in primary and secondary schools. For college students, it provides a course called "Practical Finance."

Consumer rights protection involves consulting services, administration and settlement of financial complaints, and support for lawsuits involving financial consumers suffering damage. As effective consumer protection requires an organic link between preventive consumer protection and consumer rights protection, the FSS formed cooperative channels among consumer protection departments based on feedback on complaint processing and policy improvement.

Consumer Complaint Mediation

The process for consumer complaint administration is as follows: a consumer submits complaints or inquiries online or in written format. Then the Financial Consumer Protection Department refers the files submitted to dispute settlement departments or related supervision and examination departments and selects a staff supervisor in charge. The process takes up to 7 days for complaints of injustice, unfair treatment or abuse and inquiries on the measures and work processes of the FSS, and 14 days for financial complaints, inquiries on legislations and regulations, and suggestions on improvements of policy measures and operational issues. Immediate response is provided for simple questions or request for explanation on administrative processes.

The Financial Dispute Settlement Committee (FDSC) is a committee that has been created under the FCPB to help mediate and resolve complaints consumers file against financial firms.⁶ When a consumer files a complaint, the FCPB gathers and verifies the relevant facts and makes impartial recommendations to the parties involved to help them reach a mutually agreeable resolution without resorting to time-consuming and costly litigation through the court.

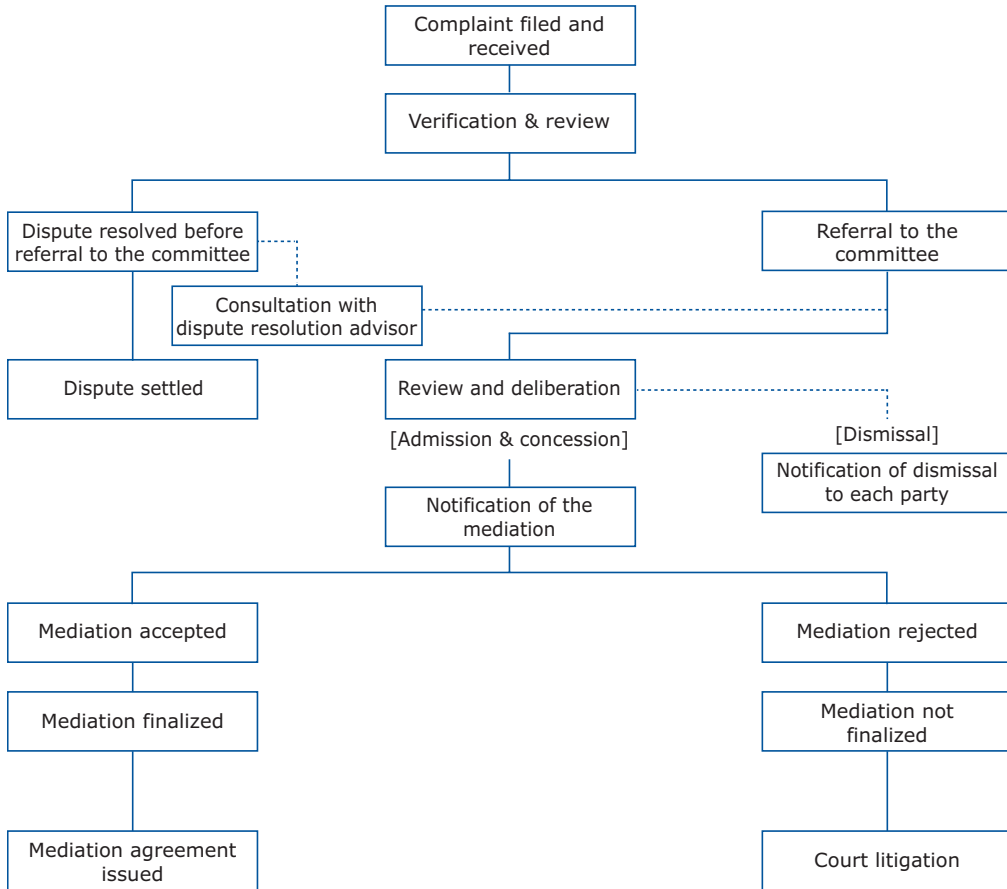
The FDSC is staffed by specialists that include independent outside experts. Each FDSC mediation meeting is attended by committee members who are selected by the FDSC chairperson on the basis of the specific areas of consumer complaints, which may vary from banking, nonbank, and financial investments to insurance.

Consumer complaint is referred to the FDSC when the parties involved in a complaint are unable to reach an agreement within 30 days from the day the request for FDSC mediation has been submitted. The FDSC then deliberates on the case and proposes a resolution within 60 days with due consideration given to the applicable rules and regulations and information provided by the parties involved. The FDSC may dismiss a complaint if it does not merit a mediated resolution from the FDSC, or the facts and information provided by the parties cannot be substantiated. The FDSC decides on a resolution proposal with a majority vote. Once an FDSC resolution proposal is accepted by the parties involved, no further recourse is available. Unlike arbitration, the FDSC recommendation is not legally binding, and adjudication through the court is still available to consumers and financial firms.

⁶ Financial Dispute Settlement Committee has also been translated as Financial Disputes Mediation Committee in some publications.

Table 16.

Financial Dispute Resolution Process



5.6 RESPONSE TO FRAUD AND SCAMS

The types of fraud and scams that the FSS deals with may be largely divided into loan scams that include unregistered moneylending practices, illegal fundraising schemes, and telecommunication-based financial fraud (generally, voice phishing) that are governed, respectively, by the Act on Registration of Credit Business, etc. and Protection of Finance Users, the Act on the Regulation of Conducting Fund-raising Business Without Permission, and the Special Act on the Prevention of Loss Caused by Telecommunications-based Financial Fraud and Refund for Loss. Technically, response to unlawful financial schemes does not fall within the boundaries of the FSS’s official duties. However, because such schemes contribute to undermining public trust in

financial markets by disguising themselves as a legitimate financial institution, the FSS has been working continuously to eradicate unlawful financial schemes to ensure stability in the financial markets.

5.6.1 Telecommunication-based financial fraud (voice phishing)

Voice phishing—a portmanteau of voice, private data, and fishing—means unlawful financial schemes that take place by the means of telecommunications. Voice phishing, along with DNS spoofing (also known as pharming in Korea), are defined as telecommunications-based financial fraud under the Special Act on the Prevention of Loss Caused by Telecommunication-based Financial Fraud and Refund for Loss (“Prevention and Refund Act”).

After the first case was opened on May 18, 2006, voice phishing became a serious social issue. In order to help victims of voice phishing get compensated for their loss without having to go through a legal procedure, the Prevention and Refund Act was legislated on September 30, 2011. The remedies for voice phishing victims take the following procedure:

Suspension of payment

A financial institution should suspend the payment of a victim’s money to an account that is suspected of being exploited in a telecommunication-based financial fraud on reasonable grounds such as the victim’s application of remedy for loss;

Public announcement of the commencement of a procedure for claim extinguishment

Upon a financial firm’s request, the FSS should publicly disclose the commencement of a procedure for extinguishment of deposit claims in the exploited account. Once commenced, the procedure generally takes two months;

Objection from the holder of the exploited account

The holder of the exploited account may raise objection to the financial institution during the claim extinguishment procedure with objective evidence that shows his or her account is not involved in a fraud or the claims to be extinguished in the account were, in part or in full, acquired from legitimate sources such as provision of goods and services;

Refund for loss

The claims in the account get extinguished after two months from the disclosure date of the commencement of the extinguishment procedure. Then the FSS notifies the financial institution involved and the victim of the recipient of the refund for loss and the amount of the refund within 14 days from which the claims are extinguished; and

Claim for refund of extinguished claims

The holder of the exploited account may request the FSS to make a refund of the claims extinguished if the holder has a reasonable ground for failing to raise an objection for the extinguished claims during the claim extinguishment procedure.

For prevention of online financial fraud, the FSS has implemented various measures. Specifically, when a customer applies for a loan or closes a savings account and withdraws all deposits, a financial institution must conduct thorough customer due diligence (CDD) by means of telecommunications using a phone number registered in the system or face-to-face interaction. The firm is held accountable for any loss caused by its negligence in CDD. Moreover, if a financial institution sees rises in the number of accounts found to be created under a borrowed name and the amount of refund for loss for three consecutive months, the FSC/FSS may order the financial institution to submit an improvement plan.

5.6.2 Illegal fundraising schemes

Illegal fundraising schemes involve an unauthorized, unlicensed, and unregistered institution that raises funds from the general public with the promise of high returns and an agreement to guarantee the entire amount of the principal invested. The Korean government implemented the Act on the Regulation of Conducting Fund-raising Business Without Permission to protect consumers from the illegal schemes and set a sound market order. The Act is distinct from other financial laws in that it only contains penal provisions without any administrative measures. However, the Act is still treated as a financial law because the activities of illegal fundraising schemes are similar in nature to legitimate financial activities. The FSS does not have rights over examination and supervision of illegal fundraising schemes but still refers such cases to law enforcement authorities because illegal schemes tend to disguise themselves as financial institutions

5.6.3 Unregistered moneylending practices

Unregistered moneylending practices involve violation of law that takes place in the process of concluding or executing a moneylending contract, including extremely high interest rate loans and unlawful debt collection. The Act on Registration of Credit Business, etc. and Protection of Finance Users, the Fair Debt Collection Practices Act, and the Interest Limitation Act govern unregistered moneylending practices such as predatory lending, unlawful debt collection activities, and collection of brokerage commission.

Because unregistered moneylending practices are administered by law enforcement authorities, the FSS does not have the right to supervise such activities. However, as scammers can undermine confidence in financial markets and sound financial activities in the markets, the FSS takes both ex-ante and ex-post measures to tackle unregistered activities. Ex-ante measures are mainly prevention efforts that include monitoring of moneylending ads by unregistered

moneylending (or brokerage) businesses and request for suspension of a telephone number that is reported to be used for unregistered moneylending activities. Ex-post measures include consulting services provided to victims of unregistered moneylenders and referral of illegal moneylenders to law enforcement authorities based on reports and tips from victims.

5.6.4 Online financial fraud

Online financial fraud means unauthorized financial ads and unlawful financial investment businesses that take place in cyberspace. The FSS refers cases confirmed through monitoring, reports, and tips to the Korea Communications Standards Commission (KCSC) and requests them to close or delete websites and postings involved. The FSS also refers the phone numbers used for online financial fraud to the Ministry of Science and ICT to suspend the lines. It also works with the KCSC and other related authorities to reinforce responsive measures to unlawful ads on social media.

5.7 DEALING WITH INSURANCE FRAUD

5.7.1 Overview

Insurance policy was created with a positive purpose of sharing the losses incurred by various risks among insurance associations to help individuals sustain a stable life. However, because of its nature of paying money for unexpected future events, some try to illicitly exploit the policy. Indeed, insurance fraud cases are steadily on the rise globally.

The primary victim of insurance fraud is insurance companies. However, given that any loss caused by insurance fraud is compensated by insurance premiums, the ultimate victim is insurance policyholders. Speaking more broadly, we all fall victim to such fraud because we pay the social cost that is spent on the inspection, identification, and punishment process. Therefore, developing effective measures is crucial for the sound growth of the insurance market.

5.7.2 Investigation process

The FSS takes the following investigation process for cases suspected of insurance fraud: i) reports from informants; ii) initial assessment; iii) data collection and analysis; and iv) notification of the charges. Evidence is generally collected through reports from insurance companies or tips from the general public. Next is an initial assessment phase to examine the suspect's insurance policy and accident records, and then previous claims, the copies of documents and other material evidence related to the allegations are collected. Various data including the type of the accident, statements of the at-fault driver, the degree of property damage, the hospital length of stay, and medical records from hospital regarding the accident are analyzed, and based on the analysis, the FSS draws up a report on the fraud and refers it to the law enforcement authorities with supporting materials.

Generally, insurance fraud investigation is investigated in collaboration among insurance companies, the FSS, and law enforcement authorities (prosecutors and police). The FSS operates the Insurance Fraud Analysis System (IFAS) that conducts data collection, off-site monitoring, and identification of suspects and the insurance fraud reporting center.

The IFAS is an information processing system that can automatically identify suspects by managing and analyzing database on contracts and accident information. The system was developed to escape from the old-fashioned analog-style investigation process that depended on the intuition and experience of investigators. Major functions of the IFAS is suspect identification, link analysis, social network analysis (SNA), verification of allegations, cases management, and statistical analysis. Here, the SNA is a method of detecting the presence of organized fraud rings by visualizing networked structures based on the mass of data on contracts and accidents. The FSS also reflects insurance companies' fraud prevention activities in supervisory ratings to raise their awareness.

Inclusive Finance

The Korean government legislated the Establishment of Microfinance Foundation Act in 2007 to ensure that low-income families are provided with financial support such as low-interest rate loans and debt adjustment through the Microfinance Foundation. The Act was then repealed in March 2016 and replaced by the Microfinance Support Act that laid the foundation for the establishment of the Korea Inclusive Finance Agency and the legislation of the Credit Counselling and Recovery Service.

The Korea Inclusive Finance Agency, banks, and other microfinance institutions comprehensively and organically support the overall financial activity of low-income families. Their support includes various types of financial support, debt adjustment tailored to individual borrowers, information on self-support services that encompass employment, welfare, and housing, and comprehensive microfinance consulting services.

Korea Inclusive Finance Agency

The Korea Inclusive Finance Agency was established in September 2016 in accordance with the Microfinance Support Act with the contributions from financial institutions and microfinance-related institutions for the purpose of providing comprehensive support for microfinance users. The agency is a decision-making body for major microfinance support issues and has a steering committee consisting of the President and the Vice President of the Korea Inclusive Finance Agency, public servants from the Ministry of Finance and Strategy and the FSC, and an FSS deputy governor. The agency provides loans for low-credit, low-income borrowers such as Miso finance policy loans, and sunshine loans and offers

consulting services and financial education to financially strapped consumers. The agency is guided and supervised by the FSC.

Credit Counseling and Recovery Service

The Credit Counseling and Recovery Service (CCRS) initiated its service as part of the measures to curb the rapid growth of defaulted borrowers in October 2002 to support fast credit recovery of heavy debtors. In November 2003, it was turned into a non-profit organization to ensure fairness and objectivity of its debt adjustment activities and carry out consulting services and education for personal credit management. Then, in September 2016, it was re-launched as a special-purpose corporation in accordance with the Microfinance Support Act. The CCRS provides counselling services and institutional support for debtors through the 47 regional centers including one online center that are installed across the nation in cooperation with the Korea Inclusive Finance Agency.

Happy Fund

The Happy Fund was first established as the Credit Recovery Fund under the umbrella of the Korea Asset Management Corporation (KAMCO) in March 2013 but was integrated into the Korea Inclusive Finance Agency based on the Microfinance Support Act as a subsidiary in September 2016. The Happy Fund performs debt restructuring of microfinance borrowers, reduces the interest payment burden of high-interest rate loan borrowers, and provides support for defaulted borrowers to sustain their lives through employment.

5.8 SUPPORT FOR MICROFINANCE

The FSS's support activities for microfinance may be divided into three: (1) more financial support for low-income, financially vulnerable borrowers; (2) support for debt restructuring; and (3) greater access to finance.

In March 2009, the FSS and the banking sector cooperated to launch the concept of "hope loan" in an effort to provide greater support to low-credit, low-income, and financially vulnerable borrowers. However, as it was up to individual banks to set eligibility criteria and names, the hope loan only caused confusion in the market. Therefore, in November 2010, the FSS and 16 banks (currently 15 banks as Korea Exchange Bank and Hana Bank was merged into KEB Hana Bank) upgraded the hope loan to "new hope loan," that offered up to KRW20 million (increased from KRW10 million) at 2 percent lower average interest rates. In 2015, the new hope loan was enhanced to "new hope loan II" that offered credit within 10.5 percent interest rates and extended additional credit (up to KRW5 million) to diligent borrowers as emergency livelihood support. The terms of the loan have been updated to reflect increasing demands and social issues to date, and the deadline for the loan provision, which was extended once in 2015 to October 2020, was extended by five years again in 2019.

The FSS has been working to (i) improve the new hope loan products through workshops with bank employees in charge based on the monitoring and analysis of bank-specific new hope loan performances, (ii) incentivize banks by offering rewards to banks and bank employees that show outstanding performances, and (iii) raise the awareness of financial consumers about new hope loan products through active promotion using its "Microfinance 1332" website.

The FSS has been operating the Unsecured Loan 119 program to proactively provide selective support to borrowers who are likely to default before their loans mature, in order to help debt restructuring for the low-income class. Moreover, the FSS revised the guidelines for debt collection and sale of impaired loans to require debt collection companies to notify debtors of information on debt collection and debt restructuring support measures three days before they initiate debt collection activities via e-mail, mail, or text message. The FSS provides comprehensive information of debt restructuring support measures on the "Microfinance 1332" website to enable greater access to the measures.

Moreover, the FSS has been providing outreach consulting services to listen to difficulties that low-income families experience and provide information on financial products designed to support their needs.

5.9 SUPPORT FOR SMALL- AND MEDIUM-SIZED ENTERPRISES

SMEs account for a major share of the economy, but they often face lack of financial support because financial firms prioritize firms' debt-servicing ability and profits when they provide loans. Therefore, the FSS introduced relationship banking in December 2014 to enable banks to provide loans to less creditworthy yet promising SMEs to get funding by means of long-term loans, equity investment, and non-financial service based on the assessment of non-quantitative data as well as quantitative data. All loans extended under relationship banking have a maturity of more than three years and the average interest rate is lower than that of the total SME loans' average interest rate.

The FSS has been operating a consulting service center for SMEs to help those affected by domestic and global issues such as the 2008 global financial crisis, the suspension of the Kaesong Industrial Complex in 2013, and the restructuring of the shipbuilding industry.

5.10 SUPPORT FOR SOLE PROPRIETORS

The FSS has been providing support for sole proprietors on multiple fronts as part of the effort for inclusive finance. First, in February 2013, the Sole Proprietor Loan 119 program was introduced to ensure that small business borrowers experiencing difficulties in servicing debt are provided with support measures such as maturity extension, suspension of repayment, and interest rate discounts.

The FSS and the banking sector have been working together to more actively provide business consulting to self-employed small business owners in order to help them enhance competitiveness and stay afloat. An outreach consulting program has also been initiated to provide small business owners in non-Seoul metropolitan areas with business consulting services.

5.11 PROMOTION OF SOCIAL FINANCE

Social finance seeks both social values and monetary profits by financing socio-economic companies such as social enterprises and mutual cooperatives. The FSS has formed a cooperative framework with the banking sector to encourage social financing among private sector enterprises and improved policy measures by drawing up model guidelines for social finance with the Korea Federation of Banks and launching a website dedicated to social finance.

Supervision of Electronic Financial Services

Digital transformation is taking place across many industries, and finance is no exception. The financial landscape is fast changing with widespread use of smartphones and mobile devices and adoption of new technologies such as big data, artificial intelligence, and cloud computing. Against this backdrop, the number of users and the transaction volume of electronic financial services are growing at a robust pace. The average daily usage of internet and mobile banking services grew 64.9 percent from 94.9 million in 2017 to 156.4 million in 2019. The aggregate amount of transactions conducted through internet and mobile banking services also jumped 13.2 percent from KRW43.1 trillion in 2017 to KRW48.8 trillion in 2019. Likewise, the use of other types of electronic financial services have steadily increased. In the first half of 2020, the number of times that quick authorization-based payment services were used per day reached 7.31 million on average while the aggregate amount of transactions enabled by quick authorization-based payment services recorded KRW213.9 billion. Over the same period, the number of times that easy remittance services were utilized on a daily basis and the aggregate transaction value of easy remittance services came to 2.91 million and KRW322.6 billion, respectively.

Electronic finance combined with information and communications technology and electronic commerce is encouraging competition and innovation in the financial sector, and innovative financial services such as fintech services are boosting consumer convenience. Accordingly, the importance of risk management of IT operations and security is growing. Cyberattacks against the financial sector such as ransomware and DDoS attacks are on the rise as well. In the past, cyberattacks were primarily aimed at data theft with system disruptions. More recently, hacking attacks aimed at illegal monetary gains have been increasing.

6.1 STABILITY AND RELIABILITY OF ELECTRONIC FINANCIAL SERVICES

In order to ensure the stability and reliability of electronic financial services and IT functions of financial companies and electronic financial services providers (collectively, “financial companies”), the FSS supervises financial companies’ IT-related human resources, organizational structure, budget, facilities, electronic data, information processing system, and internal controls pursuant to the Electronic Financial Transactions Act.

6.1.1 Requirements for financial companies

Human resources

Financial companies are required to hire and maintain IT staff above certain levels and allocate funds for the development and operation of information processing systems in order to ensure the stability of IT functions. Specifically, financial companies are required to appropriate at least seven percent of IT budget for IT security purposes. In addition, financial companies with KRW2 trillion in assets and 300 or more full-time employees must appoint a chief information security officer (CISO) responsible for the establishment of strategies for IT security and user protection, IT personnel management and budget allocation, and prevention and post-management of electronic financial incidents. Financial companies are also required to set up a committee for information protection consisting of the heads of the information protection function, the computer operation and development function, and the compliance function. The CISO must report decisions and resolutions of the information protection committee to the chief executive officer, and the chief executive officer must comply with the decisions and resolutions.

Computer facilities and cloud computing services

Financial companies must take appropriate steps to protect their server room from disasters such as fire, flood, earthquake, blackout, and outside attacks. In addition, they must install security measures at the server rooms, including access control, surveillance camera, thermo-hygrostat, and circuit breakers. Installing wireless network in the server rooms is not allowed. Financial companies must designate their server center, disaster recovery center, and data storage center as a protected area and take proper care of them. Particularly, the server center and the disaster recovery center of a Korea-based financial institution must be located in Korea.

Financial institutions may use cloud computing services instead of building their own server center or information processing systems, provided that they comply with certain conditions. Cloud computing systems that handle personally identifiable information and personal credit information must be located in Korea. In addition, financial companies must evaluate the importance of the information processing system that relies on cloud computing services, the

soundness and stability of cloud computing services providers, and the propriety of the cloud computing system that they plan to use. They are also required to establish internal standards with which both the users and providers of cloud computing services must comply. Financial companies that intend to resort to cloud computing services for operating a system handling personally identifiable information and personal credit information or a system that may have material impact on electronic financial transactions must report the provider of cloud computing services, the terms and conditions of the service agreement, business continuity plans, and safeguard measures to the FSS at least seven days before the use of the cloud computing services.

Weakness analysis and evaluation for information protection

Financial companies must analyze and evaluate the weaknesses in their electronic financial services infrastructure once a year (every six months for internet homepages) at a minimum from the operational, physical, and technical perspective and address weaknesses that are identified. They may internally conduct the weakness analysis and evaluation or outsource it to an outside evaluation institution. The results of the analysis and evaluation must be reported to the FSS.

Financial companies that intend to provide new electronic financial services must internally evaluate the security levels of verification methods, confidentiality and integrity of transaction information, and measures to prevent data breaches. After financial companies obtain approval from the CISO about evaluation results, they must report the results to the FSS within seven days of providing the new electronic financial services. In order to ensure the readiness of financial companies against cyberattacks, they must establish and implement plans for mock response and recovery exercises at least once a year and submit results to the designated computer emergency response institution. If an incident occurs to the electronic financial services infrastructure because of cyberattacks such as hacking attempts, malicious codes, and denial of service attacks, financial companies must immediately notify the FSC and report the incident to the FSS.

Measures to preempt hacking attacks

Financial companies must segregate critical business networks from the internet and external networks in order to preempt consumer harm arising from cyberattacks and data breach. In other words, financial companies must ensure that employees cannot access the internet or external network zones with business-purpose computers or devices and must physically separate the internet and external communications networks from the information processing systems at the server center and facilities for system operation, development, and security. Such network segregation measures are intended to help prevent incidents that could result from employees' visit to external websites or download of a malicious file. However, network segregation often acts as an obstacle to effective remote work experience. In response to the growing need for remote

work arrangements amid the COVID-19 pandemic, the FSS changed rules and allowed financial companies to use information protection controls for remote work arrangements instead of network segregation. In addition to network segregation, financial companies are required to establish and implement hacking prevention plans covering installation of an information protection system for the purpose of intrusion prevention, system patch management, file integrity checks before distribution, and rogue AP detection.

Internal controls and business continuity plans

For prevention of conflicts of interest, financial companies must separate duties between (i) programmers and operators, (ii) internal auditors and management, and (iii) internal employees and external employees. In the event of a change in the digital ledger containing information about consumers' account transactions such as account number and balances, financial companies must keep and maintain records of the change made and have a third-party review the justification for the change. In addition, when financial companies revise their programs, they must keep duplicates of the programs as a back-up for development or test purposes and must apply the revised programs to the operating system after sufficiently running tests and obtaining the approval of the manager in charge. Regarding system administrators with access to the information processing system, financial companies must implement two-factor authentication, record a history of access and events for tracking purposes, and monitor suspicious behaviors.

In order to ensure financial companies continue to function with as little disruption as possible in emergency situations such as failures, disasters, strikes, and terrorist attacks, they must develop and implement business continuity plans covering emergency-specific response procedures, disaster recovery plans, and emergency contact points. In addition, major financial companies such as banks, securities companies, insurance companies, and credit card companies must build the disaster recovery center a certain distance away from their major server center. The recovery time objective must be set at three hours for core businesses (24 hours for insurance companies), and financial companies must conduct disaster recovery drills once a year at a minimum.

Oversight of third-party vendors

Financial companies are increasingly partnering with third-party vendors or outsourcing business functions to them as the convergence of finance and information technology accelerates. Accordingly, IT risks arising from third-party vendors are growing in importance. To proactively respond to increasing third-party vendor risks, financial companies are required to separate where third-party vendors develop an information processing system and their facilities from the main workplace and internal facilities. Decrypting encrypted information between financial companies and financial consumers and making changes to crucial data such as ledgers are not allowed. Additionally, unauthorized storage and leakage of consumers' financial information is prohibited. Financial

companies must have in place security measures against forgery and falsification, hacking attacks, and personal data breach and must comply with security rules on outsourcing such as utilization of special circuits for connection with third-party vendors.

6.2 SUPERVISORY FRAMEWORK FOR ELECTRONIC FINANCIAL SERVICE BUSINESSES

6.2.1 Classification of electronic financial service businesses

The Electronic Financial Transactions Act classifies electronic financial service businesses into seven service areas: issuance and management of electronic currencies; electronic transfer of funds; issuance and management of electronic debit payment instruments; issuance and management of electronic prepaid payment instruments; payment gateway; escrow; and electronic bill presentment and payment. Among them, issuance and management of electronic debit payment instruments, issuance and management of electronic prepaid payment instruments, and payment gateway are the major business services.

Issuance and management of electronic debit payment instruments

Issuance and management of electronic debit payment instruments means issuing and managing certificates to enable instant payment for goods or services at the time of the purchase by electronically transferring funds from consumers' account at financial companies to that of merchants.

Issuance and management of electronic prepaid payment instruments

Issuance and management of electronic prepaid payment instruments means issuing and managing certificates that electronically store and carry transferrable monetary values. The certificates must be used for purchasing goods or services from third parties other than issuers of certificates, and the scope of goods and services which can be purchased with the certificate must be at least two business categories.

Payment gateway

Payment gateway means services that electronically transmit or receive settlement and payment information or that execute or mediate the settlement of payments when a consumer purchases goods and services.

6.2.2 Authorization, approval, and registration

Under the Electronic Financial Transactions Act, companies must obtain authorization/approval from or register with the FSC for each electronic financial service area that they intend to engage in. The FSS is delegated to handle registration of electronic financial service businesses. As of the end of 2020,

a total of 157 companies with authorization/approval or registration in 256 electronic financial service areas were registered as an electronic financial service provider.

Companies seeking authorization/approval or registration must: (i) meet the minimum capital or asset requirements; (ii) retain experts and computer facilities that are necessary to protect users and effectively conduct electronic financial service businesses; (iii) satisfy prudential requirements; and (iv) have in place a viable and sound business plan. Additionally, their major shareholders must have sufficient capital and social credibility.

6.2.3 Prudential requirements

Electronic financial service providers must separately prepare accounting reports for each electronic financial service area in order to independently manage and analyze the performance of each electronic financial service area. They are also required to meet the following prudential requirements:

- (a) Electronic financial service providers must satisfy the minimum capital or asset requirements on an ongoing basis;
- (b) Their equity calculated by subtracting total liabilities from total assets must exceed zero on an ongoing basis;
- (c) The ratio of equity to outstanding balances of electronic currencies and electronic prepaid payment instruments must be at least 20 percent;
- (d) The ratio of less risky assets such as cash and bank deposits to total assets must be above 10 percent or the ratio less risky assets to unsettled amounts (funds that electronic financial service providers temporarily hold before merchants settle transactions) must be 100 percent except for issuers and managers of electronic currencies and electronic prepaid payment instruments; and
- (e) With respect to liquidity, issuers and managers of electronic currencies must maintain a liquidity ratio of 60 percent, issuers and managers of electronic prepaid payment instruments 50 percent, and other electronic financial service providers 40 percent.

6.3 EVALUATION OF IT FUNCTIONS

The FSS evaluates financial companies' IT functions in consideration of the nature and size of the financial company and its dependency on IT functions. In view of the growing importance of IT functions for the security of financial transactions and stability of a financial company, the results of the IT function evaluation are considered in the management or risk management component of the CAMEL-R supervisory rating.

Evaluation of IT functions is conducted independently from full-scope or targeted examination of financial companies. Examination for the purpose of evaluating the IT functions of financial companies is carried out in the form of a targeted examination only. For effective evaluation, a checklist to evaluate financial companies' IT functions has been developed. Following a checklist-based evaluation, supervisory rating for IT functions is assigned separately from the composite CAMEL-R supervisory rating. If necessary, examination of IT-related subsidiaries and third-party vendors of financial companies is also performed in connection with financial companies to look into their IT functions.

6.3.1 Scope of the IT function evaluation

The scope of the evaluation includes: (i) financial companies with high IT risk considering their nature of business, size, and dependency on IT functions; and (ii) finance-related organizations on which computer network is concentrated. FSS supervisors may also look into the IT functions of small- and medium-sized financial companies that are excluded from the scope of the evaluation using the modified checklist specifically geared toward small- and medium-sized financial companies. For small- and medium-sized financial companies, evaluation is conducted in full scale only, meaning that all rating components are considered when an evaluation is carried out.

6.3.2 Rating components and evaluation factors

Evaluation is on the basis of the following five components: (i) IT audit; (ii) IT management; (iii) system development, installation, maintenance; (iv) IT service provision and support; and (v) IT security and information protection. Following an evaluation of each rating component, an overall evaluation is conducted for a composite rating. The five components are evaluated according to a combination of 24 non-quantitative factors.

Table 17.

IT Function Evaluation

Component	Number of evaluation factors	Number of detailed items for evaluation
IT audit	3	10
IT management	5	16
System development, installation, maintenance	4	11
IT service provision and support	7	27
IT security and information protection	5	17
Total	24	81

Each rating component is evaluated with a unique set of “evaluation factors” and “detailed items for evaluations.” Depending on the financial sector (bank, nonbank, insurance, or financial investment) and size (large or small- to medium-sized), the number of evaluation factors and the number of detailed items for evaluation are adjusted as appropriate.

6.3.3 Grading and rating assignment

Grading is on the basis of absolute evaluation. Rating on a scale of one to five is assigned at each stage of the evaluation process from evaluation of detailed items to evaluation of rating components and overall evaluation. In addition, as with the rating framework for CAMEL-R, composite ratings for financial companies’ IT functions consist of five ratings with three levels (+, 0, or -) for a total of 15 possible level assignments.

Table 18.
IT Composite Ratings

Component	Composite rating	Average of component ratings
1. Strong	+	1.0
	0	1.1-1.2
	-	1.3-1.4
2. Satisfactory	+	1.5-1.8
	0	1.9-2.1
	-	2.2-2.4
3. Less than satisfactory	+	2.5-2.8
	0	2.9-3.1
	-	3.2-3.4
4. Deficient	+	3.5-3.8
	0	3.9-4.1
	-	4.2-4.4
5. Critically deficient	+	4.5-4.6
	0	4.7-4.8
	-	4.9-5.0

6.4 SUPPORT FOR FINTECH INNOVATION

In May 2017, the FSS began providing onsite advisory services for fintech firms to help them successfully launch their services in the market and create a robust fintech ecosystem. FSS supervisors with more than 20 years of experience in financial supervision and examination pay a visit to fintech firms seeking advisory services and advise them on diverse issues including financial regulations and internal control processes. In addition, the FSS set up an internal consultative body on fintech strategy in June 2018 to discuss and coordinate

issues relating to the fintech industry. The consultative body on fintech strategy is chaired by the First Senior Deputy Governor of the FSS and consists of three Senior Deputy Governors in charge of banks and nonbanks, capital markets and accounting, and insurance and consumer protection, respectively. The role of the consultative body includes discussion and coordination of fintech-related issues across the financial sector, monitoring of progress on measures in response to fintech issues, and establishment of supervision measures.

Despite wide-ranging policy efforts to improve financial regulations for fintech firms and expand the fintech ecosystem, complex and sophisticated financial regulations still acted as a barrier to the launch of new and innovative financial offerings. As a policy response, the Special Act on Support for Financial Innovation was enacted on April 1, 2019, and regulatory sandbox has since been made available to fintech firms. The special act thus lays the legal and regulatory foundation for evolving market environment marked by the Fourth Industrial Revolution by removing regulatory hurdles impeding financial innovation, encouraging the development and growth of innovative financial services to consumers, promoting innovation and competition in the marketplace. Under the Special Act on Support for Financial Innovation, the FSS is delegated to review the designation, revocation, extension, discontinuation, and change of innovative financial services and to supervise innovative financial service providers and designated agents. In the regulatory sandbox, innovative financial service providers are exempt from financial rules and regulations including conduct regulations for up to four years and may test their products and services prior to the revision of related financial rules and regulations. To prevent consumer harm, innovative financial service providers are required to establish and implement measures on consumer protection and risk management, and their testing process is monitored by the FSS.

7

Capital Market Supervision

Disclosure Rules

FISCMA provides for fair and transparent corporate disclosure in order to protect investors and ensure an efficient and well-functioning securities market. Accordingly, FISCMA establishes three general types of corporate disclosure: disclosure for new securities issuance, disclosure for listed companies, and disclosure for significant event.

Disclosure for new securities offering pertains to information that an issuer must file with the FSS about an investment to be offered for sale to the public. The disclosure is made in the form of registration statement and prospectus. Registration statement is filed by a prospective securities issuer about to make a public offering, while prospectus is a document the issuer prepares with facts about the offering to help investors make an informed investment decision.

Disclosure for listed companies refers to information about business operation and financial conditions that listed companies must file with the FSS periodically and as needed or appropriate. Disclosures for listed companies consists of Business Report filings that publicly traded companies submit to the FSS on their business operations, financial conditions, and other major aspects about their business, and material disclosure, which must be filed for any major business decision or external event that has a material effect on the company's ongoing business operation.

In addition to disclosures applicable to new securities offering and listed companies, disclosure for significant event must be filed when a major development or change to a company's business operations or financial conditions occurs. Excluding disclosures applicable to new securities offering and listed companies, disclosure for significant event includes large share ownership, disclosure for corporate insiders, tender offer, and short-swing profit.

7.1 DISCLOSURE FOR NEW SECURITIES OFFERING

Public offering of new securities generally starts with the issuer (or the issuer's board of directors) deciding on the final proposal for a public offering. The issuer then files a registration statement and the accompanying prospectus for the offering with the FSS. Following a waiting period, the issuer may begin to solicit investors and receive subscriptions. Upon the completion of the offering and settlement of transaction payments with investors, the issuer files a report on the completed offering with the FSS and starts to issue the securities to investors (or registers the securities with the Korea Securities Depository). The securities are then listed and traded publicly.

7.1.1 Primary and secondary solicitation

Under FISCMA, specific standards apply to issuers that solicit investors for new securities offering and for seasoned securities offering. Whereas primary solicitation refers to the act of soliciting 50 or more investors to purchase newly issued securities, secondary solicitation refers to the act of soliciting 50 or more investors to purchase or sell securities that have already been issued.

7.1.2 Registration statement

Registration statement must be filed with the FSS when the offering amount is more than KRW1 billion. No solicitation for investors is permitted until the issuer files a registration statement with the FSS and obtains a clearance to proceed with the securities offering.

Reporting person for registration statement

The reporting person or the person responsible for filing a registration statement for a securities offering is the issuer. Where a person other than the issuer engages in secondary solicitation, the reporting person is also the issuer.

Securities subject to reporting

Under FISCMA, securities offered through primary and secondary solicitations must in principle be registered; securities exempted from registration are enumerated in FISCMA and its subordinate regulations; they include government treasuries, municipal bonds, and other special entities and enterprises that have been established by an act of the National Assembly.

Offering amount subject to reporting

Registration must be filed when the amount of a securities offering—through either primary solicitation or secondary solicitation—exceeds KRW1 billion. The amount of the securities offering is determined on the basis of the sum of the offering to be made for a year.

Waiting period and effective date of registration

Registration statement becomes effective when the waiting period for the FSS review of the filing (after it is accepted) ends. The issuer may not engage in any solicitation prior to the filing of a registration statement, and registration statement that takes effect thereafter with an FSS clearance does not mean it is devoid of any misrepresentation or inaccuracy. (See Table 19.)

Corrected registration statement

The issuer may submit a corrected registration statement for changes that need to be made to the initial registration statement. Changes to material disclosure items in the registration statement must be filed irrespective of the issuer's intent. The issuer must also submit a corrected registration statement upon a request or a directive from the FSS.

Table 19.
Waiting Period for Registration Statement
(Number of days)

	Listed companies	Others	
Stock	General offering, shareholder priority offering	10	15
	Shareholder/third party allotments	7	7
Bonds	Guarantee bonds, collateral-backed bonds, ABS	5	5
	Unguaranteed bonds	7	7
Closed-end funds	-	10	10
Other securities	-	15	15

7.1.3 Shelf registration statement

Shelf registration, which enables an issuer to register a public offering in advance and for multiple offerings using the same registration, is permitted for an issuer that meets all of the following criteria:

- (a) The issuer is an FISP that has made a public offering within the most recent fiscal one-year period and has submitted the semiannual and annual filings of the Business Report with the FSS during the most recent fiscal year;
- (b) The issuer has received an unqualified opinion for its financial statements from the issuer's external auditor for the most recent accounting year;
and

- (c) The issuer has not received any restriction or other adverse actions from the FSS on issuing securities during the previous one-year period.

Well-known seasoned issuers that meet all of the following conditions also qualify for shelf registration when issuing convertible bonds, bonds with warrants, participating bonds, and exchangeable bonds:

- (a) More than 5 years have elapsed since the issuer became a listed company;
- (b) The issuer's market capitalization on the last trading day of the issuer's most recent accounting period exceeded KRW500 billion;
- (c) The issuer has complied with the quarterly, semiannual, and annual filings of Business Report with the FSS for the previous three years;
- (d) The issuer has received an unqualified opinion from its auditor for the most recent accounting year; and
- (e) The issuer has not received a fine or a heavier sanction for accounting misconduct or violation of FISCMA for the previous three years.

Effective duration for shelf registration

Shelf registration enables an issuer to comply with the registration requirements up to one year from two months after the effective date of the registration. An issuer that files a shelf registration must make a minimum of three securities offerings during the expected offering period. Well-known seasoned securities issuers are eligible for shelf registration up to two years with no minimum number of securities offering required during the offering period.

7.2 DISCLOSURE FOR LISTED COMPANIES

FISCMA provides two general types of disclosures of listed companies. One is the periodic disclosure that companies file with the FSS on a quarterly, semiannual, and annual basis during each accounting period. The other is material disclosure, which companies must file with the FSS for any event that has a material effect on investors or their investment decision. The Korea Exchange, a self-regulatory organization, also enforces its own disclosure rules—material business disclosure, inquired disclosure, and fair disclosure—to ensure smooth and orderly trading.

7.2.1 Periodic disclosure

Periodic disclosure is another type of Business Report filing that listed companies provide to the FSS on their business operations, financial conditions, and management for the purpose of public disclosure. The express aim of the periodic disclosure regime is to help investors make informed investment decisions, contribute to fair and reliable price formation, and help maintain fair

and orderly markets. The Annual Report is filed within 90 days after the end of the accounting period, while the Quarterly Report and the Semiannual Report are filed within 45 days following the end of the accounting period.

Companies that are subject to periodic disclosure include (1) those whose shares are listed and traded at the Korea Exchange, (2) those that have issued on the KOSPI Market or KOSDAQ Market or KONEX Market shares and other equity rights or claims, unsecured bonds, convertible bonds, bonds with warrants, participating bonds, exchangeable bonds, preemptive rights, depository receipts, or structured financial products, (3) issuers that fall under either of subparagraph (1) or (2) and whose securities have been delisted, and (4) issuers that are subject to external audit pursuant to the Act on External Audit of Stock Companies and have more than 500 shareholders for each of the securities falling under either of subparagraph (3).

The requirement to file the Business Report with the FSS may be waived for companies in exceptional circumstances such as bankruptcy, dissolution, or involuntary delisting from the stock exchange.

Consolidated financial reporting

Companies subject to filing the Business Report must present their financial statements on a stand-alone basis or a consolidated basis, whichever is applicable. Auditor's opinion must accompany financial statements submitted by the subject companies.

Disclosure items under Business Report

Information to be disclosed in the quarterly and semiannual filings of the Business Report is similar to information to be made available in the regular filing of the Business Report. In addition, consolidated financial reporting is applicable to companies that have opted for financial reporting under the IFRS. Information to be disclosed in the Business Report filing includes the following:

- (a) Company's business objectives;
- (b) Business name;
- (c) Nature of business operations and activities (manufacturing, services, and financial services);
- (d) Compensation for company officers;
- (e) Status of the board of directors, subsidiaries and affiliates, and other governance and organization matters;
- (f) Shareholder composition and other shareholder information;

- (g) Directors and officers;
- (h) Transactions with related parties;
- (i) Financial statements and auditor's opinion;
- (j) Management discussion and analysis; and
- (k) Other disclosures relevant to investor protection.

7.2.2 Material disclosure

Companies subject to the quarterly, semiannual, and annual filings of the Business Report must also comply with material disclosure that requires timely, up-to-date disclosure of any significant changes. Material disclosure must be filed within one day from the day of the occurrence. Activities, developments, and changes subject to material disclosure include the following:

- (a) Failure to redeem notes, suspension of banking accounts;
- (b) Partial or whole suspension of business operations;
- (c) Submission of application for court receivership or accelerated court receivership pursuant to the Debtor Rehabilitation and Bankruptcy Act;
- (d) Occurrence of a legally recognized cause for business dissolution;
- (e) Capital increase and reduction, decision by the board of directors on debt increase (contingent convertible bonds);
- (f) Initiation of a management procedure under article 5(2) of the Corporate Restructuring Promotion Act or suspension of a joint management procedure under article 19 of the same Act by a main creditor bank;
- (g) Filing of a securities class action;
- (h) Decision to list on or delist from foreign stock exchanges, trading suspension;
- (i) Decision to issue convertible bonds, bonds with warrants and exchangeable bonds;
- (j) Occurrence of a trigger of contingent convertible bonds or occurrence of a trigger for redemption and reduced interest payment liability for contingent convertible bonds;
- (k) Resolution of the acquisition (completion of trust agreement) or disposition (termination of trust agreement) of treasury stocks;

- (l) Decision on merger, share exchange or transfer, division and split merger (decision on major business activity or asset disposition or transfer); and
- (m) Exercising a putback option to give the beneficiary the right to execute a major asset disposition or transfer.

7.3 DISCLOSURE OF SIGNIFICANT EVENT

7.3.1 Reporting of large share ownership

Under the regulation on the disclosure of large equity ownership in listed companies commonly referred to as the "five percent rule," a shareholder acquiring a class of equity securities of a listed company must file a report with the FSS and the Korea Exchange within five days after the acquisition when:

- (a) The shareholder acquires five percent or more of the listed company's total equity securities issued (the "five percent shareholder");
- (b) The five percent shareholder raises or reduces its equity ownership by one percentage point or more; or
- (c) The five percent shareholder alters the purpose of its equity ownership or enters into or amends an agreement that can materially affect its equity ownership in the listed company.

The five percent rule is intended to ensure fair and orderly dissemination of information to investors and help them make informed decisions. By facilitating effective disclosure of material information pertaining to large equity acquisitions and dispositions to all market participants, the five percent rule also contributes to more transparent and orderly market competition for the management control of publicly held companies.

Three types of five percent disclosure

The five percent rule provides three types of disclosure in respect of the five percent rule: initial acquisition report, subsequent change report, and material change report.

- (a) **Initial Acquisition Report:** When the equity ownership of a shareholder and persons specially related to the shareholder ("specially related persons") exceeds five percent for the first time, an initial acquisition report must be filed with the FSS and the Korea Exchange within five days after the date of the acquisition.
- (b) **Subsequent Change Report:** When a five percent shareholder raises or reduces its equity ownership by one percentage point or more, a subsequent change report must be filed with the FSS and the Korea

Exchange within five days immediately after the date of the change. A subsequent change report must also be filed when the shareholder's equity ownership falls by at least one percentage point from 5.5 percent to 4.5 percent or lower; no subsequent change report is necessary when equity ownership declines by 0.6 percentage points (less than one percentage point) to 4.9 percent. When a disclosure-triggering event occurs during the five-day disclosure period for an earlier disclosure-triggering event, both events must be reported together by the end of the earlier five-day disclosure period.

- (c) Material Change Report: A material change report must be filed when:
- A five percent shareholder amends the purpose of its equity ownership from passive investment to influencing company management (or vice versa);
 - A five percent shareholder whose purpose of equity ownership is to influence company management enters into or amends an agreement that can materially affect the shareholder's equity ownership in the listed company; such an agreement may include a contractual relationship or obligation to place the shareholder's equity securities under the management of a trust or to employ the equity securities for use as collateral or for securities lending or borrowing; the determination of whether an agreement or any change therein constitutes a disclosure-triggering event is to be made on the basis of the likelihood of a material change to the shareholder's equity ownership; and
 - A five percent shareholder whose purpose of equity ownership is to influence company management amends the status of its equity ownership from legal ownership to beneficial ownership (or vice versa).

Securities covered under the five percent rule

The following classes of equity and equity-convertible securities are subject to disclosure under the five percent rule:

- (a) Stocks including common voting stock, preferred voting stock, preferred nonvoting stock that becomes voting in the event of no dividend, and convertible preferred stock;
- (b) Certificates representing rights/options to acquire new shares, including preemptive rights certificates and warrants;
- (c) Convertible bonds;
- (d) Bonds with warrants;

- (e) Exchangeable bonds with equity conversion rights/options to any of the securities listed in subparagraphs (a) through (d); and
- (f) Structured financial instruments with any of the securities listed in subparagraphs (a) through (e) as the underlying assets.

When issued by an issuer other than the listed company, the following classes of securities are subject to disclosure under the five percent rule:

- (a) Depositary receipts linked to any of the securities listed in subparagraphs (a) through (f);
- (b) Exchangeable bonds with equity conversion rights/options to any of the securities listed in subparagraphs (a) through (g); and
- (c) Structured financial instruments with any of the securities listed in subparagraphs (a) through (h) as the underlying assets.

Persons covered under the five percent rule

When the aggregate equity ownership of a shareholder and its specially related persons—defined as persons related to the shareholder (“related persons”) and/or persons that jointly hold the issuer’s equity securities with the shareholder (“joint holders”)—exceeds five percent, both the shareholder and the specially related persons must file a disclosure under the five percent rule. Where both the shareholder and the specially related persons must file a report, the shareholder with the largest equity ownership may file a single joint report on behalf of the group.

The shareholder and the specially related persons filing a disclosure under the five percent rule must comply with additional disclosure requirements that are specifically applicable to corporate insiders such as directors, officers, and major shareholders.

1. Specially related person

Specially related person is a collective designation for the related person and the joint holder of a shareholder. Both related persons and joint holders are specially related persons of a shareholder.

2. Related person

Where the shareholder is a natural person, the related person designation extends to the following persons:

- (a) Spouse (including a person in a de facto marriage);

- (b) A company (and its directors and officers) at least 30 percent owned or effectively controlled by the shareholder, alone or together with any of the persons listed in subparagraphs (a) through (g); and
- (c) A company or an entity (and its directors and officers) effectively controlled by the shareholder, alone or together with any of the persons listed in subparagraphs (a) through (h).

Where the shareholder is a legal entity, the related person designation extends to the following persons and entities:

- (a) Shareholder's directors and officers;
- (b) Shareholder's affiliate (as recognized under the Monopoly Regulation and Fair Trade Act) and the affiliate's directors and officers;
- (c) A natural person—including any of the related persons listed in subparagraphs (a) and (b)—that holds at least 30 percent of the shareholder or effectively controls it; and
- (d) A company or a business group—including its directors and officers—that, alone or together with any of the related persons listed in subparagraphs (a) through (c), holds at least 30 percent of the shareholder or effectively controls it.

Where a related person is able to verify it holds less than 1,000 shares and it is not a joint holder, the related person's equity securities are excluded from the equity ownership calculation.

3. Joint holder

A joint holder is a designation given to a shareholder that engages in any of the following activities under a mutual consent or under an agreement with another shareholder:

- (a) Acquiring or disposing of equity securities jointly with another shareholder;
- (b) Acquiring equity securities alone or jointly with another shareholder and transferring the acquired equity securities to another shareholder; or
- (c) Exercising voting rights (including the right to dictate voting) jointly with another shareholder.

4. Legal and beneficial ownership

The five percent rule incorporates the concept of “securities held” to broadly encapsulate not only a shareholder’s legally and beneficially owned equity securities, but also the shareholder’s legally and beneficially owned equity conversion rights/options that may be exercised to acquire equity securities or wield voting powers as provided below:

- (a) A person pays for and receives the issuer’s equity securities using the name of another person to conduct the purchase; the duty to file a report under the five percent rule falls on the person that beneficially owns the equity securities irrespective of whether or not the purchase has been made under the name of another person;
- (b) A person obtains a right to compel another person to deliver equity securities under the provisions of law involved or the terms and conditions of an agreement;
- (c) A person obtains a right to acquire or dispose of equity securities or exercise voting rights under the provisions of law involved or under the terms and conditions of an agreement such as a contract to place assets under a trust, a collateral agreement, or a discretionary asset management contract;
- (d) A person enters into a pre-agreement to acquire a listed company’s equity securities, thus attaining the position of a potential shareholder of the listed company;
- (e) A person acquires call options that may be exercised to acquire a listed company’s equity securities, thus attaining the position of a potential shareholder of the listed company; and
- (f) A person receives stock options that may be exercised to acquire a listed company’s equity securities, thus attaining the position of a potential shareholder of the listed company.

7.3.2 Disclosure for corporate insiders

A person who becomes a corporate insider—a director or an officer or a major shareholder of a listed company—for the first time must file a disclosure on its legal and beneficial equity ownership in the company (the issuer) within five days with the SFC/FSS and the Korea Exchange. Any change in the insider’s equity ownership thereafter must also be reported to the SFC/FSS and the Korea Exchange within five days. Equity securities issued by the company and held by its corporate insiders are referred to as specific securities.

Corporate insiders are subject to strict equity ownership disclosure requirements because they are assumed to be privy to material nonpublic information about their company that may be abused for personal gains. The disclosure requirements are intended to ensure timely and fair disclosure of insiders' equity interests and any trade involving them to the market.

Specific securities

The term "specific securities" refers to any of the following classes of securities:

- (a) Equity and equity-convertible securities such as voting stock, preferred nonvoting stock, convertible bonds, bonds with warrants, participating bonds, and investment contracts;
- (b) Depositary receipts and exchangeable bonds linked to the equity securities listed in subparagraph (a); and
- (c) Derivatives and other investment products whose underlying assets consist of any of the securities listed in subparagraphs (a) and (b).

Persons subject to disclosure

A company's directors and officers and major shareholders are primarily subject to insider disclosure rules.

1. Directors and officers

Directors and officers who are subject to insider disclosure requirements refer to:

- (a) Directors (including outside directors) and the auditor elected by the company's shareholders at the general shareholders' meeting; or
- (b) Officers as provided under article 401-2(1) of the Commercial Act; they may include: (i) persons who effectively control the company and routinely order company directors to carry out specific activities; (ii) persons who can act on behalf of the company; and (iii) persons who are not directors but perform executive duties and functions assuming such titles as honorary president, president, chief executive officer, executive director, director, or other titles indicative of decision-making position or authority.

The directors and officers of an affiliate of the listed company are not subject to insider disclosure irrespective of whether or not they are registered or unregistered directors.

The determination of whether a person is a company officer is to be made by the person in consideration of the following:

- (a) A person carries out company duties assuming such job titles as honorary president, president, chief executive officer, executive director, and director; or
- (b) Where a person assumes an advisor title or a director-equivalent title, the determination is to be made with due consideration given to the following:
 - Use of the title within the company;
 - Areas of responsibility and decision-making authority; or
 - Amount of remuneration.

2. Major shareholders

The term “major shareholder” denotes either of the following shareholders:

- (a) A shareholder that holds at least 10 percent of the company’s total voting equity securities issued, including depository receipts that have been issued for such securities (irrespective of whether the voting equity securities are held in the name of the shareholder or not); or
- (b) A shareholder that holds less than 10 percent of the total voting equity securities issued, but nevertheless effectively controls the company.

The ownership of specific securities such as convertible bonds and bonds with warrants that are not voting equity securities is not relevant to the determination of a major shareholder when the shareholder’s voting equity securities in the company are less than 10 percent. Therefore, a shareholder that holds 7 percent of the voting equity securities and 3 percent of the convertible bonds issued by the company is not a major shareholder unless the shareholder effectively controls the company.

In calculating a shareholder’s ownership of specific securities, equity securities held or traded under another person’s name are included. Similarly, equity securities acquired and held under the employee stock ownership plan count toward equity ownership of a major shareholder.

A shareholder that effectively controls a company is a shareholder that:

- (a) Has appointed, alone or together with other shareholders, the company’s chief executive officer or the majority of the members of the company’s board of directors; or
- (b) Holds the decision-making authority in respect of the company’s business management, organization change, and other key decisions. The determination of whether a shareholder meets this criterion (and liability for the determination) is left to the shareholder.

Disclosure period

A person who becomes a director, an officer, or a major shareholder of a listed company for the first time must file a report on the ownership of specific securities issued by the company. An initial ownership report must be filed within five days after the person becomes a director, an officer, or a major shareholder. No initial ownership report is required if the person does not hold any legal or beneficial ownership of specific securities.

A change in ownership report must be filed within five days when a change in the ownership of an insider's specific securities occurs.

1. Effective date for initial ownership report

- (a) Where a person is elected a director at the company's general shareholders' meeting for the first time, the effective date is the day of the election.
- (b) Where a person becomes an officer, the effective date is the day the person assumes the appointed position.
- (c) Where a person becomes a major shareholder after acquiring company shares, the effective date is the day of the share acquisition.
- (d) Where an unlisted company becomes listed for the first time, the effective date is the day the company becomes listed.
- (e) Where an unlisted company merges with a listed company, and an insider of the unlisted company becomes an insider of the listed company, the effective date is the day the shares of the merged company commences trading.

2. Effective date for change in ownership report

- (a) Where an insider either buys or sells specific securities on-exchange during regular trading hours, the effective date is the day of the transaction settlement (T+2).
- (b) Where an insider either buys or sells specific securities off-exchange, the effective day is the earlier of either the date the payment was made or the date the securities are delivered.
- (c) Where an insider acquires specific securities in a secondary stock offering, the effective date is the date immediately following the day the payment is delivered.
- (d) Where an insider lends or borrows specific securities, the effective date is the day the securities are lent or borrowed.

- (e) Where an insider receives specific securities as a gift, the effective date is the day the delivery of the securities is completed.
- (f) Where an insider inherits specific securities, the effective date is the day the inheritance is finalized. Where two or more persons inherit specific securities, the effective date is the day the division of the securities and any other share-related assets is completed.
- (g) Where an insider acquires specific securities through other means, the effective date is to be determined as provided under the applicable law:
 - Acquisition of scrip shares (capitalization shares): the date the scrip shares were allotted;
 - Acquisition of stock dividends: the date the stock dividend distribution was approved at the company's general shareholders' meeting;
 - Acquisition of shares from the exercise of equity conversion rights/options attached to convertible bonds: the date the conversion rights/options were exercised;
 - Acquisition of shares from the exercise of equity conversion rights/options attached to bonds with warrants and stock options: the date payment for the shares was made;
 - Acquisition of shares of a newly merged company: the date of the merger registration; and
 - Reverse stock split, stock split, and share redemption: applicable provisions of the Commercial Act.

3. Exemptions from change in ownership report

Where the aggregate number of specific securities of an insider was less than 1,000 shares, or either the acquisition or the disposition amount was less than KRW10 million after the most recent filing, a change in ownership report is not necessary. The determination of disclosure exemption must be made on a cumulative basis.

4. Extension of disclosure deadline

For a change in share ownership due to stock dividend, stock split, reverse stock split, capital reduction, or other unavoidable causes, the disclosure deadline is extended to the tenth day of the following month. For certain qualified investors that pose little or no risk of abuse of inside information, the disclosure deadline is extended to the tenth day of the following quarter. The disclosure deadline for the initial ownership report remains unchanged at five business days.

The qualified investors exempted from the five-day disclosure period include the following:

- National and municipal governments;
- Bank of Korea;
- Korea Deposit Insurance Corporation and Korea Resolution & Collection;
- Korea Asset Management Corporation;
- Korea Housing Finance Corporation;
- Korea Investment Corporation;
- Korea Securities Depository;
- Korea Exchange;
- Financial Supervisory Service;
- Collective Investment Scheme;
- Korea Credit Guarantee Fund;
- Korea Technology Finance Corporation;
- Funds and fund managing entities established under the law; and
- Joint enterprises established for member benefits under the law.

7.3.3 Tender offer

Disclosure for Significant Event applies to tender offer, which is made pursuant to the relevant FISCMA provisions. Under the law, a tender offer must be made and a tender offer statement filed when a person who together with any specially related parties seeks to purchase or otherwise acquire from at least ten shareholders of a listed company more than 5 percent of the company's shares. The period specified for the acquisition through a tender offer is six months.

Announcement of tender offer and tender offer statement

The prospective acquirer must announce the tender offer through widely circulated newspapers with specific information pertaining to the purpose of the offer, the number and the type of securities sought, the terms and conditions of the offer, and the methods to be used to acquire the desired shares. The prospective acquirer must submit a tender offer statement to the FSS on the day of the public announcement of the offer.

Corrected tender offer statement

The prospective acquirer may submit a corrected tender offer statement before the tender offer period expires to incorporate any changes to be made to the terms and conditions of a tender offer. Changes that are disadvantageous to the

existing shareholders—such as a reduction in the purchase price or the number of shares to be acquired—are prohibited.

7.3.4 Short-swing profit rule

Under the FISCMA short-swing profit provisions and the subordinate regulations (the “short-swing profit rule”), corporate insiders must return any profit they realize from the purchase and sale or the sale and purchase of certain classes of equity securities—referred to as “specific securities” under FISCMA—within a six-month period. The disgorgement of short-swing profit is effective irrespective of whether or not any insider information was used to realize the profit.

The short-swing profit rule is intended to prevent corporate insiders from trading specific securities on the basis of material, nonpublic information. Such insider trading is illegal, and the short-swing profit rule imposes civil and criminal penalties on the violators in order to ensure no unauthorized disclosure or privileged inside information is used for personal gains.

Insiders who are subject to short-swing profit disclosure include:

- (a) Directors, officers, and others covered under article 401-2(1) of the Commercial Act;
- (b) Employees handling or given access to privileged nonpublic company information, including employees administering the company’s regulatory filings as provided under FISCMA article 161(1); and
- (c) Major shareholders (shareholders with equity ownership of ten percent or more in the company) or shareholders that effectively control the company.

There is no criminal liability for insiders who realize short-swing profit, and the transaction remains valid. When claimed by the company, however, the insider only needs to give back the short-swing profit realized, and the right to claim such profit is extinguished within two years after the profit was realized as provided in article 172 of FISCMA.

Unfair Trading and Enforcement

Unfair trading covers a wide range of illegal buying and selling of securities in the market. Although unfair trading is not expressly defined in the law, it is broadly classified into three general types under FISCMA: (i) trading on the basis of material nonpublic information; (ii) trading intended to facilitate market manipulation; and (iii) trading employing deception. In addition, new rules aimed at market abuses whose degrees of illegality are not as serious as those of previously recognized unfair trading activities under FISCMA also took effect in July 2015.

7.4 TRADING OF SECURITIES ON THE BASIS OF MATERIAL NONPUBLIC INFORMATION

FISCMA strictly prohibits insider trading or the buying and selling of a publicly traded company's securities by insiders using material nonpublic information. Using undisclosed information to buy or sell the securities of a company set to become a publicly traded company within six months is also prohibited.

The prohibition on the use of material nonpublic information covers not only insiders, but also quasi-insiders and tippees who may become privy to material nonpublic information. Such persons include:

- (a) Company's directors, officers, employees, and agents;
- (b) Company's major shareholders and their agents and other related information users;
- (c) Persons with legally granted regulatory or licensing authority over the company and their agents;
- (d) Company's contractors and their agents and employees;
- (e) Directors, officers, employees, and major shareholders of the company's affiliate or subsidiary; and
- (f) Persons or insiders of a company currently in negotiation with the company.

7.4.1 Corporate insiders covered under prohibition on use of material nonpublic information

The directors and officers and major shareholders of a listed company are corporate insiders who are specifically covered under the prohibition on the use of material nonpublic information. Directors refer to directors (including outside directors) and the auditor elected by the company's shareholders at the general shareholders' meeting. As provided under article 401-2(1) of the Commercial Act, company officers include: (i) persons who effectively control the company

and routinely order company directors to carry out specific activities; (ii) persons who can act on behalf of the company; and (iii) persons who are not directors but perform executive duties and functions assuming such titles as honorary president, president, chief executive officer, executive director, director, or other titles indicative of decision-making position or authority. A person is deemed a company officer if the person performs corporate duties assuming such job titles as honorary president, president, chief executive officer, executive director, or director.

A major shareholder is a person who holds at least 10 percent of the company's total voting equity securities issued, including depository receipts that have been issued for such securities (irrespective of whether the voting equity securities are held in the name of the shareholder or not). A shareholder who holds less than 10 percent of the total voting equity securities issued, but nevertheless effectively controls the company, is also deemed a major shareholder.

7.4.2 Prohibition on use of information pertaining to large share purchase and sale

FISMA prohibits the use of information stemming from or pertaining to a large share purchase or sale to buy or sell securities to protect investors. A share purchase or sale is deemed large if it is deemed sufficient to materially affect the company's management control. Persons subject to the prohibition on the use of information pertaining to large share purchase and sale include:

- (a) A company (including its affiliates) that engages in the purchase or sale, and the company's officers, employees, agents, and others who come to possess knowledge of the transaction;
- (b) Major shareholders of the company engaging in the purchase or sale and others who become privy to the transaction; and
- (c) Persons who exercise legally granted regulatory or licensing authority over the company and who come to possess knowledge of the transaction.

7.5 TRADING OF SECURITIES INTENDED TO FACILITATE MARKET MANIPULATION

Market manipulation, generally defined as a deliberate attempt to alter the prevailing share price and to profit from the artificially raised or reduced share price, is a violation of the securities law. Market manipulation includes orchestrated purchase and sale of securities in the spot and in the futures markets and covers trades involving listed and unlisted securities (including derivatives) through either the exchange or the OTC markets.

Market manipulation through disguised trading such as matched orders and wash sale that involve the purchase and sale of a company's shares by a person or an organized group of persons to create an impression of significant trading is a violation of the

law. Specifically, it is a violation of the law to conspire with others to buy and sell a prearranged number of securities at a prearranged price with each other or to engage in fictitious buying or selling without transferring the legal ownership of the securities. Another common market manipulation is the creation of false trading impression. Manipulating a market price by creating a misleading or false trading impression on others is also a violation of the law. Such manipulation usually involves individuals who engage in prearranged buying and selling to create a false or misleading impression of significant trading.

7.6 TRADING OF SECURITIES EMPLOYING DECEPTION

FISCOMA comprehensively prohibits trading of securities aimed at generating pecuniary or other financial gains through: (i) the use of an unfair means, scheme, or technique; or (ii) misrepresentation or omission of material information. Disseminating a rumor, employing deception, or using violence or threat to facilitate buying or selling of securities or manipulate the market price is prohibited as unfair trading under FISCOMA.

7.7 MARKET ABUSES

Under the newly amended FISCOMA, market abuses are broadly grouped into abuses involving the use of insider and outsider information and abuses involving market manipulation.

Market abuse involving the use of insider and outsider information

Prior to the market abuse amendments that took effect on July 1, 2015, FISCOMA provisions prohibiting the use of material nonpublic information (article 174) did not extend to insider information received second-hand or more remotely, or privileged information generated or held by outsiders such as material nonpublic information pertaining to a significant market activity or a major government action or policy decision. After the market abuse amendments took effect, making use of nonpublic information received second-hand or more remotely, privileged information generated or held by outsiders, or information obtained through hacking or other unlawful means is strictly prohibited.

Market abuse involving market manipulation

Prior to the market abuse amendments to FISCOMA, provisions barring trading of securities aimed at market manipulation (article 176) and other unlawful trading activities (article 178) were difficult to enforce in the absence of an intent to induce others to trade in a certain way or an objective to achieve unlawful financial gains. After the market abuse provisions took effect in July 2015, enforcement action in the form of a punitive fine can be taken against a person when that person is judged to distort or hold the potential to distort the market price by placing a large buy/sell order without any intent to execute, engaging in wash sales, placing a matched order, or disseminating a false rumor.

7.8 INVESTIGATION AND ENFORCEMENT

As authorized under FISCMA, the SFC is vested with the powers to investigate unfair trading and take appropriate enforcement actions. The powers specified for the SFC under FISCMA include disgorgement of gains from short-swing profit by corporate insiders, reporting of share ownership by company officers and other insiders, prohibition on the use of material nonpublic information, prohibition on market manipulation, and prohibition on unlawful securities trading. The SFC is also granted the authority to investigate securities offerings in the primary and secondary markets.

FISCMA authorizes the SFC to delegate the power to investigate unfair trading to the FSS. As a result, it is the FSS that actually performs the investigation of unfair trading and other securities law violations under the authority of the SFC. (In addition to the SFC, the FSC delegates its broad investigation and enforcement powers to the FSS.)

With a court-issued warrant, the SFC may conduct interviews, order document submission, and search the premises of individuals who are suspected of unfair trading connected with short-swing profit of a company insider, share ownership reporting, use of material nonpublic information, market manipulation, unlawful securities trading, or short-selling.

7.8.1 Investigation methods

As provided under FISCMA and the Act on Real Name Financial Transactions and Confidentiality, the FSS may perform investigation of unfair trading under the authority of the SFC in the following manner:

- (a) Request records and other relevant documents;
- (b) Request statements and affidavit from individuals who are involved in or connected with unfair trading;
- (c) Summon for questioning individuals who are involved in or connected with unfair trading;
- (d) Hold in custody documents and objects pertaining to unfair trading;
- (e) Examine financial institution for unfair trading investigation; and
- (f) Obtain information from government administrative agencies and from foreign supervisory authorities.

7.8.2 Corrective measures and enforcement actions

When an investigation leads to the discovery of unfair trading, corrective measures and enforcement actions available to the FSS include:

- (a) Refer the suspected individuals to the law enforcement authorities;
- (b) Issue a warning or a corrective action;
- (c) Impose an administrative fine, restrict new securities issuance, or refer to the law enforcement authorities for a disclosure violation; and
- (d) Demand pay reduction and removal from the job for company officers and employees involved in unfair trading.

The SFC may refer some investigations to the prosecution authority as a priority under certain circumstances as follows:

- (a) Action is needed because the SFC is unable to convene for an extended period as a result of unexpected developments and circumstances such as a natural calamity;
- (b) Referral to the prosecution authority is needed because an unfair trading matter under FSS investigation is also being investigated by the prosecution authority;
- (c) Violation of the securities law and regulation is recurring and threatening investors; or
- (d) Action is needed to prevent a suspect from destroying evidence or fleeing.

7.8.3 Investigation and enforcement process

Investigation and enforcement of unfair trading is shared among the Korea Exchange, the FSS, and the prosecution authority. Whereas the Korea Exchange as a self-regulatory organization for the securities industry is charged with market monitoring and fact finding, the FSS conducts or takes charge of unfair trading investigations requiring highly technical or specialized expertise. The government prosecution authority works to impose criminal penalties for violation of the securities law. Thus, when the Korea Exchange detects a suspicious share price movement or an unusual trading activity, it forwards to the FSS information pertaining to the suspicious trading and individuals involved. The FSS then initiates additional fact finding and information collection and requests document submission and interviews from suspected individuals in order to determine whether any violation of law occurred. Where criminal penalty is warranted, the FSS refers the case to the prosecution authority on behalf of or through the SFC.

The FSC may also investigate cases of unfair trading using its own broad investigation and enforcement powers on the basis of information received from the Korea Exchange and refer the cases to the prosecution authority for criminal action through the SFC.

Accounting Supervision

The legal framework for accounting supervision comprises FISCMA, the Act on External Audit of Stock Companies, and the Certified Public Accountant Act.

FISCMA provides disclosure measures such as a periodic filing of Business Report in order to ensure the accuracy and reliability of financial reporting. It also requires audited financial reporting from listed companies that are subject to Business Report filing. In addition, FISCMA requires companies to continually operate internal controls, evaluate internal audit and the external auditors, and provide detailed assessment in their Business Report.

The Act on External Audit of Stock Companies provides for independent external audit of listed companies and others subject to independent external audit. Listed companies are required to appoint an auditor for a three-year term but may dismiss the auditor before the three-year term ends with the approval of the company's audit committee and reporting to the SFC. The Certified Public Accountant Act governs the qualification, registration, services, rights, and duties of certified public accountants (CPAs) and accounting firms. CPAs and accounting firms must register with the FSS. Under the Act on External Audit of Stock Companies, any group of three or more CPAs that operates as a non-business entity must register with the Korean Institute of Certified Public Accountants to carry out audit performance.

Companies subject to external audit are required to present financial statements in accordance with the established accounting standards. With accounting oversight authority delegated from the SFC, the FSS examines listed companies' and unlisted financial services firms' financial statements and the audit performed while it inspects the auditor's report. Companies subject to external audit must also operate with an internal accounting management system for the preparation of accounting information. The auditor must also prepare an evaluation of the actual status of the audited company's internal accounting management system and disclose it in the Business Report.

Table 20.

Rating Components and Evaluation Factors

	Financial Investment Services and Capital Markets Act	Act on External Audit of Stock Companies
Objective	<ul style="list-style-type: none"> • Efficient functioning of primary and secondary securities markets; • Protection of investors; 	<ul style="list-style-type: none"> • Effective accounting supervision through independent external auditors; • Protection of market participants;
Regulated entities	<ul style="list-style-type: none"> • Listed companies and others subject to the filing of Business Report; 	<ul style="list-style-type: none"> • Companies subject to independent external audit; • Auditors;
Regulatory reporting	<ul style="list-style-type: none"> • Registration statements; • Quarterly, semiannual, and annual filings of Business Report; 	<ul style="list-style-type: none"> • Financial statements; • Auditor's report;
Accounting supervision and procedure	<ul style="list-style-type: none"> • Mandatory audited financial statements of companies subject to filing Business Report; • Affirmation of compliance with registration statement and Business Report filing requirements; • Internal monitoring and controls; • Review and inspection of companies subject to the filing of Business Report; • Adverse supervisory actions to companies including monetary fines, restrictions on new securities issuance, and other administrative actions; • Adverse supervisory actions to the auditor including monetary fines; 	<ul style="list-style-type: none"> • Mandatory audit of financial statements subject to independent external audit; • Affirmation of compliance with accounting standards by company management; • Internal accounting and audit management systems; • Review of auditor's report (company and auditor); • Inspection of quality controls for auditing firms; • Adverse supervisory actions to companies including recommendation for dismissal of officers, restrictions on new securities issuance, appointment of designated auditor, and other administrative actions; • Adverse supervisory actions to the auditor including restriction on audit of listed companies, audit suspension, and other administrative actions; • Adverse supervisory actions to CPAs including the recommendation for revocation or suspension of license, restriction on duties as auditors, warnings, and other administrative actions;

7.9 AUDIT REVIEW AND QUALITY CONTROL INSPECTION

The chief executive officer of a listed company is responsible for the preparation of the company's financial statements in accordance with the established accounting standards. The company's auditor then performs an independent audit of the accuracy and the reliability of the company's financial statements and delivers an audit opinion. The primary objective of accounting supervision is to review whether financial statements and the auditor's report are prepared according to the relevant standards. Reviewing the design and operation of auditors' quality control systems is another important accounting supervision objective.

7.10 COMPANIES SUBJECT TO AUDIT REVIEW

Under the authority delegated from or charged by the SFC, the FSS performs a review of audited financial statements from listed companies and unlisted financial services firms. The Korean Institute of Certified Public Accountants contributes to the audit review process by performing reviews of audited financial statements from companies not covered by the FSS.

Audit review broadly falls into either a targeted audit review or a sample audit review. The FSS conducts a targeted audit review when:

- (a) The FSC requests a review;
- (b) The FSC or the SFC suspects an accounting or audit violation;
- (c) The SFC receives a request from a law enforcement authority with specific allegations about an accounting or audit violation; or
- (d) The SFC receives a request from a corporate insider, an audit participant, or other sources with credible charges of accounting misconduct.

The FSS also conducts a sample audit review employing quantitative analysis methods utilizing financial analysis tools or random sampling methods.

7.11 AUDIT SUPERVISION

Before the revised Act on External Audit of Stock Companies took effect, under authorities delegated from or charged by the SFC, the FSS had performed quality control inspection of auditors that:

- (a) Perform audit of one percent or more of listed companies as of the end of April each year;
- (b) Perform audit of listed companies with assets of KRW1 trillion or more as of the end of April each year;

- (c) Employ 30 or more CPAs as of the end of April each year; or
- (d) Become subject to FSS audit review upon the conclusion of a joint audit inspection with a foreign supervisory authority or other supervisory concerns.

Beginning in 2020, after the listed company auditor registration regime was implemented in 2019 under the revised Act on External Audit of Stock Companies, the FSS carries out quality control inspections of listed company auditors while the Korean Institute of Certified Public Accountants performs quality control inspections on auditors that do not fall under the above-mentioned regime.

7.12 ACCOUNTING AND AUDIT STANDARDS

Financial statements are prepared and presented in accordance with the accounting standards, while audits by external auditors are conducted in accordance with audit standards. The FSC delegates the authority to set accounting standards to the Korea Accounting Institute under the oversight of the SFC. Following the announcement of a roadmap for the full adoption of the IFRS in March 2007, the IFRS became mandatory for all listed companies, unlisted financial institutions, and companies set to go public beginning in 2011. Auditors are required to perform audit in accordance with the auditing standards set by the Korean Institute of Certified Public Accountants. The standards follow the Clarified International Standards on Auditing set forth by the International Federation of Accountants.

Appendices

A. Incorporation of Financial Service Company

Financial services companies must be incorporated and licensed in accordance with the applicable laws and regulations. For supervision purposes, the FSS classifies financial institutions into four general types: bank, nonbank financial institution, financial investment service provider, and insurance company.

A.1 REGISTRATION, AUTHORIZATION, AND APPROVAL

Unless specifically provided otherwise under the law, the incorporation of a financial services company requires FSC/FSS authorization, approval, or registration. Both authorization and approval are administrative actions that legally sanction a person (natural or legal) for a business activity. Although authorization and approval are similar in meaning and are often used interchangeably, authorization more narrowly means giving a person the permission to engage in a regulated business activity whereas approval more specifically means granting the full legal effect to a business activity. Some financial services businesses merely need to register with the FSC/FSS. Registration is approved without regulatory scrutiny when the applicant satisfies the established requirements.

A.2 REVIEW OF INCORPORATION APPLICATION

Authorization/approval for the incorporation of a financial services company is granted after a thorough review is performed of the incorporation application, especially in respect of the applicant's legal form, the feasibility and viability of the applicant's business plans, the availability of capital, the composition of the major shareholders, and the competence of the management.

Table 21.

Incorporation Requiring Registration, Authorization, or Approval

Registration

Financial Investment Service Provider

- Investment advisory company
- Discretionary investment services company
- Hedge fund

Nonbank Financial Institution

- Intermediaries including insurance sales agent, agency, and broker
- Actuary, claims adjuster
- Others providing product development or claims payout services

Nonbank Financial Institution

- Retail credit card issuer
- Leasing company
- Installment finance company
- New technology venture capital company
- Moneylender
- Online investment-linked financial business

Authorization

Bank

- National bank, regional bank
- Foreign bank branch
- Internet bank

Financial Investment Service Provider

- Dealing
- Brokerage
- Collective investment services
- Trust services

Nonbank Financial Institution

- Mutual savings bank
- Credit union

Financial Holding Company

Approval

Nonbank Financial Institution

- Credit card company

Insurance Company

- Life insurance
 - Nonlife insurance
 - Hybrid insurance
-

A.2.1 Type of legal form proposed

As a rule, the incorporation of a financial service company is limited to a corporate form as recognized under the Commercial Act (the commercial code) with some exceptions provided for credit unions and several other smaller institutions.

A.2.2 Business feasibility and viability

For the assessment of the feasibility and viability of the application, extensive analysis and assessment of the financial soundness of the proposed business as a going concern are made. Assessments are also made on the prospect for the applicant's long-term business viability and its competitive effect on the industry.

A.2.3 Business resources and operational capability

Human and business resources and operational capabilities that are available to effectively serve consumers and remain a going concern are another key review criterion. The appropriate levels of resources and operational capabilities may vary from industry to industry and the type of financial services to be offered. For services such as insurance requiring actuaries, claims adjusters and other specialists, the applicable laws and regulations specify the required employee levels.

A.2.4 Minimum incorporation capital requirements

Specific minimum capital requirements for the incorporation of a financial services company are set (Table 22). Note that authorization for financial investment service is granted for individual financial investment service businesses. Similarly, approval for insurance is granted for individual insurance business lines.

Table 22.

Minimum Incorporation Capital Requirements

(Billions of KRW)

Bank	
• National bank	100
• Regional bank	25
• Internet bank	25
Nonbank financial institution	
• Specialized credit finance company	20 for credit card business only; 20 for credit card business and one of the leasing business, installment finance business, and new technology venture business; 40 for three or four businesses including credit card business; 20 for any or more than one of the leasing business, installment finance business, and new technology venture business without credit card business; 10 for new technology venture business only;
• Mutual savings bank	12 for a bank with the main office located in the Seoul Metropolitan City; 8 for a bank with the main office located in one of the five metropolitan cities other than Seoul; 4 for others;
• Credit union (operating in metropolitan cities)	0.3 for region-specific credit union; 0.1 for group-specific credit union; 0.04 for workplace-specific credit union;
• Moneylender	0.5 for lending debt purchase collection business; 0.3 for others; 0 for moneylending brokerage only;
• Online investment-linked financial business	3 for business with linked loans of KRW100 billion or more; 1 for business with linked loans of KRW30 or more and less than KRW100 billion; 0.5 for business with linked loans of less than KRW30 billion;
Financial investment service provider	
• Dealing	1–90
• Brokerage	0.5–20
• Collective investment scheme	2–8
• Trust service	5–25
Insurance company	
• Full insurance business	30
• Single insurance business	5
• Branch of foreign insurance company	3

A.2.5 Management and shareholder composition

The composition of the management and the shareholders proposed is reviewed not only for prudential reasons, but also for potential abuses by company insiders. The review of the applicant's shareholders covers not only the individual organizers and major shareholders, but also persons specially related or connected to the shareholders and any other persons who may be able to exert undue influence on the management of the proposed company. The review extends to the shareholders' ability to contribute capital to the company, their financial conditions, their past irregularities and rule violations, and the sources of funding for the proposed incorporation.

In accordance with the principle of separation of banking and commerce, acquiring ownership in a financial services company—especially in a deposit-taking institution such as a commercial bank or a mutual savings bank—is subject to enhanced regulatory review. The review is designed to prevent a few individuals, companies, and business groups from exercising undue influence on the credit decisions or the management of financial services companies and on market activities. The review of the proposed management also takes place with a particular emphasis on disqualifying causes and the ethical standards of the individual managers.

A.2.6 Preliminary authorization/approval

In order to ensure a smooth and cost-effective authorization/approval process for the incorporation applicant, the incorporation rules provide for a preliminary authorization/approval. Where it is determined that the applicant unequivocally meets all of the authorization/approval requirements or an accelerated authorization/approval is warranted, the preliminary authorization/approval may be waived. The law provides for a transparent and expeditious incorporation process by imposing a specific length of time within which the review must be completed for both the preliminary and the final authorization/approval.

An applicant that satisfies all of the incorporation requirements must be promptly granted the authorization/approval sought. Where the authorized or approved company fails to comply with any of the incorporation requirements after receiving the authorization/approval, the FSC/FSS may revoke the authorization/approval.

A.3 AUTHORIZATION FOR FOREIGN BANK BRANCHES

A foreign bank seeking to open or close a bank branch or a representative office in Korea must obtain an appropriate authorization from the FSC/FSS. The authorization of a foreign bank branch may be withdrawn where the branch's foreign-headquartered bank ceases to exist as a result of merger or other reasons, receives sanctions for improper or unlawful conduct, or suspends or terminates its banking business. Foreign bank branches must report all such occurrences to the FSC/FSS within seven days from

the date of the occurrence. The banking license of a foreign bank branch is deemed to be revoked where the foreign-headquartered bank fails, loses its home banking license, terminates its banking business, or ceases to function as a going concern.

A.4 WITHDRAWAL OF REGULATORY AUTHORIZATION/APPROVAL

The FSC/FSS is vested with the authority to revoke the business license of a financial services company. A financial services company pursuing major reorganization or alteration of its existing business structure must obtain prior authorization/approval from the FSC/FSS. Such business reorganization or alteration includes a breakup of the company, a merger with another financial services company, a whole or partial acquisition (or assignment) of a financial services business, the termination of a financial services business, and the dissolution of the company.

Where it is determined that a financial services company is unable to continue safe and sound business operation as a going concern, the FSC/FSS may issue a prompt corrective action and order a merger or the dissolution of the company through the sale of the company's businesses.

The FSC/FSS may also revoke a business license where it is determined that a financial services company:

- (a) Obtained a business license through misrepresentation, deception, or fraud;
- (b) Failed to comply with legal and regulatory requirements;
- (c) Carried on financial services business while under FSC/FSS-imposed business suspension;
- (d) Failed to comply with supervisory orders for remedial actions;
- (e) Acquired or disposed of assets (such as debt and equity securities) through illegal means;
- (f) Defaulted on a credit obligation and significantly disrupted the normal and orderly functioning of the financial market; or
- (g) Will likely cause substantial financial losses to depositors or investors due to a grave legal or regulatory failure.

The FSC/FSS may also revoke the registration of a financial services firm for any of the aforementioned causes.

A.5 FINANCIAL FIRM OWNERSHIP

Ownership of a financial services company is regulated under the principle of the separation of banking and commerce to prevent financial services companies from operating under the undue influence of a select few individuals, companies, or business groups. However, non-depository financial services companies such as specialized credit finance companies are not subject to stringent ownership restrictions. Small-scale depository institutions such as mutual savings banks and credit unions that are not particularly susceptible to abuse by the controlling shareholders are also subject to less stringent ownership regulations.

A.6 BANK SHARE OWNERSHIP

Restrictions on bank share ownership were first instituted in the Banking Act in December 1982 following a series of bank privatization initiatives as safeguards against large shareholders that may seek to profit from influencing the bank's credit decisions. The key safeguard provision in the Banking Act is article 15(1) that expressly prohibits a "same party" from holding more than 10 percent of the outstanding voting shares of a national bank. (The limit is 15 percent for a regional bank.) Shares held by a shareholder mean shares that a person owns both legally and beneficially.

The Banking Act provides that the "same party" includes not only a shareholder of a bank, but also persons that are tied or connected to the shareholder by a special relationship ("related persons") such as the shareholder's family members or relatives. In addition, a company is deemed a related person to a shareholder of a bank if the shareholder's family members or relatives hold more than 30 percent of the total shares of the company or effectively controls the company as its largest shareholders.

A.6.1 Exceptions to the 10 percent limit

The Banking Act provides several exceptions to the 10 percent limit on bank share ownership. Shares that are held by a government authority or the Korea Deposit Insurance Corporation are not subject to any share ownership restriction. Similarly, bank holding companies are excluded from any bank share ownership restrictions. The maximum share ownership permitted for the same party of a regional bank is 15 percent.

A.6.2 Disposition of excess shares

Where the number of shares held by the same party exceeds the 10 percent limit, the voting rights of the excess shares (the above-10 percent shares) are suspended, and full disposition of the excess shares must take place promptly. When the shareholder fails to fully dispose of the excess shares, the FSC/FSS may issue a disposition order for any remaining excess shares within a period of less than six months. Failure to comply with a disposition order by the FSC/FSS may result in a daily fine equivalent to 0.03 percent of the book value of the remaining excess shares.

A.6.3 Approval for excess shares

A same party seeking to acquire shares in excess of 10 percent must satisfy the excess share acquisition criteria as set forth in the Banking Act and in the subordinate regulations and obtain approval from the FSC/FSS. Approval must be obtained each time the aggregate number of shares held by the same party exceeds 10 percent (15 percent for a regional bank), 25 percent, and 33 percent of the outstanding voting shares of a national bank. The FSC/FSS has the authority under the law to approve excess share acquisition with a specific limit on its own discretion; any additional share acquisition thereafter must be approved again. The FSC conducts a review of bank shareholders' compliance with the excess share acquisition requirements on a semiannual basis and on an ad hoc basis as needed.

Although the Banking Act and the subordinate regulations give exceptions to the 10 percent limit for the same party, they also require evaluation of the following considerations before additional share acquisition can be permitted pursuant to article 15(1) through (4) of the Banking Act.

- Risks the shareholder poses on the soundness of the bank;
- Shareholder's asset size and financial soundness;
- Amount of credit, if any, that the bank has extended to the shareholder; and
- Shareholder's capacity to contribute to the bank's safety and soundness.

A.7 BANK OWNERSHIP BY NON-FINANCIAL ENTITY

For a non-financial entity (NFE), the limit for share ownership in a national bank is 4 percent (15 percent in a regional bank).⁷ Exceptionally, it may also own up to 34 percent of an internet bank's outstanding voting shares after it obtains approval from the FSC. The primary rationale for share ownership restrictions on an NFE is to prevent non-banking enterprises—mostly business groups that control companies engaging industrial enterprises—from unduly influencing the operation and management of a bank under the principle of the separation of banking and commerce.

A.7.1 Definition of Non-Financial Entity

An NFE is defined in the Banking Act as:

- (a) A same party—a shareholder and related persons—whose aggregate capital from non-financial business entities exceeds 25 percent of the same party's aggregate capital, or whose aggregate assets from non-financial business entities exceed KRW2 trillion;

⁷ The term "non-financial entity" is translated as "non-financial business operator" in some publications.

- (b) An investment company of which a person falling under subparagraph (a) above holds more than 4 percent of the investment company's outstanding shares;
- (c) A private equity fund (PEF) of which a person falling under either subparagraph (a) or (b) above is the PEF's limited partner that holds, together with any related persons, 10 percent or more of the PEF's paid-up capital;
- (d) A PEF of which a person falling under either subparagraph (a) or (b) above is the PEF's general partner;
- (e) A PEF of which the aggregate equity of the affiliated companies of a business group that is subject to interlocking share-holding restrictions makes up 30 percent or more of the PEF's paid-up capital; or
- (f) A special-purpose company (SPC) of which a PEF falling under either subparagraph (c), (d), or (e) holds more than 4 percent of the SPC's shares or equity and exercises de facto control over the management of the SPC.

A.7.2 Share acquisition above 4 percent

An NFE that seeks to acquire more than 4 percent of the outstanding voting shares of a national bank with the intent to become the bank's largest shareholder or participate in the management of the bank (by influencing the appointment of the bank's directors or officers) must obtain approval from the FSC/FSS.

Where an NFE must obtain an ex post approval for shares acquired in excess of 4 percent under exceptional circumstances—such as share disposition by other shareholders or a capital write-down—the NFE must report the acquisition to the FSC/FSS within five business days from the date of the acquisition. The NFE must then either obtain approval from the FSC within six months from the date of the acquisition or dispose of the excess shares. Should the NFE fail to comply with the 4 percent limit within six months, the voting rights of the excess shares are suspended, and the FSC may issue a share disposition order for the excess shares.

A.7.3 NFE restrictions under the 4 percent share acquisition rule

As a rule, no NFE may hold more than 4 percent of the voting shares of a national bank; for a regional bank and an internet bank, the limit is 15 percent and 34 percent, respectively. The restriction may be raised up to 10 percent with approval from the FSC, provided that the NFE relinquishes the voting rights of the above-4 percent shares and meets the applicable financial soundness criteria.

A.7.4 Share acquisition in excess of 10 percent

An NFE may hold more than 10 percent of the voting shares of a national bank where:

- (a) The NFE delivers to the FSC an intent to become a non-NFE within two years and obtains preliminary approval for the planned conversion to a non-NFE;
- (b) The proportion of shares held by the NFE is not greater than the proportion of shares held by foreign investors as a group; this rule is applicable to a single bank only, and the voting rights become restricted, and the FSC may issue a share disposition order within one year for any excess holdings; or
- (c) A fund created under article 5 of the National Finance Act or an entity managing such funds obtains approval from the FSC/FSS as an NFE.

A.7.5 Reporting of above 4 percent share ownership

A report on share ownership must be filed with the FSC/FSS within five business days as provided for under article 15 of the Banking Act when:

- (a) A same party comes to hold more than 4 percent of the voting shares of a national bank;
- (b) A same party falling under subparagraph (a) above becomes the largest shareholder of the national bank;
- (c) The aggregate equity of a same party falling under subparagraph (a) above increases or decreases by more than 1 percent;
- (d) A change of a partner (either the general partner or a limited partner) of a PEF that holds more than 4 percent of the voting shares of a national bank occurs; or
- (e) A change of a shareholder or a partner (either the general partner or a limited partner) of an SPC that holds more than 4 percent of the voting shares of a national bank occurs.

A.7.6 Restrictions on large shareholders

A shareholder of a bank classified as a large shareholder under the Banking Act is subject to certain share ownership restrictions. Article 2(1)10 of the Banking Act defines a large shareholder of a bank as:

- (a) A shareholder that holds more than 10 percent of the voting shares of a national bank (15 percent for a regional bank); or

- (b) A shareholder that holds more than 4 percent of the voting shares of a national bank and is either the largest shareholder of the bank or a shareholder that (i) effectively exerts influence on the bank's management decisions through such means as appointing the bank's directors or officers, or (ii) is an NFE that actively participates in the management of the bank through such means as appointing the bank's directors or officers.

The maximum amount of credit that may be extended to a single large shareholder is the lower of either (i) an amount equivalent to 25 percent of the bank's shareholders' equity, or (ii) an amount equivalent to the proportion of the shareholder's claim in the bank's shareholders' equity.

Where the amount of credit to be extended to a large shareholder exceeds the lower of either (i) 0.1 percent of the bank's shareholders' equity, or (ii) KRW5 billion, the bank must act to ensure that:

- A unanimous decision is reached from every member of the board of directors;
- The FSC/FSS is duly notified of the credit extension decision in advance; and
- Disclosure of the credit extension is made to the general public.

Credit extension to large shareholders is restricted to 25 percent of the bank's shareholders' equity. Cross-lending involving a borrower from another bank, which is intended to circumvent the existing credit extension restrictions on large shareholders, is not permitted. (In a cross-lending scheme, Borrower 1 obtains the maximum credit allowed from Bank A, and Borrower 2 does the same from Bank B. Borrower 1 then obtains additional credit from Bank B and Borrower 2 from Bank A. The secondary credit extensions are then switched between the two borrowers.)

A.7.7 Restrictions on acquisition of shares issued by large shareholders

Bank acquisition of shares issued by a large shareholder is limited to 1 percent of the bank's shareholders' equity. For unlisted shares, the maximum is 0.5 percent. In addition, share acquisition in excess of the lower of either (i) 0.1 percent of the bank's shareholders' equity or (ii) KRW5 billion requires a unanimous vote of the board of directors of the bank, reporting to the FSC, and a public disclosure.

A.8 GOVERNANCE

The board of directors of a financial services company comprises executive directors, non-executive directors (non-executive inside directors), and outside directors (non-executive outside directors). Non-executive directors and outside directors are mutually exclusive. Non-executive directors do not take part in the day-to-day management

decisions. Outside directors are independent of the management. They are appointed at the general shareholders' meeting with the recommendation of the board's director selection committee; outside directors must make up the majority of the director selection committee.

A.8.1 Composition of board of directors

Outside directors must make up at least three of the board members and the majority of the board for commercial banks. Outside directors must also make up at least three and at least half of the board members for financial investment services providers, insurance companies, and credit card companies with assets of KRW5 trillion or more is required to appoint the majority of the board with outside directors.

A.8.2 Persons ineligible for outside director

The following persons are ineligible to serve as an outside director of a financial services company:

- (a) A minor;
- (b) A person who has been declared mentally incompetent by the court;
- (c) A person in bankruptcy;
- (d) A person with less than five years elapsed since the completion of a court-ordered prison sentence;
- (e) A person with less than five years elapsed since being removed or discharged from employment for a breach of the Banking Act or any other financial laws and regulations;
- (f) The largest shareholder and any persons specially related or connected to the shareholder;
- (g) The spouse and children of a major shareholder;
- (h) A current or former (during the previous two years) officer or employee (of either a financial services company or its subsidiary);
- (i) The spouse and children of a current officer;
- (j) A current or former (during the previous two years) officer or employee of a company with significant business relations with the financial services company; or

- (k) A current officer or employee of a company where a current officer or employee of the financial services company serves as an outside director.

A.8.3 Outside director selection committee

Outside directors are selected with the recommendation of director selection committee made up of outside directors who constitute the majority of the selection committee. The selected candidates are then approved at the general shareholders' meeting. (For listed companies, a person recommended by a shareholder who holds at least 1 percent of the company's outstanding voting shares must be included in the candidate list. This measure is intended to strengthen minority shareholder rights and provide a check on large shareholders.)

A.8.4 Audit committee

An operating audit committee is mandatory for banks and financial services companies whose outside directors must constitute at least three and at least half of the board members. An audit committee requires a minimum of three directors, and a minimum of two-thirds (2/3) must consist of outside directors. For listed financial services companies whose assets at the most recent year-end financial reporting exceed KRW2 trillion, the audit committee must be headed by an outside director and include at least one director with accounting or financial expertise. For the commercial banks, a candidate selection committee made up entirely of outside directors must be formed for audit committee membership. The selected candidates may be presented to the general shareholders' meeting for appointment only with the consent of the two-thirds (2/3) of the outside directors. The eligibility requirements for audit committee members are same as those for outside directors.

A.8.5 Internal controls and compliance

Together with the outside director and audit committee regimes, internal controls and compliance constitute the core of corporate governance structure. Whereas outside directors and audit committee are particularly applicable to large financial institutions, internal control standards and compliance regimes apply to all financial services companies irrespective of the size, the types of business, and the listed status.

For compliance, at least one compliance officer must be appointed to monitor internal control compliance, investigate any cases of noncompliance, and report them to the audit committee. A vote by the board of directors is required to appoint or discharge a compliance officer. Foreign bank branches may appoint a compliance officer without satisfying the board approval requirement.

B. Legal and Regulatory Structures

Financial statutes and regulations consist of laws enacted by the National Assembly, enforcement decrees approved by the president's state council (cabinet), enforcement rules approved by the Office for Government Policy Coordination under the prime minister, and regulations written by the Financial Services Commission and the Financial Supervisory Service. Although enforcement decrees, enforcement rules, and supervisory regulations differ in hierarchy, they are all intended to implement and support specific statutes enacted by the National Assembly.

B.1 LAWS

A law is enacted by the National Assembly. It supersedes enforcement decrees, enforcement rules, and regulations that are written and enforced by the administrative agencies of the executive branch.

B.2 ENFORCEMENT DECREES AND ENFORCEMENT RULES

An enforcement decree, also called presidential enforcement decree, is a regulation immediately subordinate to laws. It is approved by the president's state council (cabinet) to implement statutes enacted by the National Assembly. An enforcement rule is a regulation subordinate to enforcement decree and approved by the Office for Government Policy Coordination under the prime minister. Enforcement rules complement enforcement decrees with additional detailed rules in support of statutes enacted by the National Assembly. Laws passed by the National Assembly are not always accompanied by an enforcement decree and an enforcement rule.

B.3 REGULATIONS AND DETAILED REGULATIONS

In respect of financial regulation and supervision, regulations are written by the FSC, a regulatory agency of the executive branch, to complement enforcement decrees and enforcement rules and ensure full enforcement of statutes. Regulations are subordinate to both enforcement decrees and enforcement rules. The Regulation on Supervision of Banking Business is thus subordinate to the Enforcement Decree of the Banking Act. Because the FSC and the FSS share financial regulation and supervision, the FSC assigns or delegates most of the enforcement functions such as investigation of unlawful securities trading to the FSS. Detailed regulations are written by the FSS in support of FSC regulations to ensure effective performance of supervisory duties and functions.

B.4 LEGAL AND REGULATORY STRUCTURES AND RULEMAKING PROCESS

The legal and regulatory structure for banking business is typical of the legal and regulatory structures for nonbank, securities, and insurance businesses. The statutes and regulations applicable to banking in descending hierarchy are:

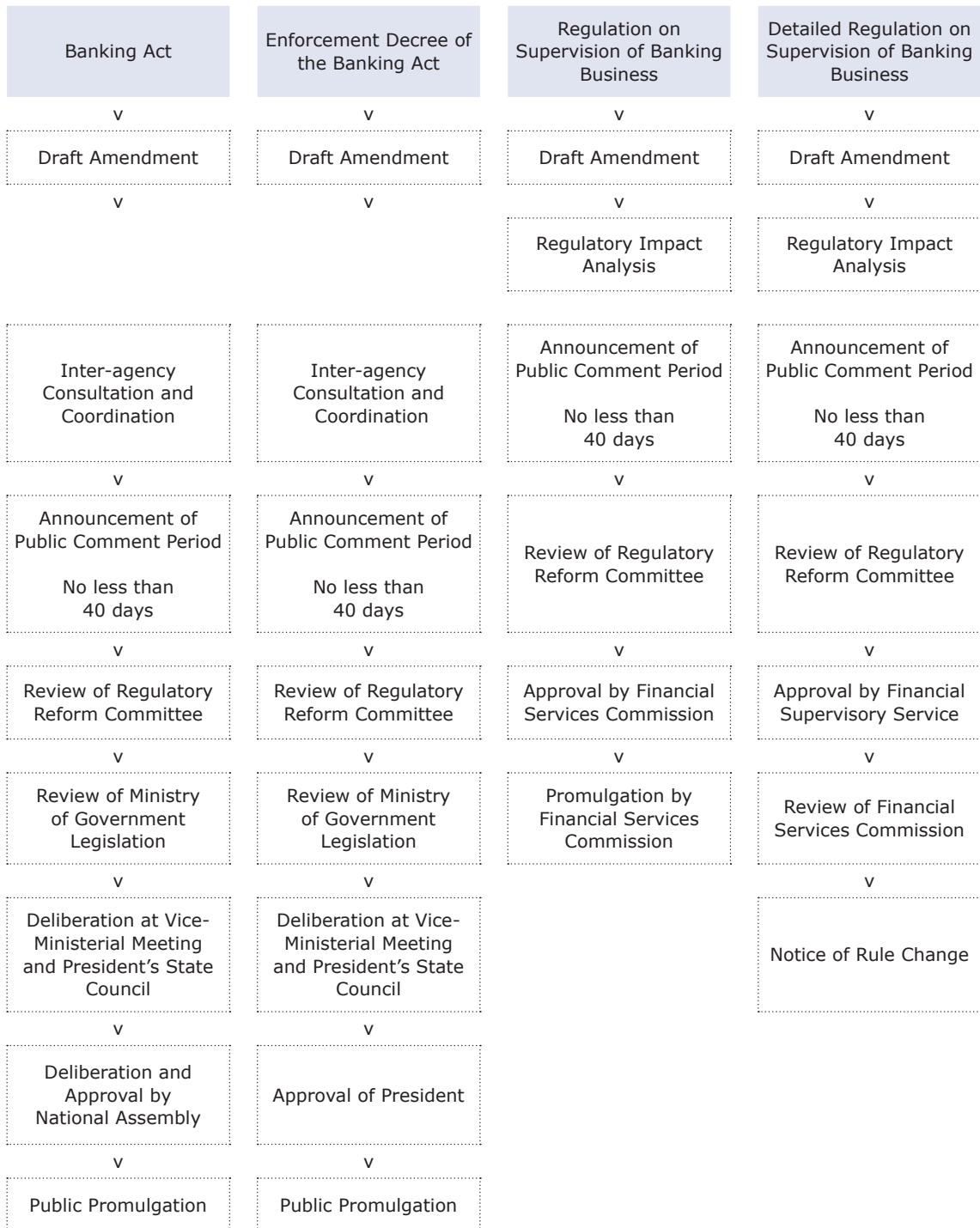
- (1) Banking Act, legislated and amended by the National Assembly;
- (2) Enforcement Decree of the Banking Act, written and approved by the president's cabinet;
- (3) Regulation on Supervision of Banking Business, written and amended by the FSC; and
- (4) Detailed Regulation on Supervision of Banking Business, written and amended by the FSS.

The underlying rationale for the hierarchical structures is that the Banking Act provides the broad legal basis for regulating banking business, and the subordinate enforcement decrees and regulations set forth specific provisions needed to enforce the Banking Act. As an example, the provisions of the Banking Act and the subordinate enforcement decrees and regulations pertaining to bank capital requirements vary in specificity as follows:

- Article 34 of the Banking Act requires banking institutions to comply with supervision standards and grants the FSC the authority to set the supervision standards.
- Article 20 of the Enforcement Decree of the Banking Act sets forth specific provisions to be included in the determination of supervision standards; the specific provisions pertain to bank capital standards and asset classification rules.
- Article 26 of the Regulation on Supervision of Banking Business provides that banking institutions must comply with the minimum standards for common equity tier 1 capital, tier 1 capital, and total regulatory capital and that the authority to set the specific minimum capital standards may be delegated by the FSC to the FSS.
- Article 17 of the Detailed Regulation on Supervision of Banking Business specifies the numerical ratios to be complied with in respect of common equity tier 1, tier 1 capital, and the total regulatory capital.

The rulemaking process is similar for most regulations. In general, when a rule is newly written or amended, it is subject to a 40-day public comment period and an independent review. After the rulemaking agency decides on the final rule, the new rule is officially promulgated before it takes effect (Figure 2).

Figure 2.
General Rulemaking Process



C. FSS Financial Statistics

The FSS regularly releases extensive information on financial services firms, the financial services industry, and the capital markets through the Financial Statistical Information System (FISIS) at <http://efisis.fss.or.kr>. Information available on FISIS can be grouped into statistics for individual financial services firms and the Monthly Financial Statistics Bulletin.

C.1 STATISTICS FOR FINANCIAL SERVICES FIRMS

Information on individual financial services firms is culled from Business Report filings—supervisory filings that financial services firms are required to submit to the FSC/FSS. Information can be searched by each individual financial sector—i.e., banking, nonbank, financial investment services, and insurance—or by each individual financial services firm. The Monthly Financial Statistics Bulletin is freely available on FISIS as an e-book in PDF.

Information available for financial services firms broadly covers the following four areas:

- General Information: Number of officers and employees, branches, and subsidiaries;
- Financial Statements: Summary financial statements, key funding and investment activities, and income and expenses;
- Soundness Indicators: Capital ratio, asset quality, ROA, ROE, and liquidity ratio; and
- Business Activities: Deposit and lending, insurance premium, securities trading and fees and commissions, and credit card purchases.

C.2 MONTHLY FINANCIAL STATISTICS BULLETIN

The FSS publishes the Monthly Financial Statistics Bulletin each month to cover wide-ranging financial industry and market statistics. The monthly bulletin covers the following four areas:

- Key Economic Indicators: Money supply, trade balances, foreign exchange reserves, interest rates, industrial activity indexes, stock indexes in major markets, and GDP;
- Financial Sector Comparison: Comparison of financial services providers (banks, securities companies, insurance companies, and others) by the number of companies, the number of employees, assets, capital, net income, deposits, and SBLs or loans classified as substandard or below;

- Financial Sector Statistics: Sector-by-sector financial conditions, income and expenses, key business indicators, and SBLs; and
- Capital Market Statistics: Funding activities, corporate bond issues, key KOSPI and KOSDAQ indexes, key derivatives indexes, and foreign investors' stock purchases.

D. FSS DART

DART—short for Data Analysis, Retrieval, and Transfer—is the online corporate disclosure filing system that the FSS operates to enable companies to electronically file documents and make other information disclosures. All DART filings are immediately made available to the public free of charge via the FSS DART internet homepages at dart.fss.or.kr (Korean) and englishdart.fss.or.kr (English).

D.1 KEY DEVELOPMENTS

The development of DART began to take shape in early 1998. First launched in March 1999, DART became compulsory and replaced offline paper filings in January 2001; the English DART website opened in February 2007. DART continued to advance with the integration of XBRL-based reporting in 2007 and IFRS-based XBRL reporting in 2010. The FSS also started providing mobile DART service in 2012 and open API service in 2013.

D.2 FILINGS IN ENGLISH

Filings in English are not compulsory, but large publicly held companies often provide them on a voluntary basis for the benefit of their foreign shareholders and investors. Information available at the FSS English DART website include filings made to foreign exchanges by internationally active domestic companies, filings from the KRX (from the Stock Market Division and from the KOSDAQ Market Division), and corporate information provided by the Korea Listed Companies Association including company profile, major shareholder information, and financial information can also be accessed from DART.

E. Selected Financial Sector Data

1. Banking Sector Data: E1 – E24
2. Insurance Sector Data: E25 – E33
3. Financial Investment Service Sector Data: E34 – E46
4. Nonbank Sector Data: E47 – E60
5. Foreign Debt and Equity Investment Data: E61 – E68
6. Other Selected Data: E69 – E74

1. Banking Sector Data

E1. Banks		
Assets, Loans, and Deposits		
(Trillions of KRW)		
	2019	2020
Assets	3,167.6	3,467.6
Loans	1,850.1	2,046.7
Household	767.8	850.1
Corporate	906.5	1,020.5
Deposits	2,162.8	2,399.8
Banking accounts	1,904.8	2,127.9
Trust accounts	258.0	271.9

Source: FSS 2020 Annual Report;

E2. Banks		
Financial Soundness Indicators		
(Amount in trillions of KRW, ratio in percent)		
	2019	2020
Net income	13.9	12.1
Income before loan-loss provisions	23.6	24.4
SBL ratio	0.77	0.64
Capital ratio	15.26	16.52
ROA	0.52	0.42
ROE	6.71	5.54

Source: FSS 2020 Annual Report;

Note: Bank loans are classified into one of five categories: (i) normal; (ii) precautionary; (iii) substandard; (iv) doubtful; or (v) presumed loss. Substandard or below loans ("SBLs") refer to loans classified as substandard, doubtful, or presumed loss. The ratio of loans classified as substandard or below ("SBL ratio") is the ratio of sum of loans classified as substandard, doubtful, or presumed loss.

E3. Banks		
Trust Assets under Management		
(Trillions of KRW)		
	2019	2020
Money trust	258.0	271.9
Specified	241.5	255.4
Unspecified	16.5	16.5
Property trust	222.3	220.6
Accounts receivable	171.5	168.8
Real estate	50.2	51.1
Securities	0.6	0.7
Others	0.1	0.2
Total	480.4	492.7

Source: FSS 2020 Annual Report;

Note: For accounting purposes, bank assets fall under one of four accounts—banking account, trust account, merchant banking account, or inter-account; banking account is used for deposit-taking and lending and trust account for customer assets managed through bank trust services.

E4. Banks		
Operating Income from Trust Asset Management Services		
(Billions of KRW)		
	2019	2020
Money trust	1,204.6	867.2
Specified	1,123.6	790.5
Unspecified	81.0	76.7
Property trust	78.6	58.9
Accounts receivable	28.6	32.2
Real estate	49.7	26.4
Securities	0.3	0.3
Others	0.0	0.2
Total	1,283.2	926.3

Source: FSS 2020 Annual Report;

E5. Banks

Income (Trillions of KRW)

	2019	2020				
	Year	Year	Q1	Q2	Q3	Q4
Commercial banks	10.0	8.7	2.6	2.1	2.5	1.5
National banks	9.0	7.7	2.3	1.9	2.2	1.3
Regional banks	1.1	1.0	0.3	0.3	0.3	0.2
Internet banks	-0.1	0.01	-0.01	0.01	0.02	-0.01
Specialized banks	3.9	3.6	0.6	1.4	1.0	0.5
Total	13.9	12.3	3.2	3.6	3.5	2.0

Source: FSS 2020 press releases;

Note: The five specialized banks are the Korea Development Bank, the Export-Import Bank of Korea, the Industrial Bank of Korea, NongHyup Bank of the National Agricultural Cooperative Federation, and Suhyup Bank of the National Federation of Fisheries Cooperatives.

E6. Banks

Loan Loss Expenses (Trillions of KRW)

	2019	2020				
	Year	Year	Q1	Q2	Q3	Q4
Commercial banks	1.6	3.0	0.5	1.3	0.7	0.6
Specialized banks	2.1	4.0	0.5	1.1	0.8	1.6
Total	3.7	7.0	1.0	2.4	1.5	2.2

Source: FSS 2020 press releases;

E7. Banks

Interest Income (Amount in trillions of KRW, NIM and margin in percent)

	2019	2020				
	Year	Year	Q1	Q2	Q3	Q4
Interest income	40.7	41.2	10.1	10.3	10.4	10.5
Net interest margin	1.56	1.41	1.47	1.42	1.40	1.38
Loan-deposit margin	1.95	1.77	1.84	1.81	1.76	1.72

Source: FSS 2020 press releases;

E8. Banks
Summary Income Statement
(Trillions of KRW)

	2019	2020				
	Year	Year	Q1	Q2	Q3	Q4
Interest income	40.7	41.2	10.1	10.3	10.4	10.5
Interest revenue	75.5	67.2	17.8	17.3	16.3	15.9
Interest expense	34.7	26.1	7.8	7.0	5.9	5.4
Non-interest income	6.5	7.3	1.7	1.9	1.8	1.9
Service fees/commissions	5.2	5.2	1.3	1.3	1.3	1.2
Trust service income	1.4	1.1	0.3	0.2	0.3	0.3
Securities-related income	2.3	2.7	0.8	1.0	0.6	0.3
Securities trading	1.1	1.4	0.4	0.5	0.4	0.1
Valuation gains	0.3	0.5	0.0	0.3	0.1	0.0
Dividend income	0.9	0.8	0.3	0.2	0.1	0.2
FX-derivatives income	2.4	2.7	0.6	0.7	0.6	0.8
Others	-4.7	-4.4	-1.2	-1.3	-1.1	-0.7
Total income	47.3	48.5	11.8	12.2	12.1	12.4
Selling and administrative expenses	23.7	24.1	5.6	5.6	5.7	7.2
Operating income before provision for loan losses	23.6	24.4	6.1	6.6	6.4	5.2
Provision for loan losses	3.7	7.0	1.0	2.4	1.5	2.2
Operating income	19.9	17.4	5.1	4.3	5.0	3.0
Non-operating income	-1.1	-0.9	-0.8	0.6	-0.3	-0.4
Income tax	4.9	4.2	1.1	1.3	1.2	0.6
Net income under K-IFRS	13.9	12.3	3.2	3.6	3.5	2.0

Source: FSS 2020 press releases;

E9. Banks
Capital Ratios
(Percent)

	Q4, 2019			Q4, 2020		
	CET1	Tier 1	Total	CET1	Tier 1	Total
Shinhan	12.75	13.30	15.91	14.92	15.88	18.47
Woori	10.97	13.17	15.40	13.14	15.03	17.34
SC	14.78	14.78	16.89	13.62	13.62	15.47
KEB Hana	13.79	13.87	16.11	12.78	12.83	14.73
Citibank Korea	18.76	18.76	19.56	19.19	19.19	20.06
KB Kookmin	14.37	14.68	15.85	15.10	15.42	17.78
National banks	13.35	14.03	16.03	14.19	14.86	17.05
Daegu	10.96	12.90	14.42	13.64	15.64	17.53
Busan	12.80	14.08	16.12	15.23	16.60	18.53
Gwangju	13.32	13.77	16.02	15.47	15.79	17.60
Jeju	10.63	11.85	14.91	11.47	12.76	15.82
Jeonbuk	11.41	11.47	14.12	11.93	11.98	14.51
Kyongnam	11.46	12.90	15.34	14.05	15.59	17.86
Regional banks	11.88	13.16	15.26	14.10	15.41	17.49
K Bank	-	10.09	10.88	17.27	17.27	17.90
Kakao Bank	-	13.14	13.48	19.55	19.55	20.03
Internet banks	-	12.82	13.21	19.20	19.20	19.70
Commercial banks	13.15	13.90	15.89	14.28	15.00	17.15
Korea Development Bank	12.13	12.13	14.05	14.26	14.26	15.96
Industrial Bank of Korea	10.30	11.97	14.47	11.13	12.82	14.82
Export-Import Bank of Korea	12.87	12.87	14.56	13.40	13.40	15.09
National Agricultural Cooperative Federation	12.47	12.65	15.19	14.98	15.11	17.70
National Federation of Fisheries Cooperatives	10.61	12.32	13.59	10.67	13.01	13.98
Specialized banks	11.77	12.30	14.42	13.25	13.82	15.72
Aggregate	12.56	13.22	15.26	13.83	14.48	16.52

Source: FSS 2020 press releases;

E10. Domestic Banks

Foreign Currency Liquidity Coverage Ratio

(Rate and ratio in percent, spread in basis points)

	2019	Year	Q1	2020		
	Year			Q2	Q3	Q4
Foreign currency LCR	121.1	111.2	115.3	124.6	110.7	111.2
Stable funding ratio	140.5	132.1	136.5	134.5	131.9	132.1
Interest rate spread						
Short-term	5.7	19.3	34.3	24.8	2.0	3.6
Mid-to-long term (over one year)	53.2	65.7	50.2	103.9	50.1	28.1
Rollover rate						
Short-term	95.0	104.9	178.5	101.6	74.7	85.2
Mid-to-long term (over one year)	96.7	111.6	124.8	102.1	134.6	73.6
5-year CDS spread	22	22	38	27	26	22

Source: FSS 2020 Annual Report;

E11. Banks

Banks: Total, Tier 1, and CET1 Ratios

(Percent)

	2018	2019	2020			
	Year	Year	Mar	Jun	Sep	Dec
Total	14.54	13.91	13.63	13.76	14.59	15.00
Tier 1	12.94	12.30	12.09	12.24	13.10	13.47
CET1	12.31	11.46	11.22	11.35	12.14	12.45

Source: FSS 2020 press releases;

E12. Banks

SBL Ratio by Assets

(Percent)

	2019				2020			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Business loans	1.43	1.32	1.23	1.10	1.09	0.99	0.92	0.92
Large companies	2.12	1.96	1.66	1.50	1.40	1.28	1.13	1.23
SMEs	1.05	0.97	1.00	0.89	0.93	0.83	0.80	0.76
Household loans	0.25	0.25	0.26	0.25	0.26	0.25	0.23	0.21
Mortgage loans	0.19	0.19	0.20	0.19	0.20	0.19	0.17	0.16
Unsecured loans	0.40	0.39	0.40	0.37	0.40	0.40	0.35	0.33
Credit card assets	1.34	1.38	1.40	1.12	1.31	1.17	1.01	0.98
Aggregate	0.98	0.91	0.86	0.77	0.78	0.71	0.65	0.64

Source: FSS 2020 press releases;

Note: Bank loans are classified into one of five categories: (i) normal; (ii) precautionary; (iii) substandard; (iv) doubtful; or (v) presumed loss. Substandard or below loans ("SBLs") refer to loans classified as substandard, doubtful, or presumed loss. The ratio of loans classified as substandard or below ("SBL ratio") is the ratio of sum of loans classified as substandard, doubtful, or presumed loss.

E13. Banks

SBLs and SBL Ratios

(Amount in trillions of KRW, ratio in percent)

	Dec 2019			Dec 2020		
	SBLs	Aggregate loans	SBL ratio	SBLs	Aggregate loans	SBL ratio
Shinhan	1.1	254.1	0.45	1.0	279.5	0.36
Woori	1.0	243.1	0.40	0.9	264.5	0.32
SC	0.2	40.9	0.42	0.1	47.3	0.31
KEB Hana	1.0	249.3	0.39	0.9	270.7	0.34
Citibank Korea	0.2	22.9	0.74	0.1	24.4	0.58
KB	1.1	288.9	0.37	0.9	315.3	0.28
National banks	4.5	1,099.1	0.41	3.9	1,201.7	0.33
Daegu	0.3	40.8	0.73	0.2	45.4	0.49
Busan	0.4	43.7	0.87	0.3	47.2	0.67
Gwangju	0.1	18.4	0.49	0.1	20.4	0.43
Jeju	0.0	5.0	0.53	0.0	5.4	0.60
Jeonbuk	0.1	13.8	0.64	0.1	14.8	0.62
Kyongnam	0.3	31.0	0.96	0.2	33.3	0.74
Regional banks	1.2	152.7	0.77	1.0	166.5	0.60
K Bank	0.0	1.4	1.41	0.03	3.0	1.05
Kakao Bank	0.0	14.9	0.22	0.05	20.3	0.25
Internet banks	0.1	16.3	0.32	0.1	23.3	0.35
Commercial banks	5.7	1,268.1	0.45	5.0	1,391.5	0.36
Korea Development Bank	3.5	128.3	2.71	3.4	143.6	2.39
Industrial Bank of Korea	2.8	220.0	1.28	2.7	246.6	1.08
Export-Import Bank of Korea	1.8	103.0	1.79	1.5	100.4	1.53
National Agricultural Cooperative Federation	1.3	227.7	0.58	1.1	253.5	0.42
National Federation of Fisheries Cooperatives	0.2	33.5	0.46	0.2	36.1	0.44
Specialized banks	9.6	712.5	1.35	8.9	780.2	1.14
Aggregate	15.3	1,980.6	0.77	13.9	2,171.7	0.64

Source: FSS 2020 press releases;

Note: Bank loans are classified into one of five categories: (i) normal; (ii) precautionary; (iii) substandard; (iv) doubtful; or (v) presumed loss. Substandard or below loans ("SBLs") refer to loans classified as substandard, doubtful, or presumed loss. The ratio of loans classified as substandard or below ("SBL ratio") is the ratio of sum of loans classified as substandard, doubtful, or presumed loss.

E14. Banks

Domestic Banks' Overseas Businesses by Region

	2019	2020	(%)
Asia (20 countries)	135	138	70.1
China	16	17	8.6
Hong Kong	11	10	5.1
Japan	9	9	4.6
ASEAN (9 countries)	81	84	42.6
Vietnam	19	18	9.1
India	16	16	8.1
Myanmar	14	15	7.6
Cambodia	10	11	5.6
Indonesia	9	11	5.6
Other Asian countries	18	18	9.1
Americas (5 countries)	27	27	13.7
U.S.	15	15	7.6
Others	12	12	6.1
Europe (9 countries)	25	24	12.2
Other regions (5 countries)	8	8	4.1
Total	195	197	100.0

Source: FSS 2020 press releases;

E15. Banks

Assets from Overseas Businesses by Asset Class

(Billions of USD)

	2019	2020
Cash and deposits	17.57	23.65
Securities	14.18	16.55
Loans	70.83	91.90
Bills brought in foreign currency	3.97	3.70
Interbank loans	5.12	6.53
Accounts from headquarters	12.89	12.00
Total	133.69	165.01

Source: FSS 2020 press releases;

E16. Banks

Assets from Overseas Businesses by Country

(Billions of USD)

	2019	2020
China	27.40	29.81
U.S.	16.58	22.72
Hong Kong	18.26	20.03
Japan	14.18	16.90
U.K.	12.51	14.55
ASEAN	30.47	44.53
Indonesia	7.80	13.27
Vietnam	8.56	11.71
Singapore	7.53	8.10
Cambodia	2.46	6.82
Others	14.29	16.47
Total	133.69	165.01

Source: FSS 2020 press releases;

E17. Banks

SBLs and SBL Ratio of Domestic Banks' Overseas Businesses by Country

(Millions of USD)

	SBLs		SBL ratio (%)	
	2019	2020	2019	2020
China	107	129	0.62	0.62
U.S.	44	24	0.46	0.22
Hong Kong	36	33	0.37	0.28
Japan	19	137	0.19	1.11
U.K.	2	31	0.04	0.41
ASEAN	262	1,793	1.21	5.68
Indonesia	163	1,550	2.76	14.79
Vietnam	25	26	0.52	0.47
Singapore	25	123	0.39	1.70
Others	59	123	0.61	1.13
Total	529	2,270	0.63	2.14

Source: FSS 2020 press releases;

E18. Banks

Net Income from Overseas Businesses

(Millions of USD)

	2019	2020
Interest income	2,064	2,385
Non-interest income	717	678
Commissions	350	300
Securities	43	64
Foreign exchange derivatives	102	41
Total profits	2,781	3,064
Selling and administrative expenses	1,204	1,366
Bad debt expenses	328	653
Corporate income tax	267	314
Nonoperating income	3	2
Net income	983	733

Source: FSS 2020 press releases;

E19. Banks

Net Income from Overseas Businesses by Country

(Millions of USD)

	2019	2020
China	101	100
U.S.	83	74
Hong Kong	149	120
Japan	99	49
U.K.	81	39
ASEAN	364	378
Cambodia	55	164
Vietnam	156	149
Indonesia	52	19
Others	106	-27
Total	983	733

Source: FSS 2020 press releases;

E20. Bank Holding Companies

Capital Ratios

(Percent)

	Dec 2019			Dec 2020		
	CET1	Tier 1	Total	CET1	Tier 1	Total
Shinhan Financial Group	11.12	12.34	13.90	12.86	14.37	15.73
Shinhan	12.75	13.30	15.91	14.92	15.88	18.47
Jeju	10.63	11.85	14.91	11.47	12.76	15.82
Hana Financial Group	11.96	12.67	13.95	12.03	13.01	14.18
KEB Hana	13.79	13.87	16.11	12.78	12.83	14.73
KB Financial Group	13.58	13.86	14.48	13.29	14.06	15.27
KB Kookmin	14.37	14.68	15.85	15.10	15.42	17.78
Woori Financial Group	8.39	9.86	11.89	9.92	11.70	13.75
Woori	10.97	13.17	15.40	13.04	14.91	17.20
DGB Financial Group	9.54	10.92	12.32	9.59	11.02	12.41
Daegu	10.96	12.90	14.42	13.64	15.64	17.53
BNK Financial Group	9.54	11.13	12.95	9.80	11.38	12.93
Busan	12.80	14.08	16.12	15.23	16.60	18.53
Kyongnam	11.46	12.90	15.34	14.05	15.59	17.86
JB Financial Group	9.67	11.17	13.16	10.05	11.43	13.22
Jeonbuk	11.41	11.47	14.12	11.93	11.98	14.51
Gwangju	13.32	13.77	16.02	15.47	15.79	17.60
NH Financial Group	11.25	12.30	13.99	12.55	13.69	15.18
Nonghyup	12.47	12.65	15.19	14.98	15.11	17.70
Aggregate	11.10	12.10	13.54	12.45	13.47	15.00

Source: FSS 2020 press releases;

E21. Financial Holding Companies

Number, Subsidiaries, and Employees

	2019	2020
Number of financial holding companies	10	10
Number of subsidiaries	243	264
Number of employees	154,142	175,319

Source: FSS 2020 press releases;

E22. Financial Holding Companies
Consolidated BIS Capital Ratio
 (Percent)

	2019	2020
Total capital ratio	13.54	14.63
Tier 1 capital ratio	12.10	13.19
CET1 capital ratio	11.10	11.93

Source: FSS 2020 press releases;

E23. Financial Holding Companies
SBL and Loan Loss Provision Ratios
 (Percent)

	2019	2020
SBL ratio	0.58	0.58
Loan loss provision ratio	123.29	131.43

Source: FSS 2020 press releases;

E24. Financial Holding Companies
Debt and Double Leverage Ratios
 (Percent)

	2019	2020
Debt ratio	27.58	28.87
Double leverage ratio	119.57	118.54

Source: FSS 2020 press releases;

2. Insurance Sector Data

E25. Insurance Companies

Net Income

(Billions of KRW)

	2019	2020
Life insurance companies	3,114.0	3,454.4
Insurance income (net of policy reserves)	-24,419.9	-24,402.3
Investment income	23,901.4	22,719.6
Other incomes	4,470.8	4,081.2
Nonlife insurance companies	2,223.8	2,626.2
Insurance income	-6,021.1	-4,365.3
Investment income	9,129.4	8,241.7
Other incomes	-94.2	-219.2
Net income	5,337.8	6,080.6

Source: FSS 2020 press releases;

E26. Insurance Companies

Premium Income

(Billions of KRW)

	2019	2020
Life insurance companies	117,262.4	119,587.2
Savings-type insurance	31,728.0	34,833.0
Protection-type insurance	43,208.4	44,977.3
Variable life insurance	17,687.3	17,224.1
Retirement pension and others	24,638.7	22,552.8
Nonlife insurance companies	95,587.8	102,317.2
Long-term insurance	53,097.5	55,922.1
Auto insurance	17,567.7	19,612.8
General insurance	9,850.4	10,669.2
Retirement pension and others	15,072.2	16,113.1
Total	212,850.2	221,904.4

Source: FSS 2020 press releases;

E27. Insurance Companies
Assets and Shareholders' Equity
 (Billions of KRW)

	2019	2020
Assets	1,238,905.9	1,321,149.2
Life insurance companies	918,161.4	977,278.3
Nonlife insurance companies	320,744.5	343,870.9
Shareholders' equity	129,992.5	143,093.9
Life insurance companies	87,046.2	96,579.8
Nonlife insurance companies	42,946.3	46,514.1

Source: FSS 2020 press releases;

E28. Insurance Companies
ROA and ROE
 (Percent)

	2019	2020
ROA	0.45	0.48
Life insurance companies	0.35	0.36
Nonlife insurance companies	0.72	0.79
ROE	4.41	4.45
Life insurance companies	3.87	3.76
Nonlife insurance companies	5.48	5.87

Source: FSS 2020 press releases;

E29. Life and Nonlife Insurance Companies
Solvency Margin
 (Percent)

	2019	2020
Life insurance companies	284.5	297.3
Nonlife insurance companies	238.9	234.0
Total	268.6	275.0

Source: FSS 2020 Annual Report;

E30. Life and Nonlife Insurance Companies

Assets

(Trillions of KRW)

	2019	2020
Life insurance companies		
Insurance accounts	750.5	791.6
Special accounts	167.6	185.7
Operating assets	888.5	945.3
- Investment securities	694.1	745.6
- Loan assets	158.6	169.2
- Others	35.8	30.5
Nonoperating assets	29.6	32.0
Total assets	918.2	977.3
Nonlife insurance companies		
Insurance accounts	292.6	312.8
Special accounts	28.1	31.3
Operating assets	286.5	306.3
- Investment securities	194.4	208.5
- Loan assets	75.8	83.4
- Others	16.3	14.4
Nonoperating assets	34.2	37.7
Total assets	320.7	344.1
Aggregate		
Insurance accounts	1,043.2	1,104.3
Special accounts	195.7	217.1
Operating assets	1,175.1	1,251.7
- Investment securities	888.5	954.1
- Loan assets	234.4	252.6
- Others	52.1	44.9
Nonoperating assets	63.9	69.7
Total assets	1,238.9	1,321.4

Source: FSS 2020 Annual Report;

E31. Insurance Companies

Number of Insurance Companies' Overseas Businesses

	2019			2020		
	Life	Nonlife	Total	Life	Nonlife	Total
Subsidiaries	6	18	24	7	17	24
Local branches	-	10	10	-	11	11
Total	6	28	34	7	28	35

Source: FSS 2020 press releases;

E32. Insurance Companies

Net Income of Insurance Companies' Overseas Businesses by Sector

(Millions of USD)

	Life		Nonlife		Total	
	2019	2020	2019	2020	2019	2020
Insurance	19.9	12.7	52.0	48.8	71.9	61.5
Financial investment	-2.1	-16.1	0.1	0.2	-2.0	-15.9
Total	17.8	-3.4	52.1	49.0	69.9	45.6

Source: FSS 2020 press releases;

E33. Insurance Companies

Financial Statement of Insurance Companies' Overseas Businesses by Sector

(Millions of USD)

	Life		Nonlife		Total	
	2019	2020	2019	2020	2019	2020
Assets	1,830	2,044	3,463	3,366	5,293	5,410
Liabilities	698	823	2,393	2,176	3,091	2,999
Policy reserve	611	737	1,521	1,619	2,132	2,356
Shareholders' equity	1,132	1,221	1,070	1,190	2,202	2,411

Source: FSS 2020 press releases;

3. Financial Investment Service Sector Data

E34. Securities Companies

Income

(Billions of KRW)

	2019		2020			
	Year	Year	Q1	Q2	Q3	Q4
Commissions income	9,493.8	13,651.1	2,975.3	3,237.8	3,778.4	3,659.6
Brokerage commissions	3,463.6	7,092.4	1,379.8	1,738.6	2,121.9	1,852.1
IB commissions	3,421.8	3,935.1	904.1	877.9	1,009.1	1,144.0
Wealth management	1,058.0	1,029.1	251.3	232.2	271.0	274.6
Others	1,550.3	1,594.5	440.1	389.1	376.4	388.9
Proprietary income	3,966.4	2,669.5	1,078.7	377.5	1,074.1	139.2
Stock-related	530.8	-252.1	108.2	-642.6	-80.6	362.9
Bond-related	6,751.9	5,118.4	1,641.7	2,252.3	1,142.9	81.5
Derivatives-related	-3,316.3	-2,196.7	-671.3	-1,232.1	11.9	-305.2
Other income from assets	4,092.1	4,394.9	-882.7	2,055.7	1,210.6	2,011.3
FX-related	255.8	-27.9	345.3	39.6	-30.3	-382.5
Loan-related	2,614.3	2,472.3	625.2	602.7	666.1	578.3
Funds-related	1,222.0	1,950.6	-1,853.1	1,413.4	574.8	1,815.5
Other income	-2,146.5	-1,732.7	-306.9	-672.4	-472.4	-281.0
Selling and admin expenses	8,925.2	10,193.4	2,174.5	2,493.7	2,634.1	2,891.1
Non-operating expenses	441.1	1,194.1	84.0	85.3	148.0	876.8
Net income	4,894.5	5,914.8	521.5	1,817.4	2,156.5	1,419.4

Source: FSS 2020 press releases;

E35. Securities Companies

Financial Positions

(Trillions of KRW)

	2019	2020
Assets	482.6	609.3
Cash & deposits	73.5	111.3
Securities	316.8	350.1
Loans	48.9	60.6
Liabilities	421.1	541.4
Customer deposits	47.5	95.1
Repurchase agreements	121.7	150.6
Structured derivatives	113.1	93.8
Bills payable	12.9	15.6
Shareholders' equity	61.8	67.8
Capital stock	37.2	38.9
Retained earnings	24.6	28.9

Source: FSS 2020 Annual Report;

E36. Securities Companies

Net Capital Ratio

(Amount in trillions of KRW, ratio in percent)

	2019	2020
Net operating capital	51.4	59.6
Risk amount	25.7	27.7
Compulsory ongoing capital	4.6	4.6
Net capital ratio	555.9	698.6

Source: FSS 2020 Annual Report;

E37. Securities Companies

Overseas Businesses by Country

	Subsidiaries	Offices	Total
Asia	41	13	54
China	4	9	13
Vietnam	7	2	9
Indonesia	8	-	8
Hong Kong	8	-	8
Singapore	6	-	6
Thailand	3	-	3
Others ¹	5	2	7
U.S.	11	-	11
Others ²	4	1	5
Total	56	14	70

Source: FSS 2020 press releases;

Notes: Others¹ include Japan (2), Myanmar (2), India (1), Mongolia (1), and Cambodia (1);
Others² include the U.K. (4) and Brazil (1).

E38. Securities Companies

Assets, Liabilities, and Shareholders' Equity of Overseas Businesses

(Billions of USD)

	2019	2020
Assets	58.47	49.47
Liabilities	52.65	42.88
Shareholders' equity	5.82	6.59

Source: FSS 2020 press releases;

E39. Futures Companies

Net Income and ROE

(Amount in billions of KRW, ROE in percent)

	2019		2020			
	Year	Year	Q1	Q2	Q3	Q4
Brokerage commission	116.6	146.9	44.3	38.1	33.6	30.9
Proprietary income	9.0	12.1	2.4	2.9	3.8	3.0
Net income	27.2	34.3	11.6	10.2	7.7	4.8
ROE	6.7	7.5	-	-	-	-

Source: FSS 2020 press releases;

E40. Futures Companies

Financial Position

(Billions of KRW)

	2019	2020
Assets	3,158.1	4,640.7
Cash & cash deposits	2,707.3	4,129.4
Securities	295.3	336.7
Liabilities	2,724.9	4,161.5
Customer deposits	2,650.6	4,008.7
Shareholders' equity	433.2	479.2
Capital stock	134.5	134.5
Retained earnings	234.1	275.0

Source: FSS 2020 Annual Report;

E41. Asset Management Companies

Net Income

(Billions of KRW)

	2019	2020
Operating income	968.9	1,376.8
Operating revenue	3,072.8	3,966.3
Operating expense	2,104.0	2,589.5
Non-operating income	110.4	328.5
Non-operating revenue	168.6	417.8
Non-operating expense	58.2	89.4
Net income	820.2	1,332.0

Source: FSS 2020 press releases;

E42. Asset Management Companies

Net Income & ROE

(Amount in billions of KRW, ROE in percent)

	2019	2019
Net income	820.2	1,332.0
ROE	12.2	15.6

Source: FSS 2020 press releases;

E43. Asset Management Companies

Indirect Investment Assets

(Trillions of KRW)

	2019	2020
Fund assets	649.6	691.9
Private Equity	412.4	435.7
Public Equity	237.2	256.2
Discretionary assets	486.9	505.9
Total	1,136.5	1,197.8

Source: FSS 2020 press releases;

E44. Asset Management Companies

Asset Management Companies: Fund Assets under Management

(Trillions of KRW)

	2019	2020
Equity funds	87.7	77.7
Bond funds	117.5	117.1
Hybrid funds	25.3	23.4
Money market funds	104.9	125.9
Real estate funds	98.3	111.6
Special asset funds	93.2	107.3
Others	112.7	129.0
Total	649.6	691.9

Source: FSS 2020 Annual Report;

E45. Asset Management Companies

Summary Financial Positions

(Billions of KRW)

	Dec 2019	Dec 2020
Assets	9,424.6	11,678.4
Cash and deposits	2,321.2	2,454.6
Securities and derivatives	5,766.9	7,560.0
Securities	5,765.6	7,558.9
Derivatives	1.3	1.1
Others	1,336.6	1,663.7
Liabilities	2,014.9	2,359.1
Shareholder's equity	7,409.7	9,319.3
Capital	2,313.4	2,980.0

Source: FSS 2020 press releases;

E46. Asset Management Companies

Asset-Backed Securities

(Trillions of KRW)

	2019	2020
Amount	51.7	79.1
Number of issues	153	184

Source: FSS 2020 press releases;

4. Nonbank Sector Data

E47. Mutual Savings Banks

Financial Positions

(Billions of KRW)

	Dec 2019	Dec 2020
Assets	77,159.1	91,986.0
Liabilities	68,124.8	81,579.9
Shareholders' equity	9,034.1	10,406.1

Source: FSS 2020 press releases;

E48. Mutual Savings Banks

Soundness Indicators

(Amount in trillions of KRW, ratio in percent)

	2019	2020 ¹
Assets	77.2	92.0
Loans	65.1	77.7
Deposits	65.9	79.2
Net income ²	1.2792	1.3997
Loan delinquency ratio	3.7	3.3
SBL ratio	4.7	4.2
BIS capital ratio	14.83	14.23

Source: FSS 2020 Annual Report;

Notes:

¹ Figures from 79 mutual savings banks in operation at the end of 2020;

² Net income for the January-December period;

E49. Mutual Savings Banks

Delinquency Rate

(Percent)

	Dec 2019	Dec 2020
Business loans	3.9	3.4
Companies	3.7	3.2
Self-employed	4.3	3.9
Household loans	3.6	3.3
Mortgage loans	3.0	2.1
Unsecured loans	3.8	3.6
Aggregate	3.7	3.3

Source: FSS 2020 press releases;

E50. Mutual Savings Banks

SBL and Coverage Ratios

(Percent)

	Dec 2019	Dec 2020
SBL ratio	5.1	4.2
Coverage ratio	111.8	109.9

Source: FSS 2020 press releases;

E51. Mutual Savings Banks

Risk-Weighted Assets and Capital Ratio

(Amount in billions of KRW, ratio in percent)

	Dec 2019	Dec 2020
Shareholders' equity	9,518.3	11,030.2
Risk-weighted assets	64,161.4	77,201.7
BIS capital ratio	14.83	14.29

Source: FSS 2020 press releases;

E52. Mutual Savings Banks

Net Income (Billions of KRW)

	2019	2020
Operating income	1,549.4	1,736.4
Interest income	4,482.9	5,032.2
Non-interest income	-389.2	-316.1
Selling and administrative expenses	1,372.0	1,447.7
Provision for loan losses	1,172.4	1,531.9
Non-operating income	-271.4	-331.0
Net income	1,277.9	1,405.4

Source: FSS 2020 press releases;

E53. Specialized Credit Finance Companies

Soundness Indicators

(Amount in trillions of KRW, rate and ratio in percent)

		2019	2020
Credit card companies ¹	Credit card assets ²	119.1	121.0
	Net income ³	1.3	1.8
	Delinquency rate	1.4	1.3
	Adjusted capital ratio	22.3	22.3
Specialized credit finance companies excluding credit card companies	Assets	161.7	181.1
	Net income ³	2.1	2.6
	Delinquency rate	1.7	1.3
	Adjusted capital ratio	16.1	16.4

Source: FSS 2020 Annual Report;

Notes:

¹ Credit card companies refer to credit card issuers that provide credit card services only; they are Shinhan, Samsung, Hyundai, Lotte, Hana, BC, KB Kookmin, and Woori.

² Include credit card assets of banks providing credit card services;

³ Net income after loan loss provisions for companies under K-IFRS;

E54. Specialized Credit Finance Companies (excluding credit card companies)

Assets

(Trillions of KRW)

	Dec 2019	Dec 2020
Inherent assets	62.2	67.3
Facility leasing	32.0	35.4
Installment financing	27.8	29.0
Venture capital business	2.4	2.9
Loans	76.7	85.8
Household loans	26.5	28.4
Business loans	50.2	57.4
Securities	14.5	18.0
Others	8.3	10.0
Total	161.7	181.1

Source: FSS 2020 press releases;

E55. Specialized Credit Finance Companies (excluding credit card companies)

Net Income

(Billions of KRW)

	2019	2020
Inherent business	2,871.0	2,965.1
Facility leasing	1,258.5	1,172.8
Installment financing	1,310.9	1,353.6
Venture capital business	301.6	438.7
Rental income	261.3	332.5
Securities-related income	147.1	286.5
Interest revenues	5,669.7	5,832.6
Funding costs	3,048.7	3,091.4
Bad debt expenses	1,622.4	1,587.4
Total	2,055.7	2,563.9

Source: FSS 2020 press releases;

E56. Credit Card Companies
Number of Credit Cards Issued
 (Number in millions of KRW)

	Dec 2019	Dec 2020
Number of credit cards issued	110.97	113.73
Number of dormant credit cards	10.55	11.59
Percent of dormant credit cards	9.5	10.2
Number of check cards issued	110.94	110.07

Source: FSS 2020 press releases;

E57. Credit Card Companies
Credit Card and Check Card Purchases
 (Trillions of KRW)

	2019	2020
Credit card purchases	701.0	705.3
Check card purchases	173.7	172.0
Total	874.7	877.3

Source: FSS 2020 press releases;

E58. Credit Card Companies
Cash Advances and Loans
 (Trillions of KRW)

	2019	2020
Cash advances	59.1	54.1
Loans	46.1	53.0
Total	105.2	107.1

Source: FSS 2020 press releases;

E59. Credit Card Companies
Credit Card Delinquency Rate
 (Percent)

	Dec 2019	Dec 2020
Aggregate Assets	1.43	1.29
Credit card assets	1.58	1.45
Receivables	0.74	0.64
Loans	3.15	2.89

Source: FSS 2020 press releases;

E60. Credit Unions and Cooperatives
Financial Soundness Indicators
 (Amount in trillions of KRW, rate and ratio in percent)

	2019	2020
Assets	546.1	584.1
Deposits	464.0	498.1
Loans	365.4	401.1
Net income	2.2	2.2
Delinquency rate	1.71	1.54
SBL ratio	2.04	2.02
Net worth ratio	8.10	8.17

Source: FSS 2020 Annual Report;

5. Foreign Debt and Equity Investment Data

E61. Foreign Investors

Net Stock and Bond Investment

(Billions of KRW)

	Year	2019		2020		Cumulative holdings
		H1	H2	Nov	Dec	
Stocks	1,637	5,225	-3,588	6,125	-2,688	764,329
Bonds	9,219	10,939	-1,720	-913	-194	150,092
Total	10,856	16,164	-5,308	5,212	-2,882	914,421

Source: FSS 2020 press releases;

E62. Foreign Investors

Net Stock Investment and Cumulative Holdings

(Billions of KRW)

	2019		2020		
	Dec	Year	Oct	Nov	Dec
Net stock investment	810	1,637	1,358	6,125	-2,688
Stocks bought	39,624	448,509	49,387	67,631	80,975
Stocks sold	38,814	446,875	48,029	61,506	83,663
Cumulative stock holdings	593,191	-	584,844	675,187	764,329

Source: FSS 2020 press releases;

E63. Foreign Investors

2020 Net Bond Investment by Investor Region, Bond Class, and Maturity

(Billions of KRW)

Investor region		Bond class		Remaining maturity	
Europe	869	Korean Treasury Bonds	103	Less than 1 year	-4,603
Asia	211	Monetary Stabilization Bonds	-762	1 to 5 years	1,745
Middle East	-790	Corporate bonds	24	More than 5 years	2,663

Source: FSS 2020 press releases;

E64. Foreign Investors

Net Bond Investment and Cumulative Bond Holdings

(Billions of KRW)

	2019		2020		
	Dec	Year	Oct	Nov	Dec
Net bond investment	-2,491	9,219	208	-913	-194
Net purchases	4,050	54,443	4,089	2,648	5,867
Redemptions	6,541	45,224	3,881	3,561	6,061
Cumulative bond holdings	123,651	-	150,726	150,210	150,092

Source: FSS 2020 press releases;

E65. Foreign Investors

Net Stock Investment by Country

(Billions of KRW)

	2019	2020		
	Year	Oct	Nov	Dec
Ireland	11	-42	755	932
France	1,183	125	499	520
Sweden	-379	126	48	429
U.K.	569	1,258	2,216	352
Kuwait	58	30	317	312
Luxembourg	1,091	433	480	312
Cayman Islands	2,036	492	341	-502
Netherlands	448	-3	-42	-533
Canada	-26	-24	448	-542
Switzerland	399	0	363	-661
U.S.	-5,569	-842	989	-712
Singapore	229	-385	120	-2,158
Others	1,586	190	-409	-437
Total	1,636	1,358	6,125	-2,688

Source: FSS 2020 press releases;

E66. Foreign Investors
Cumulative Stock Holdings by Country
(Billions of KRW)

	2019	2020
U.S.	251,678	317,435
U.K.	47,876	61,007
Luxembourg	38,479	52,113
Singapore	34,069	40,916
Ireland	22,391	33,248
Netherlands	18,003	25,007
Canada	17,296	22,053
Norway	15,007	20,358
China	12,534	17,665
Australia	14,482	17,255
Japan	13,987	16,603
Switzerland	9,162	14,303
Cayman Islands	11,136	13,264
Saudi Arabia	7,863	12,729
Hong Kong	8,012	11,506
UAE	7,702	8,910
Kuwait	4,982	7,880
Others	58,533	72,074
Total	593,191	764,329

Source: FSS 2020 press releases;

E67. Foreign Investors
Net Bond Investment by Bond Types
(Billions of KRW)

	2019	Dec 2020	YTD 2020
Korean Treasury Bonds	10,698	103	21,294
Agency bonds issued by qualified state-affiliated enterprises	-1,501	-322	3,393
Monetary Stabilization Bonds issued by the Bank of Korea	-1,401	-762	-1,007
Corporate bonds	22	24	19
Municipal bonds issued by local government authorities	-	0	0
Total	9,219	-194	24,706

Source: FSS 2020 press releases;

E68. Foreign Investors
Cumulative Bond Holdings by Bond Types
 (Billions of KRW)

	2019	Dec 2020
Korean Treasury Bonds	98,528	121,754
Agency bonds issued by qualified state-affiliated enterprises	27,107	28,266
Monetary Stabilization Bonds issued by the Bank of Korea	24,281	23,086
Corporate bonds	63	73
Municipal bonds issued by local government authorities	-	0
Total	123,651	150,092

Source: FSS 2020 press releases;

6. Other Selected Data

E69.
Corporate Debt and Equity
 (Billions of KRW)

	2019	2019
Equity issues	5,317.2	10,916.4
Initial public offerings	2,467.7	3,824.1
Secondary offerings	2,849.5	7,092.3
Debt Issues	170,182.7	183,566.8
Corporate	45,306.2	42,055.0
Financial	109,902.9	120,659.5
Asset-backed securities	14,973.6	20,852.3
Total	175,499.9	194,483.2

Source: FSS 2020 press releases;

E70.

Commercial Papers and Short-Term Electronic Bond Issues

(Billions of KRW)

	2019	2020
Commercial papers	388,843.8	371,592.0
Short-term electronic bonds	1,123,162.7	1,029,422.1
Total	1,512,006.5	1,401,014.1

Source: FSS 2020 press releases;

E71.

Number of FSS-Supervised Financial Institutions

			2019	2020
Financial holding companies			10	10
Banks	Commercial banks	National banks	8	8
		Regional banks	6	6
	Specialized banks		5	5
	Foreign bank branches		36	36
Nonbank financial institutions	Mutual savings banks		79	79
	Specialized credit finance companies	Credit card companies	8	8
		Leasing companies	26	26
		Installment finance companies	23	23
		New technology venture capital companies	58	63
Credit unions		883	879	
Agricultural, fisheries, and forestry cooperatives			1,345	1,346
Insurance companies	Life		24	24
	Nonlife	General nonlife insurance companies	20	20
		Reinsurance insurance companies	10	10
		Guaranty insurance companies	1	1
Financial investment service providers	Securities companies		56	57
	Asset management companies		292	326
	Investment advisory companies		197	220
	Merchant banks		1	1
	Money brokerage companies		3	3
	Futures companies		4	4

Source: FSS 2020 Annual Report;

E72.

Number of Regulatory Authorizations and Approvals in 2020

	Authorizations				Approvals	Total
	Business-related	Branch-Related	Merger-related	Others		
Financial holding companies	-	-	-	-	-	-
Banks	-	1	-	-	4	5
Nonbank financial institutions						
Mutual savings banks	-	12	-	-	8	20
Specialized credit finance companies	-	-	-	-	9	9
Credit unions	-	-	2	-	-	2
Agricultural, fisheries, and forestry cooperatives	-	-	-	-	-	-
Insurance companies	1	-	-	-	4	5
Financial investment service providers						
Securities companies	4	-	-	-	20	24
Asset management companies	105	-	1	-	36	142
Credit information service providers	1	-	-	-	-	1
Total	111	13	3	-	81	208

Source: FSS 2020 Annual Report;

E73.

Number of Financial Firms Licensed in 2020

	Beginning of year	Mergers	Closures*	Newly Licensed	End of year
Financial holding companies	10	-	-	-	10
Banks	55	-	-	-	55
Merchant banks	1	-	-	-	1
Money brokerage companies	3	-	-	-	3
Mutual savings banks	79	-	-	-	79
Specialized credit finance companies	115	-	2	7	120
Credit unions	883	2	2	-	879
Agricultural, fisheries, and forestry cooperatives	1,345	4	-	1	1,346
Life insurance companies	24	-	-	-	24
Nonlife insurance companies	31	-	-	-	31
Securities companies	56	-	-	1	57
Futures companies	4	-	-	-	4
Asset management companies	292	-	3	37	326
Investment advisory companies	197	-	14	37	220

Source: FSS 2020 Annual Report;

Note: Closure includes revocation of the business license, bankruptcy, dissolution, cancellation of registration, and voluntary liquidation.

E74.

Financial Firms and Organizations Subject to FSS Supervision in 2020

	Number	Financial firms and organizations
Financial holding companies	10	KB Financial Group · Shinhan Financial Group · Hana Financial Group · Woori Financial Group · Korea Investment Holdings · Meritz Financial Group · BNK Financial Group · DGB Financial Group · NongHyup Financial Group · JB Financial Group
Banking institutions	55	National banks (6) · Regional banks (6) · Internet banks (2) · Specialized banks (5) · Foreign bank branches (36)
Nonbank financial institutions	3,385	Mutual savings banks (79) · Korea Federation of Savings Banks · Agricultural cooperatives (1,118) · Fisheries cooperatives (90) · Forestry cooperatives (138) · Credit unions (879) · National Credit Union Federation of Korea · National Agricultural Cooperative Federation · National Fisheries Cooperative Federation · National Forestry Cooperative Federation · Credit card companies (8) · Installment finance companies (23) · Leasing companies (26) · New technology venture companies (63) · Moneylenders (excluding P2P lenders, 954) · Credit Finance Association, Consumer Loan Finance Association
Insurance companies	60	Life insurance (24) · Nonlife insurance (18) · Foreign nonlife insurance branches (13) · Korea Life Insurance Association · General Insurance Association of Korea · Korea Fire Protection Association · Korea Insurance Institute · Korea Insurance Development Institute
Financial investment service providers	2,045	Securities companies (45) · Domestic branches of foreign securities firms (11) · Futures companies (4) · Credit rating companies (4) · Bond rating companies (4) · Fund rating companies (4) · CR REITs (276) · Merchant bank (1) · Money brokerage companies (9) · Asset management companies (326) · Investment advisory firms (220) · Private equity funds (797) · General administration service providers (8) · Ship investment management companies (5) · Ship investment companies (299) · Real estate investment trusts (14) · Fund Online Korea · Korea Exchange · Korea Financial Investment Association · Korea Securities Depository · Korea Securities Finance Corporation · Korea Listed Companies Association · KOSDAQ Listed Companies Association · KONEX Association · Online small investment intermediaries (9) · Korea Post
Others	428	Money transfer operators (28) · Electronic financial services providers (120) · Credit information service providers (29) · Korea Association of Information & Telecommunication · Korea Housing Finance Corporation · Value added networks (27) · Korea Credit Information Services · Korea Workers' Compensation and Welfare Service · Innovative financial services providers (45) · Designated agents (11) · P2P lenders (163)
Total*	5,983	

Source: FSS 2020 Annual Report;

Note: The total figure does not include 33,014 entities including two retail credit card issuers, 31,067 general agencies (insurance), 21 insurance actuaries, 1,419 insurance claims adjusters, 145 insurance brokers, 193 offshore investment advisory companies, 164 accounting firms, and three private M&A fund managers.

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