

Global Financial Regulatory Reform and Asian Country Perspective


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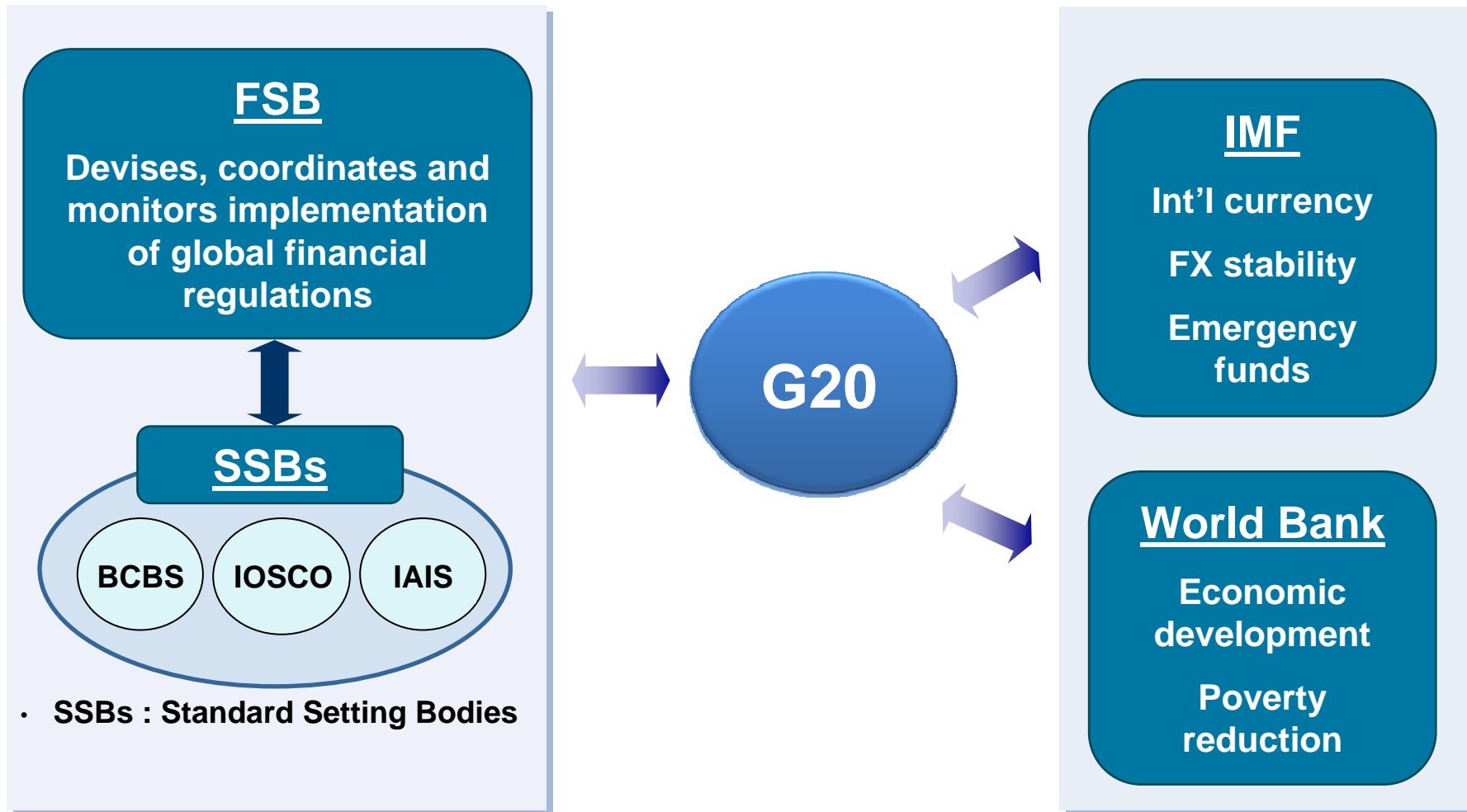


Part I

Financial Regulation Reform Agenda

1. Global Coordination on Financial Regulation

Coordination between G20 and major IFIs



2.Enhanced Representativeness of G20

Need for new global governance

- G7 has proven ineffective in resolving major global issues
 - Due to growing influence of EU, relationship between the U.S and EU has shifted, making it more difficult to reach consensus
 - Growing influence of emerging markets (e.g. BRICs) reduced the role of G7 in global economy

Better balanced representation of G20

Region	Country
G7	U.S, Japan, England, France, Germany, Canada, Italy
Asia	Korea, China, India, Indonesia, Saudi-Arabia
Latin America	Argentina, Brazil, Mexico
Europe	Russia, Turkey, EU Presidency, Australia
Africa	South Africa

3. Financial Regulatory Reform Agenda

G20/FSB Regulatory Reform Agenda

Prudential Regulation

- Strengthen capital (minimum capital, quality and consistency), leverage and liquidity requirements
- Counter-cyclicality: capital buffer & expected loss model for provisioning

Systemic Risk

- Identify systemically important financial institutions (SIFIs) and reduce moral hazard posed by SIFIs

Regulatory Scope

- Hedge fund registration
- CCP clearing of OTC derivatives; CRA regulation/supervision

Risk Mgt & Compensation

- Improved internal risk management system
- Risk-based compensation system, stronger disclosure & monitoring

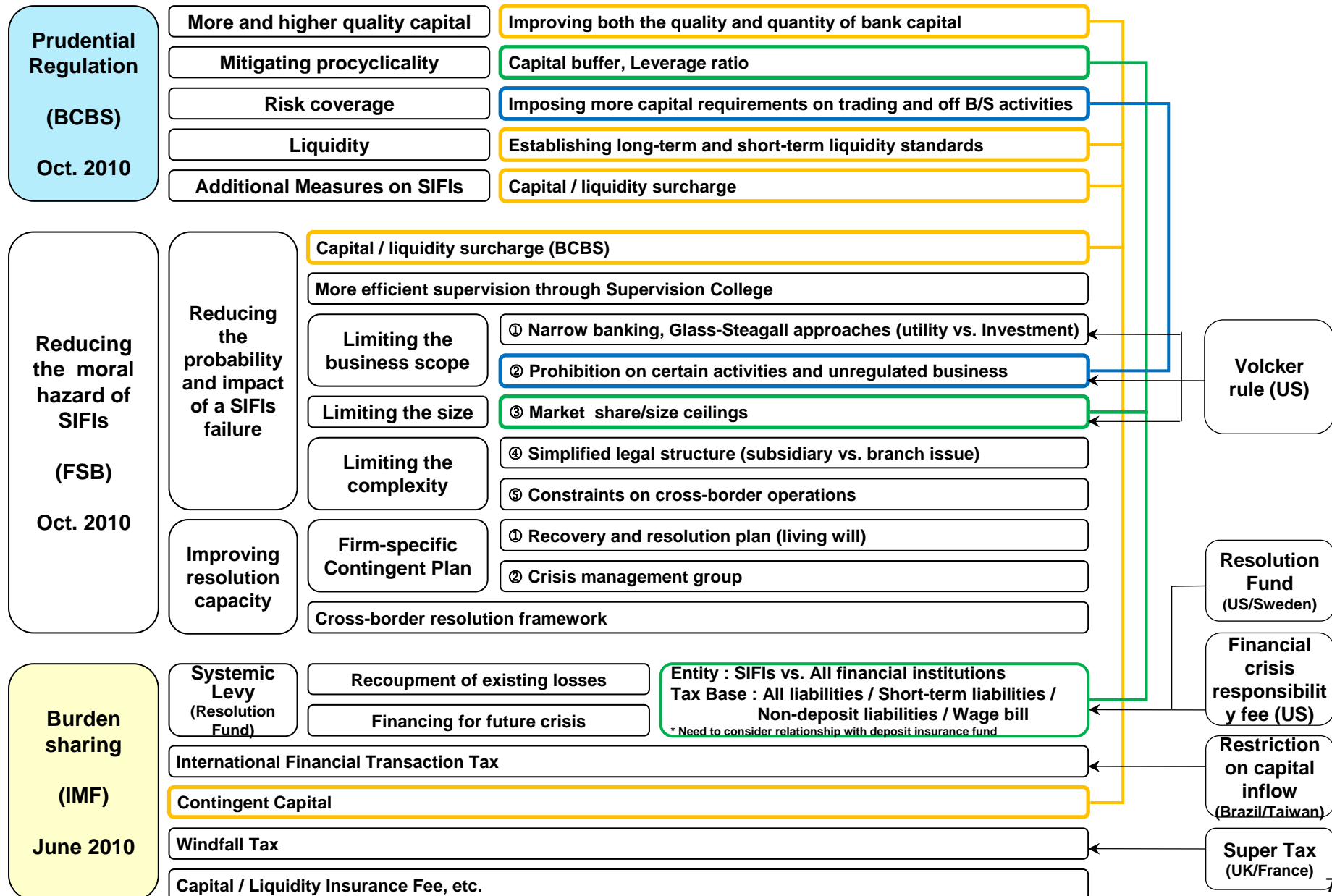
Accounting

- Single set of high quality global accounting standards

Non-Cooperative Jurisdictions

- Measures to deal with tax havens, money laundering & terrorist financing
- Peer review for NCJs

3-1. Interconnectedness of Major Issues



4. Projected Outcomes

Reduced systemic risk

Reinforced loss-absorbing capacity

Limited interconnectedness

Better incentive structure & governance

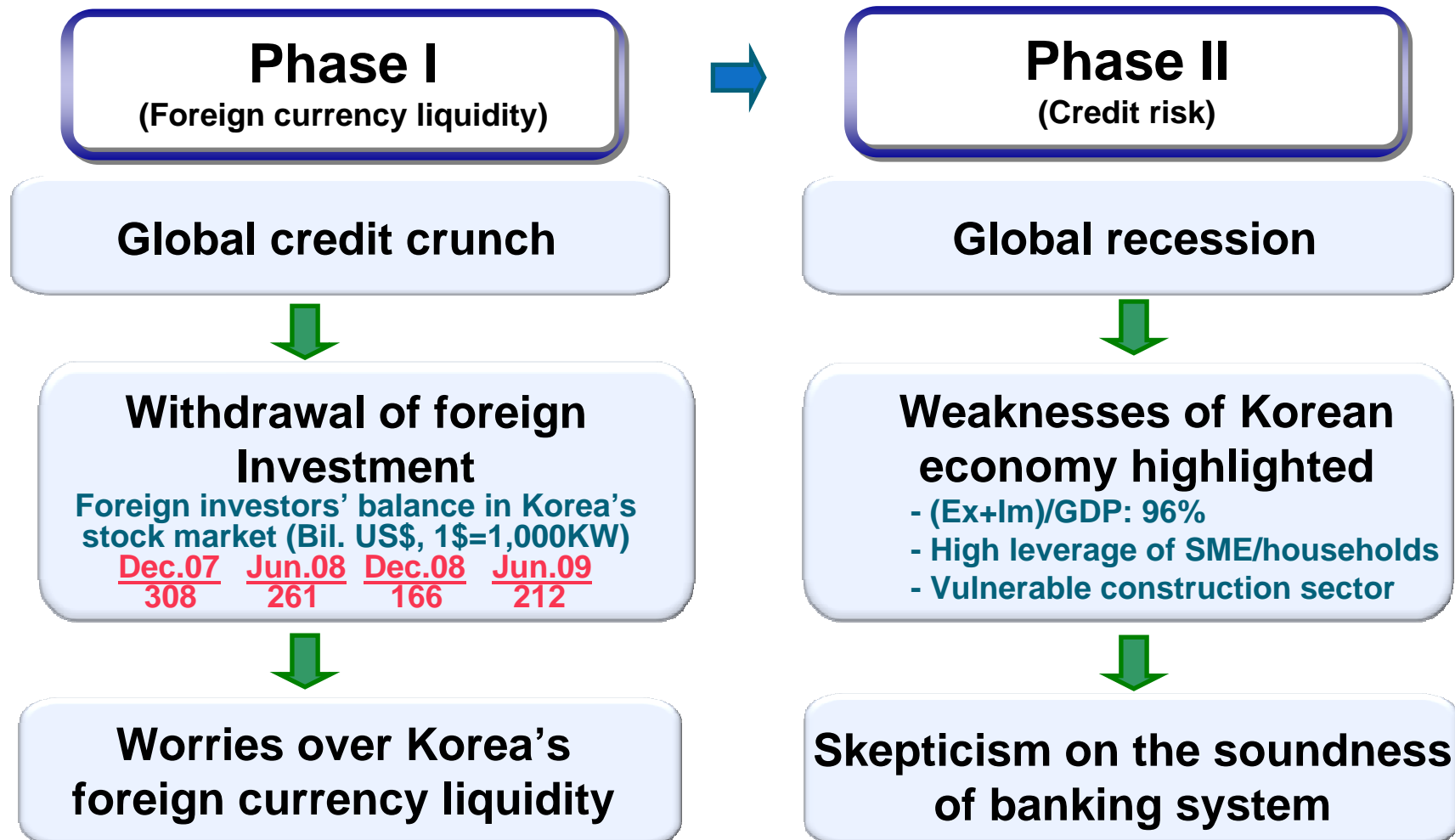
Integrated supervision & enhanced cooperation

Part II

Lessons learned from Korea's Experience

1. What happened to the Korean economy?

Effect of the global financial crisis on the Korean economy



2. Key success factors (1)

Strong economic fundamentals

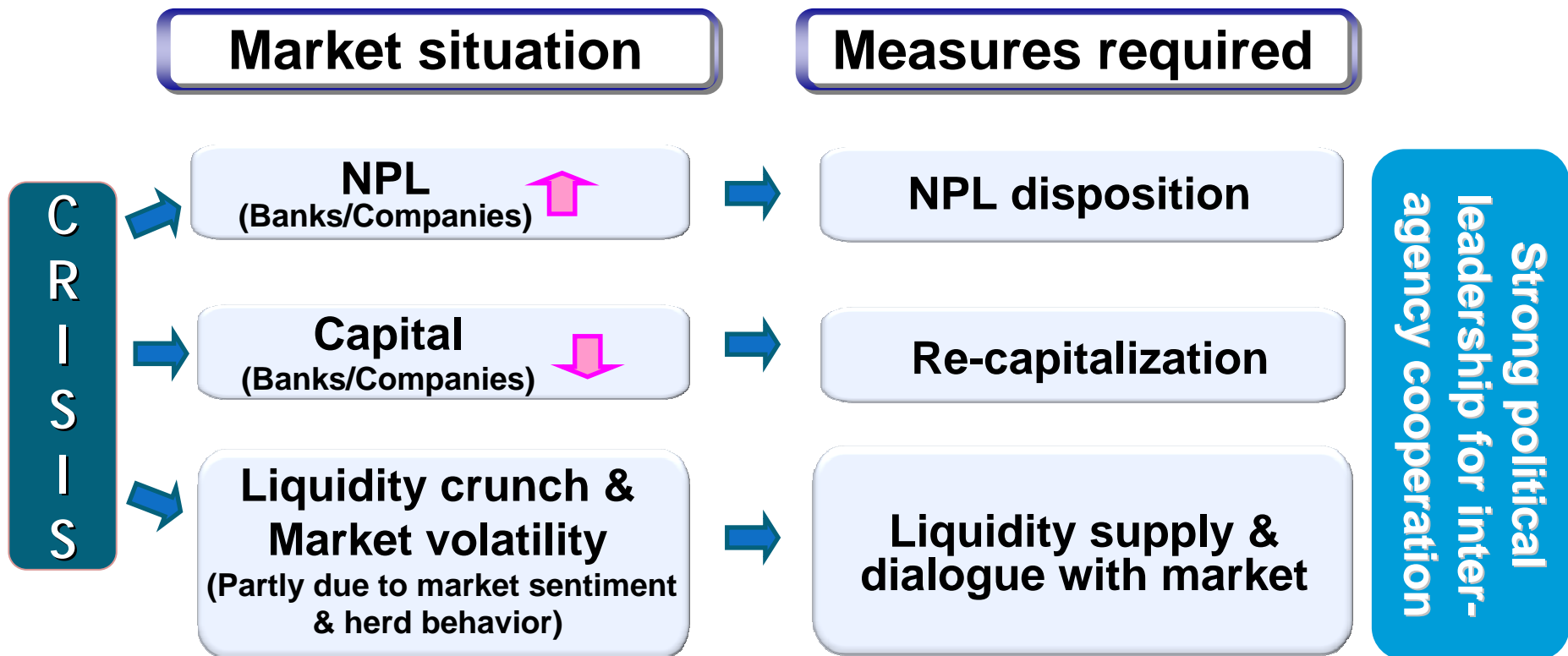
	Asian Financial Crisis 1997 - 1998	Global Financial Crisis 2008 - 2009	
Causes	Internal weakness	External factors	
Foreign Exchange	Foreign Currency Reserves	US\$ 8.9bn	US\$ 270.0bn ¹
	ST External Debt / FX Reserves	717%	55.6% ¹
	Total External Debt / FX Reserves	1,957%	148.9% ¹
Banks	Bank NPL Ratio	6.0%	1.24% ¹
	BIS Ratio	7.0%	14.36% ¹
Companies	Debt Ratio	424.6%	100.8% ¹
	Interest Coverage Ratio	115.0%	377.7% ¹

¹ as of December 2009

2. Key success factors (2)

Preemptive, comprehensive, and large-scale policy responses

Korean government knew WHAT TO DO at the time of crisis

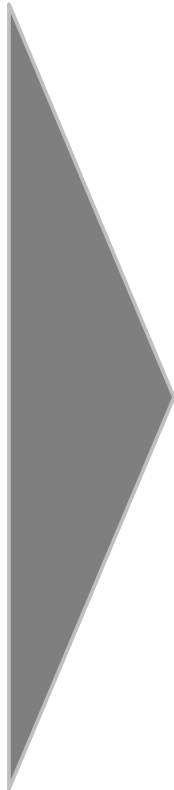


3. Summary of Korea's Policy Responses

Phase I Responses

FX Market Stabilization

- Payment guarantee of foreign currency borrowings by domestic banks: \$100 bn
- Currency swap lines with U.S., Japan, and China: \$30 bn each / \$90 bn in total
- \$55 bn foreign liquidity provisions by the BOK and the government



Phase II Responses

Fiscal Stimulus Package

- Won liquidity provision: 23.3 tn won (23.3 bn dollars ¹)
- Total Stimulus package: 3.6% of GDP in 2009

Enhancing Bank Soundness

- Launching of Bank Recapitalization Fund (USD 20 bn)
- Purchase of bank impaired assets through Restructuring Fund by KAMCO (USD 40 bn)

Corporate Sector Liquidity Provisions

- Extension of SME loans and guarantees due 2009
- Creation of Bond Market Stabilization Fund (USD 10 bn)

Corporate Restructuring

- Creditor bank-led restructuring
- Market-based restructuring

Social Safety Net

- Financial support through Microcredit (Miso Foundation)
 - Planning to supply 2tn won (USD 2bn) for the next 10 years
- Credit repair for low-income households through debt restructuring and refinancing at lower rates
 - Planning to supply 10tn won(USD 10bn) in the next 5 years through guarantees of small loans

¹ KRW 1000 = USD 1

Part III

Asian Country Perspective

1. G20's Perspective

G20

- **“The concrete steps we have taken will help ensure we are better prepared to prevent and, if necessary, to withstand future crises. We pledged to continue our coordinated efforts and act together to generate strong, sustainable and balanced growth”**
(Seoul Summit Declaration)

FSB

- **G20 “We endorsed the establishment of regional consultative groups. We welcomed the FSB report on progress in implementation of G20 recommendations for strengthening financial stability and look forward to another progress report at our next meeting”**
(Seoul Summit Declaration)

2. FSB's Perspective

Does the New Regulations Allow Discretion?

Prudential Regulation

- Strengthen capital, leverage and liquidity requirements
- Counter-cyclicality: capital buffer



Systemic Risk

- Identify SIFIs and reduce moral hazard posed by SIFIs



Regulatory Scope

- Hedge fund registration
- CCP clearing of OTC derivatives; CRA supervision



Risk Mgt & Compensation

- Improved internal risk management system
- Risk-based compensation system, stronger disclosure



Accounting

- Single set of high quality global accounting standards



3-1. Issues for Discussion

Is it desirable & feasible to apply differentiated regulations among different countries?

Pros

- Crisis originated in advanced countries
- Stricter regulation may limit economic growth
- Developing countries have uniqueness in economic situations
- Developing countries may lack resources to meet new regulations

Cons

- Regulatory arbitrage should be avoided
- Comparability of data should be enhanced (ex : accounting rules)
- Systemic risk may occur in developing countries as well in the future
- Lessons from advanced countries can be beneficial

3-2. Issues for Discussion

Implementation Issue

FSB

- Peer Group Review
 - Only the FSB member countries are subject to participate

IMF

- FSAP
 - IMF member countries(185) including non-G20 countries are object to assessment
 - Global standards coordinated by FSB is used in FSAP

Legitimacy

Voluntary participation

- non-participation
 - non-compliance
- participation issue

Sanction

- non-participation
 - non-compliance
- enforcement issue

Outreach activities

4. Areas for further Consideration

① FX Market Stabilization

Original Sin

- Currency mismatch
- Maturity mismatch

Foreign Currency Reserves

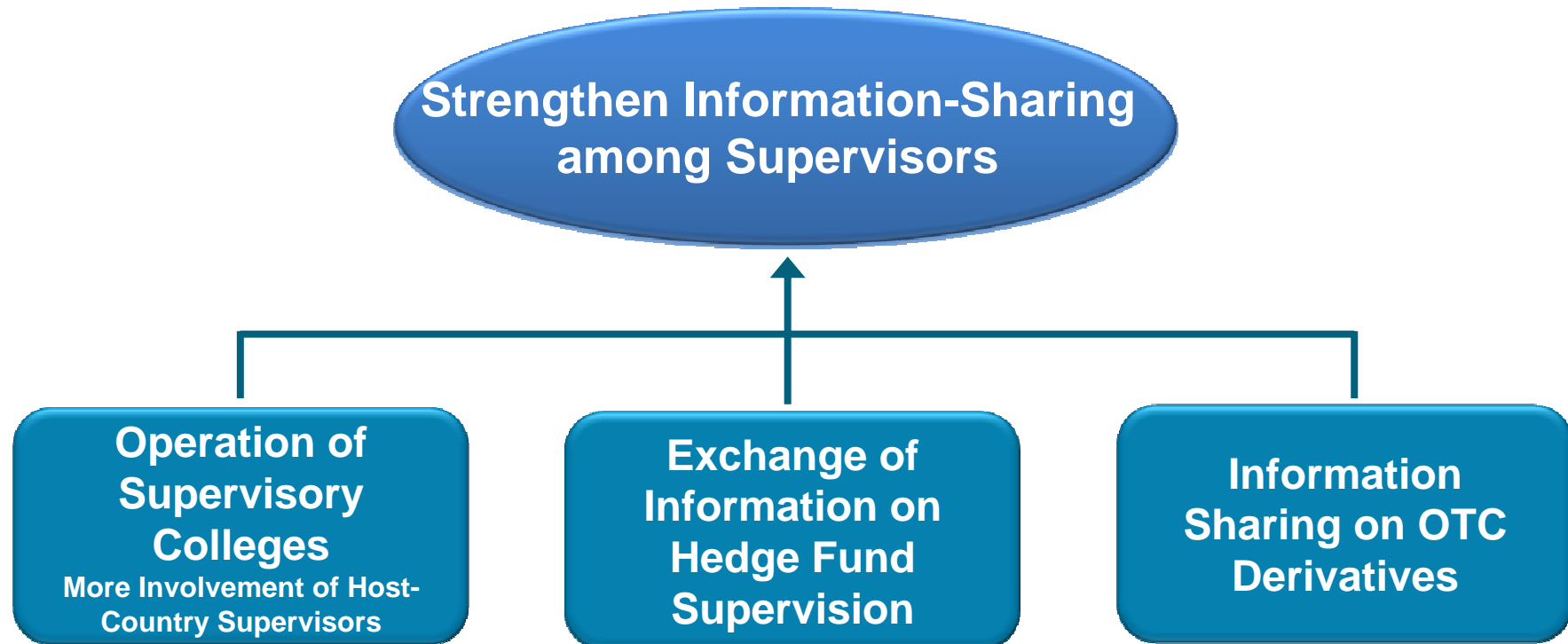
- Sudden reversal of capital flow
- Volatility in FX market

Global Financial Safety Net

- Reduce need for foreign currency reserves
- Increase effective global aggregated demand

4. Areas for further Consideration (continue)

② Information Sharing among Supervisors



4. Areas for further Consideration (continue)

③ Capacity Building

- **Countries with similar economic background can profit from each others experience**
- **Newly developing Asian countries is showing rapid development in capital market**
- **Assistance in building financial infrastructure can help disseminating new financial regulation initiated by G20**



- **FSB members and other international bodies are taking capacity-building initiatives**
- **Promoting the implementation of international cooperation and information exchange standards in the financial regulatory & supervisory area**

2. Examples of Contributions

Germany

- Supports implementation of international regulatory and supervisory standards
 - BMZ supports implementation of Basel Core Principles to China, Vietnam
 - BaFin provides technical assistance to Turkey, China, Russia, Thailand, etc.
- Supports partner countries in preparation of meeting the international regulator

USA

- FDIC provides multilateral assistance to support international development through international outreach program
- OCC supports and provides assistance in formal training, onsite examination to foreign supervisors

England

- FSA engages in emerging markets' supervise by participating in FATE, IMF, FSAP assessment and IOSCO peer review
- DfID contributes to overcoming global financial crisis by engaging experts with relevant experience and deploying them to support national authorities

ADB

- Provides technical assistances on capacity building in banking, securities and insurance regulation and supervision in Asia
- Provides technical assistances for development of ABS market and restructuring of Asset Management Companies

3. Technical Assistance of Korea

Country	Technical Assistance
Thailand, Mongolia, Vietnam	Training program on financial regulation & supervision
Vietnam, Philippine, Thailand	Training on IT system and Risk surveillance system
Cambodia, Laos	Establishment of securities market
Laos, Thai, Vietnam	Stock exchange system promotion
Vietnam, Mongolia, Turkey	NPL resolution consulting service
400 trainees	Staff training for NPL resolution

Thank You !

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