

FSC UNVEILS FINANCIAL POLICY AGENDA OF THE NEW ADMINISTRATION

FSC Chairman Kim Joo-hyun presented the new administration's financial policy agenda to President Yoon Suk Yeol on August 8 which focuses on preemptive handling and management of crisis and providing steady reinforcement for the revitalization of the financial industry and economy beyond crisis.

FINANCIAL POLICY AGENDA

I. FINANCIAL MEASURES TO STABILIZE PEOPLE'S LIVELIHOODS IN VULNERABLE SECTORS¹

a) Background

- Pursue prompt implementation of the KRW125 trillion-plus financial measures to help stabilize people's livelihoods²
- Seek additional measures in preparation for SMEs facing difficulties

b) Key tasks

[Task #1] Effective implementation of the financial sector measures to help stabilize people's livelihoods

Authorities will strengthen efforts for promotion and consultation activities and establish a close-knit coordination network with relevant government ministries and institutions.

※ KEY DETAILS OF MEASURES FOR STABILIZING PEOPLE'S LIVELIHOODS

- a) Financing support for the self-employed and small merchants (KRW80 tril.): Enhancing business competitiveness (KRW41.2 tril.), low-interest rate refinancing loan (KRW8.5 tril.), "New Start Fund" (KRW30 tril.)
- b) Support for alleviating housing cost burden (KRW45 tril.): Relief conversion loans (KRW45 tril.), expanded guarantee amount for low interest rate jeonse loans (increased from KRW200 mil. previously to KRW400 mil.)
- c) Enhanced financing support for low-income and low-credit holders: Provision of government-sponsored microfinance products (KRW10 tril.), debt adjustment for young adults with low credit background

- Strengthen promotion and consultation efforts customized for each beneficiary group to help ensure that there is no one left out from receiving assistance due to the lack of awareness about the availability of the support programs

¹ Implementation of follow-up measures to the 2nd emergency meeting for bringing stabilization to people's livelihoods held on July 14.

² Budget: KRW2.2 trillion (2022), KRW2.6 trillion (2023~)

- ▶ Introduce an online digital platform that can provide a one-stop service for the “New Start Fund” and the low interest rate refinancing loan program and operate a call center exclusively for them
- ▶ Set up consultation desks specifically charged with providing services for young adults’ debt adjustment program, establish a database for identifying the difficulties of young adults and make consultation service available for job opportunities, etc.

- Improve synergetic effects (consultation ↔ funding support offered) through collaboration with the small merchant support program provided by the Ministry of SMEs and Startups
- Maintain close communication with the financial sectors and media.

[Task #2] Response to potential management and financing difficulties of Small and Medium-sized Enterprises

Authorities will prepare financial support measures to help resolve the difficulties of SMEs such as increases in inflation, interest rates and prices of raw materials.

- 1) Make newly available (KRW6 trillion) government-backed fixed rate loans with low interest rates³
- 2) Provide preferential interest rate support for loans and guarantees to businesses that are highly depend on raw material imports or those experiencing difficulties due to disruption in global supply chain
- 3) Make adjustment to the accounting requirements of small-scale SMEs to bring it to a more reasonable level
 - Provide support for preparing financial statements to the SMEs that lack professional personnel or capacity to carry out on their own and set up an accounting support center at the KRX to help alleviate difficulties associated with external auditing
 - Grant exemption from the external audit of internal accounting management requirement⁴ to the listed firms with asset size of less than KRW100 billion while bolstering the accounting oversight duty of company management and auditors
- 4) Expand the size of the “corporate restructuring innovation fund” to support businesses that have potential for management normalization

II. FINANCIAL SECTOR RISK MANAGEMENT

- a) Overview: Work to ensure stability in financial markets while boosting the liquidity and loss absorbing capacity of financial institutions
- b) Major risk factors
 - Expanded volatility in financial markets due to compounding factors including high prices and monetary tightening, concerns over economic slowdown, protracted

³ A fixed interest rate loan program designed to help lower the risk of interest rate hikes by providing preferential benefit (up to 1%p reduction) in interest rates which is at a level that is similar to an adjustable rate scheme and that offers the possibility of switching from a fixed rate scheme to an adjustable rate scheme (or vice versa) every six months depending on a given rate situation.

⁴ Scheduled to go into effect in 2023

war in Ukraine, etc.

- Nonbank sectors need to be closely monitored despite the overall soundness of financial institutions

c) Key tasks

- 1) **(FINANCIAL MARKETS)** Ease market anxieties resulting from expanded volatility
 - Strengthen monitoring over risk factors such as an outflow of foreign capital
 - Work on prompt implementation of necessary measures to alleviate market volatility at each market stage
 - Improve the efficacy in policy implementation through systematic collaboration with related institutions such as the Ministry of Economy and Finance, Financial Supervisory Service and Bank of Korea
- 2) **(FINANCIAL INSTITUTIONS)** Increase the liquidity and loss absorbing capacity (capital + loan loss provisions) in financial sectors
 - Encourage financial institutions to accumulate a sufficient level of loan loss provisions
 - Introduce a program to support insolvency resolution of financial institutions and prevent risk contagion⁵

⇒ Authorities will respond with bold, adequate and preemptive measures to prevent risk contagion spreading from the real economy such as the household or corporate sectors into the financial industry.

III. SUPPORTING REVITALIZATION OF FINANCIAL INDUSTRY AND ECONOMY BEYOND CRISIS

※ KEY POLICY TASKS

- ▶ Financial Sector: (a) Digital innovation, (b) revitalization of capital markets, (c) responsible development of the digital asset industry
- ▶ Real Economy Sector: (d) Strengthening financial support to promote innovative growth in the private sector

[Specific Task #1] Building new foundation for digital innovation in the financial industry

- a) Overall direction: Establish an environment where globally leading financial companies can be born out of Korea
- b) Key tasks

- 1) Make improvements to the rules and seek regulatory reforms to remove regulations that get in the way of financial institutions venturing into new digital business areas in line with the big blur phenomenon and digital transformation taking place in the financial industry
 - Ease regulations which require strict separation between banking and

⁵ “Financial stability account” (to be established within the deposit insurance fund) will make liquidity and capital expansion support available for financial institutions in a timely manner.

commercial activities to promote platform-based financial services (e.g. digital universal bank)

- 2) Expand the opening up and convergence of data from financial, non-financial and public sectors and build the data infrastructure necessary to promote the use of artificial intelligence (AI) in financial services (e.g. financial AI data library)
- 3) Make improvements to the supervisory and inspection practices to bring about improvements on the ground and provide support for overseas expansion of financial services businesses
 - Work on prompt licensing and approval of new financial businesses and make advancement to the inspection and sanctions practices by strengthening the sanctioned entity's right for counterargument, etc.

⇒ Authorities will work on (a) fine-tuning of interests between financial sectors and between financial institutions and big techs or fintechs and (b) establishing consumer safeguards to protect them against newly emerging risks that may arise from a more deregulated financial environment.

[Specific Task #2] Revitalizing capital markets

a) Overall direction: Make fundamental improvements to capital markets to ensure that the Korean economy and businesses are properly evaluated based on the performance and to guarantee a faster and stronger rally thereafter

b) Key tasks

- 1) **(RESTORE TRUST)** Strengthen protections for investor rights and interests
 - Ensure protection for general investors of parent companies in an IPO of split off subsidiary by strengthening the disclosure and listing examination requirements when split off subsidiaries go public and by granting the right to request share purchase to investors who have been opposed to the split off decision but have not had a chance to exercise a vote on the decision
 - Impose an advance disclosure requirement (prior to stock sale) for the sale of shares held by large shareholders and company board members
 - Introduce a fine and a ban on stock trading for effective prevention of illegitimate trading activities
 - Overhaul the delisting system to ensure that delisting decisions are made based on a careful consideration of the company's potential for recovery by expanding the scope of entities that can raise an objection to the decision
 - Strengthen detection for and punishment of illegal short selling and related activities and make improvements to the short selling system by introducing a duty to report the status of share lending and borrowing for long-term (90 days or longer) short sellers and expanding the application of the overheated short selling stock designation
- 2) **(IMPROVE GLOBAL POLICY CONSISTENCY)** Make a comprehensive overhaul to bring Korea's capital market rules and practices up to the standards seen in advanced economies
 - Remove factors contributing to the so-called "Korea discount" by improving global policy consistency with regard to the process and disclosure associated

with investing

- Allow setting up an alternative trading system (ATS) to promote competition and boost efficiency in capital markets

⇒ Authorities will promptly announce and carry out specific measures to help restore public trust in capital markets and lay foundations to promote an increased inflow of investment funds.

[Specific Task #3] Promoting responsible development of the digital asset industry

a) Overall direction: Seek a proper balance in strategies for promoting innovation through new technologies such as blockchain, protecting consumers and ensuring financial stability

b) Key tasks

1) Pursue an enactment of the framework act on digital asset

- Prepare regulatory foundations to build an ecosystem in which the digital asset market can develop responsibly based on investor trust
- Establish a consistent regulatory framework by making amendments to the Capital Markets Act (for security tokens) and by introducing a framework law (for other types of digital assets)
- Ensure global regulatory consistency by taking into account trends in international discussions⁶

2) Pursue supervision of digital asset service providers and ensure consumer protection prior to the enactment of a new legislation by encouraging self-corrective efforts of the industry and through the Act on Reporting and Using Specified Financial Transaction Information as well as through the prosecution and police investigation mechanisms

- Strengthen market monitoring and inspection and supervision of digital asset service providers to prevent money laundering involving digital assets
- Seek strict investigation and crackdown from the Ministry of Justice and the prosecution and police authority on unfair trading activities (such as wash trading) and illegal trading (such as fraud and illegal FX transaction) involving digital assets through a government-wide consultative body

3) Continue to seek development of blockchain technology and promote relevant industry through a government-wide consultative body

⇒ Authorities will pursue these measures while maintaining close communication with the market, industry and private sector experts in order to find a proper balance between protecting investors and consumers on the one hand and fostering new technology and industry on the other.

⁶ The results of the study on digital assets in the U.S. are expected to be unveiled in Q4 this year (following President Biden's executive order in March 2022).

[Specific Task #4] Strengthening financial support for innovative growth in the private sector

a) Overall direction: Strengthen the pump priming role of the state-backed financial programs and promote venture capital from the private sector to boost the growth potential of the private sector

b) Key tasks

1) Work to minimize overlapping areas of state-backed financial programs with those already available from the private sector while making the market complementing role (such as investment for future-oriented projects) the focus of state-backed financial programs

- Concentrate provision of state-backed financial support on core future-oriented sectors such as the digital sector and key strategic technologies where Korea has a great advantage
- Seek establishment of a new investment fund to help support startups to scale up into unicorns

2) Introduce a new investment vehicle and make improvements to the relevant rules to promote the growth of venture investment market in private sector

- Introduce business development companies (BDCs) that facilitate investments in promising firms that are not listed and which offer greater opportunities for returns through BDC listing → Increased opportunities for retail investors to make investment in non-listed firms that have great potential
- Make rules for publicly offered funds more rational to help facilitate innovative startups to raise funds for their business operation in a more timely and efficient way without having to experience any regulatory burdens

⇒ Authorities will strengthen the role of state-backed financial programs and promote development of venture capital as there are concerns about the financing conditions for innovative startups amid changes in market situation such as high interest rates, etc.

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