



Korea

KOREA

Covering an area of 99,720 square kilometres, Korea's total population in 2009 was about 49 million. The capital city of Korea is Seoul, populated by about 10 million people. The official language is Korean. The official monetary unit is the Won (₩), the exchange rate of which was ₩ 1164.5 against the US dollar as of 30 December 2009.

THE BANK OF KOREA

THE BANK OF KOREA (BOK) was established on 12 June 1950 under the Bank of Korea Act. The BOK was originally established with capital of 1.5 billion won, all of which was subscribed by the Government, but amendment of the Bank of Korea Act in 1962 made the BOK a special juridical person having no capital. In line with the unification of responsibility for the regulation of banks, securities markets, and insurance companies since 1 April 1998, the BOK's former banking regulatory functions have been taken over by the Financial Supervisory Service (FSS), the single regulator. However, the BOK still retains indirect and limited supervisory capacities, exercisable by way of requesting examination of the banking institutions by the FSS.

The latest version of the Bank of Korea Act of 12 August 2003 (which came into force as of 1 January 2004) has conferred reinforced independence and responsibilities on the BOK. The principal elements are that: 1) the Senior Deputy Governor of the BOK joins the Monetary Policy Committee, to facilitate greater BOK independence and tighten the linkages between policy formulation and implementation; 2) the BOK can set its price stability target over a broader time span, for the sake of more efficient monetary policy; 3) the BOK assumes heightened responsibility for operation of the payment and settlement systems; and 4) the BOK's accountability to the National Assembly is increased, while the Government's intervention in the BOK's budget is reduced.

The BOK performs the typical functions of a central bank: issuing banknotes and coins, formulating and implementing monetary and credit policy, and serving as the bankers' bank and the government's bank. In addition, the BOK undertakes operation and management of the nation's payment/settlement systems, and manages its foreign exchange reserves. The BOK also exercises certain bank supervisory functions stipulated in the Bank of Korea Act.

The BOK has 16 departments in its head office in Seoul and 16 branches in other major cities. In addition, it has five overseas representative offices in principal international financial centres. Its total number of employees was 2,519 as of December 2008.

Policy-Making Body At the apex of the BOK's organisation is the Monetary Policy Committee. The Committee's prime function is the formulation of monetary and credit policies. In addition, the Committee deliberates on and resolves major matters concerning operations of the BOK.

The Monetary Policy Committee is composed of seven members, representing various groups in the national economy :

- 1) the Bank of Korea Governor, ex-officio;
- 2) the Bank of Korea Senior Deputy Governor, ex-officio;
- 3) one member recommended by the Minister of Strategy and Finance;
- 4) one member recommended by the Governor of the Bank of Korea;
- 5) one member recommended by the Chairman of the Financial Services Commission;
- 6) one member recommended by the Chairman of the Korea Chamber of Commerce and Industry; and
- 7) one member recommended by the Chairman of the Korea Federation of Banks.

The members are appointed by the President for four-year terms (with the exception of the Senior Deputy Governor, whose term is three years) and are eligible for reappointment. All members serve on a full-time basis, and no member may be discharged from office against his will. The Governor serves concurrently as the Chairman of the Committee.

Resolutions at a Monetary Policy Committee meeting are adopted by simple majority when there are at least five members present. Any member may submit a proposal, with the concurrence of at least one other member. The Chairman, however, can submit a proposal on his own motion.

Frequency of Policy Meetings The Committee convenes generally on the second and fourth Thursdays of each month. Meetings of the Committee may also be called by the Chairman when he considers this necessary or when at least two members so request.

Release of Policy Information The decisions of the Committee are announced immediately following the meeting, on the BOK website. The minutes of Monetary Policy Committee meeting on monetary policy decision is published on the first Tuesday six weeks after the meeting.

MONETARY POLICY IMPLEMENTATION

Policy Targets The primary purpose of the BOK, as prescribed by the Bank of Korea Act, is the pursuit of price stability. The BOK sets a price stability target every three years in consultation with the Government and draws up and publishes an operational plan including it for monetary policy.

Policy Instruments As an operational framework to achieve the ultimate goal of maintaining price stability, the Monetary Policy Committee sets the Bank of Korea Base Rate (or “Base Rate”) every month, after overall consideration of price movements, economic activity, and financial and asset market conditions. In addition to the Base Rate, the policy tools used by the BOK are as follow:

- 1) To affect liquidity conditions in the markets, the BOK employs loan policy to control the availability of banking institutions' funds. The BOK's loan facilities consist of Aggregate Credit Ceiling Loans, Liquidity Adjustment Loans and Deposits, Intraday Overdrafts and Special Loans.
- 2) The BOK carries out open market operations as and when necessary to affect the level of reserves in the banking system and to manage the overnight call rate so that it does not deviate too widely from the Base Rate determined by the Monetary Policy Committee. These operations are conducted in two ways: through securities transactions and through issuance of Monetary Stabilization Bonds (MSBs).
- 3) The BOK may impose reserve requirements on the deposit liabilities of banking institutions. The ratios of reserve requirements to deposit liabilities may not exceed 50 percent, but in a period of pronounced monetary expansion, the BOK may require banks to maintain minimum reserves of more than 50 percent and up to 100 percent of any increases in their deposits.

The BOK's website is located at (www.bok.or.kr).

FINANCIAL STABILITY

Authorities Responsible for Financial Stability and Supervision of the Financial Sector

Each institution - the BOK, the Government (i.e., the Ministry of Strategy and Finance (MOSF)), the supervisory organisations (the Financial Services Commission (FSC) and the Financial Supervisory Service (FSS)), and the Korea Deposit Insurance Corporation (KDIC) - can be seen as carrying out roles related to financial stability.

As the joint supervisory authorities, the FSC and the FSS function as the main financial supervisors, by for example providing authorisation of and approval for financial institutions, regulating financial institution soundness, and implementing examinations of and sanctions on financial institutions. Aside from these authorities, the BOK, the MOSF and the KDIC also have some financial supervisory functions in cases related to their main activities.

Institutional Coverage of the Financial Supervisory Authorities

The FSC and the FSS have supervisory authority over the entire financial sector within the country, covering banks, non-bank deposit-taking financial institutions, insurance companies, securities companies, asset management companies, financial holding companies, etc. The BOK, the MOSF and the KDIC at the same time have supervisory functions within the following limited scopes :

BOK: Requesting of the FSS that it examine financial institutions; requesting of the FSS that BOK staff implement financial institution examination jointly with the FSS; and requesting submission to it of data by financial institutions.

MOSF: Supervision and regulation of the foreign exchange businesses of financial institutions, to maintain foreign exchange market stability and financial institutions' soundness.

KDIC: Requesting that FSS examine financial institutions insured by it; requesting of the FSS that KDIC staff take part in such examinations; requesting submission to it of data by insured financial institutions.

Strategy for Supervision and Monitoring of Financial Stability

The FSS uses the CAMELS system, by which it comprehensively assesses financial institutions' management in order to identify and respond to their management risks in a timely manner.

The BOK also evaluates the management conditions of banks by taking part in FSS examinations or requesting that the FSS examine banks. However, the BOK focuses mainly on future changes in banks' management conditions. The BOK, together with the FSC and the FSS, monitors financial stability by identifying and analysing financial market trends at home and abroad, as well as the management conditions of financial institutions. The BOK assesses financial system stability in general and identifies potential risks especially in its Financial Stability Report, published biannually.

Progress in the Implementation of Basel II

Korea adopted the New Basel Capital Accord (Basel II) in early 2008. It also introduced the advanced IRB approach for credit risk and the advanced measurement approach for operational risk in 2009. Due to the recent financial turmoil, however, the financial supervisory authorities extended the parallel calculation period for the effective implementation of Basel II until 2009.

Banks have set up their own risk management divisions, which work to obtain and verify data such as the probability of default (PD), so as to receive approval from the supervisory authorities for their measurement approaches for credit and operational risk. Recently, some major commercial banks have won approval from the financial supervisory authorities for use of the IRB approach for credit risk. The financial supervisory authorities have made preparations, including setting of regulations, to ensure a smooth transition to Basel II.

**CURRENT CHIEF
OFFICIALS**
(as of 31 December 2009)

**Monetary Policy
Committee**

Chairman Mr. Lee, Seongtae

Members Mr. Lee, Ju Yeol
Mr. Kang, Myung Hun
Mr. Kim, Dae Sik
Mr. Park, Bong-Heum
Mr. Shim, Hoon
Mr. Choi, Do Soung

Governor Mr. Lee, Seongtae

**Senior Deputy
Governor** Mr. Lee, Ju Yeol

Deputy Governors Mr. Song, Chang Hun
Mr. Rhee, Gwang-Ju
Mr. Kim, Jae Chun
Mr. Jang, Byung Wha
Mr. Lee, Kwang-June

Auditor Mr. Kang, Tai Hyuk

Director Generals Mr. Yoo, Jong Yul
Budget & Management Department

Mr. Jung, Kwang Sub
Knowledge Management Office & Library

Mr. Chung, Dae Hwa
Legal Office

Mr. Yoo, Byoung Gap
Monetary Policy Committee Office

Mr. Park, Won Shik
Secretariat

Mr. Jung, Hee Sik
Press Office

Mr. Jee, Choon Woo
Information Technology Department

Mr. Jang, Seh Geun
General Affairs Department

Director Generals Mr. Lihm, Joo-Whan
Human Resources Development Institute

Mr. Lee, Kyung Tae
Properties Management Office

Mr. Lee, Sang Woo
Research Department

Mr. Lee, Heung Mo
Overseas Economic Information Office

Mr. Kim, Myung Kee
Economic Statistics Department

Mr. Rhu, Hoo-Kyu
Financial System Stability Department

Mr. Chung, Hee Chun
Monetary Policy Department

Mr. Min, Sung Kee
Financial Markets Department

Mr. Chun, Han Pack
Payment Systems & Treasury Service Department

Mr. Ann, Taihoon
Treasury & Debt Securities Office

Mr. Lee, Nae Hwang
Currency Issue Department

Mr. Ahn , Byung Chan
International Department

Mr. Yoo, Byeong Ha
International Relations Office

Mr. Kim, Sungmin
G-20 Affairs Office

Mr. Lee, Eung Baek
Reserve Management Department

Mr. Hong, Taeg Ki
Reserve Investment Office

Mr. Oh, Jae Kwon
Reserve Management Support Office

Mr. Choi, Jung Min
Security Department

Mr. Kim, Kyung Soo
Institute for Monetary & Economic Research

Mr. Lim, Jaechul
Economic Education Center

Mr. Lee, Hyung Jong
Audit Department

Chief Representatives Mr. Kim, Yang Woo
New York Representative Office

Mr. Jeung, Dae Yeung
Frankfurt Representative Office

Mr. Kim, Yeung Baik
Tokyo Representative Office

Mr. Choi, Jae Hyun
London Representative Office

Mr. Lee, Cheol-Seong
Beijing Representative Office

FINANCIAL SERVICES COMMISSION (FSC) AND FINANCIAL SUPERVISORY SERVICE (FSS)

The **Financial Services Commission** was established as a supervisory policy-making body on 1 April 1998. The FSC Chairman was the ex officio FSS Governor at the time. In March 2008, however, the FSC experienced a remarkable change in its organization and function by as it took over the financial policy function from the Ministry of Finance and Economy in addition to retaining its own supervisory policy function, while separating its supervisory policy-setting and execution functions through division of the posts of the FSC Chairman and the FSS Governor. The FSC has four main mandates - advancing the financial industry, stabilizing the financial markets, promoting a sound credit system, and establishing fair trading practices.

The FSC is composed of nine commissioners, including its Chairman and Vice Chairman, the Vice Minister of Strategy and Finance, the Deputy Governor of the Bank of Korea, the Governor of the Financial Supervisory Service, the President of the Korea Deposit Insurance Corporation, two people recommended by Chairman of the FSC, and one person recommended by the Chairman of the Korea Chamber of Commerce and Industry. The Chairman, who is appointed by the President of the Republic of Korea, presides over FSC meetings and exercises control over general FSC affairs.

The following are the primary functions of the FSC:

- ♦ Deliberation on and resolution of important financial issues concerning advancement of the financial industry, financial market stability, promotion of a sound credit system, and building up of fair trading practices
- ♦ Guidance and supervision of the FSS through amendment of the FSS's articles of incorporation and approval of its budget and financial statements

The Securities & Futures Commission (SFC), a special deliberative body within the FSC, was established under the Act on Establishment of Financial Services Commission and the Securities and Exchange Act. The SFC consists of five commissioners, including one standing commissioner, and is headed by the Vice Chairman of the FSC. Three non-standing commissioners are appointed based upon recommendation of the FSC Chairman of candidates with extensive knowledge and experience in finance, securities, futures or accounting. The SFC serves the following primary functions:

- ♦ Investigation of unfair trading
- ♦ Accounting standards and audit review
- ♦ Management, monitoring and supervision of the securities and futures markets
- ♦ Functions delegated to it in accordance with the relevant laws and regulations

The **Financial Supervisory Service** was established on 2 January 1999, under the Act on the Establishment of Financial Supervisory Organizations, by bringing together four supervisory bodies – the Banking Supervisory Authority, the Securities Supervisory Board, the Insurance Supervisory Board, and the Non-bank Supervisory Authority -- into a single organization. The primary function of the FSS is examination and supervision of financial institutions but can extend to other oversight and enforcement functions as charged by the FSC and the SFC. The FSS is headed by a Governor and organized along 25 departments and 16 offices that are divided among nine principal divisions: (1) strategic planning, (2) management support and consumer protection, (3) supervisory service coordination, (4) banking service, (5) non-banking service, (6) insurance service, (7) financial investment service, (8) capital market investigation, and (9) accounting service. The Internal Audit Office is responsible for internal auditing of the FSS.

The FSC's website is at (www.fsc.go.kr), and the FSS's is at (www.fss.or.kr).

CURRENT CHIEF OFFICIALS

FSC

Chairman Mr. Chin, Dong-Soo

Vice-Chairman Mr. Kwon, Hyouk-Se

Ex officio Commissioners Mr. Hur, Kyung-Wook
Vice Minister of Strategy and Finance
Mr. Lee, Ju Yeol
Deputy Governor of the Bank of Korea
Mr. Kim, Jong Chang
Governor of the Financial Supervisory Service
Mr. Lee, Seung-Woo
President of the Korea Deposit Insurance Corporation

Standing Commissioners Mr. Yi, Jong-Goo
Mr. Lim, Seung-Tae

Non-Standing Commissioner Mr. Chai, Hee-Yul

SFC

Chairman Mr. Kwon, Hyouk-Se

Standing Commissioners Mr. Choi, Kyu-Youn
Mr. Choe, Hyuk

Non-Standing Commissioners Mr. Kim, Moon-Cheol
Mr. Cho, Inho

FSS

Governor Mr. Kim, Jong Chang

Deputy Governors Mr. Kim, Yong Hwan
Mr. Lee, Jang Yung
Mr. Song, Kyung Chul

Assistant Governors Mr. Lee, Seok-Keun
Mr. Joo, Jae Seong
Mr. Yang, Sung Yong
Mr. Kang, Young Goo
Mr. Park, Won Ho
Mr. Jung, Yeon Soo

Chief Accountant Mr. Kim, Ho Joong

MINISTRY OF STRATEGY AND FINANCE

1948

In 1948, three years after gaining independence from Japan, the Korean Government was set up and established the Ministry of Finance and the Economic Planning Board. The Ministry of Finance took charge of designing tax, financial and monetary policies as well as managing state-owned property and exchange rates. The Economic Planning Board was empowered in 1961 and assumed an important mandate of designing 5-year economic development plans in addition to its usual functions such as managing the government's budget and securing foreign loans.

1994

In 1994, as the need arose for an integrated approach to implementing the government's functions in economic affairs in an efficient and coherent way, the Economic Planning Board and the Ministry of Finance were merged into the Ministry of Finance and Economy (MOFE).

1998

In 1998, in response to the Asian financial crisis, the MOFE's functions were separated and transferred to other ministries to mitigate the over-concentration of decision-making authority in the MOFE. Its budgetary authority was transferred to the National Budget Administration, its financial supervisory authority to the Financial Supervisory Commission, and its trade negotiating authority to the Ministry of Foreign Affairs and Trade.

1999

In 1999, the Planning and Budget Committee and the National Budget Administration were merged into the Ministry of Planning and Budget (MPB).

2008

In 2008, the Ministry of Finance and Economy (MOFE) and the Ministry of Planning and Budget (MPB) were again merged into the Ministry of Strategy and Finance (MOSF), to put fiscal policy functions and inter-ministerial policy coordination under one roof. At the same time, the MOFE's authority on financial policies regarding the financial market was transferred to the Financial Services Commission.

The primary functions of the MOSF are as follow :

1. Planning and coordination of the mid- to long-term socio-economic development goals and setting of the economic policy directions on an annual basis
2. Distributing resources effectively and assessing the effectiveness of budget execution
3. Planning/reforming Korea's tax policy and system

4. Planning and management of policies related to the treasury, government properties, government accounting and the national debt
5. Coordination of policies for foreign currency transactions and international finance
6. Enhancement of international cooperation and promotion of inter-Korean economic exchanges and cooperation
7. Management and monitoring of public institutions' operations

The MOSF's website is at (www.mosf.go.kr).

Minister Mr. Yoon, Jeung-Hyun

Vice-Ministers Mr. Hur, Kyung-Wook

Mr. Lee, Young-Geol

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