

CSDs: KSD (Korea (South))

Date: 14 Jan 2009

SMI Markets: Korea (South)

CMIRR Markets: Korea (South)

Local Banks to Be Permitted to Lend Funds for Securities Investments

The Financial Services Commission (FSC) has submitted draft regulatory papers of the Banking Act to the Korean Parliament in order to remove the restriction on local banks providing cash loans for speculative investments purposes, including investments in securities.

Currently, investors can borrow funds under the Foreign Exchange Transaction Regulation (FETR) which entered into force in December 2007, but local banks were unable to lend funds to trade securities.

If FSC's proposal is approved, local banks will be able to lend up to KRW 30 Billion (around USD 20 million) per each foreign investor for investment in securities.

CSD Risk Impact

KSD (Korea (South))

CSD Rating: A+

CSD Flash Impact: On Watch

Impacted Risk Type: Liquidity Risk

Current Rating = AA-

Flash Impact = On Watch

The proposal to allow local banks to lend funds to foreign investors will provide more options for them to borrow funds besides the FX and the repo market. The new rule will also resolve the issue between the FETR and the Banking Act which are currently contradictory given that one allows borrowing and the other prohibits banks from lending funds. Overall, the change will be positive for Liquidity Risk as it would help reduce the fails in the market, however the impact has been placed 'On Watch' as the rule is subject to approval by the parliament.

Market Information Impact

Korea (South)

This information affects the data contained in the Cash Management sections of the Securities Market Information Service.

Infrastructure Risk Ratings Impact

Korea (South)

Market Rating: A+

Market Flash Impact: On Watch

Impacted Risk Type: Liquidity Risk

Current Rating = A+

Flash Impact = On Watch

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Related Flash: [Foreign Exchange Market Liberalisation - Update, 11/01/2008 \(click to view\)](#)

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