

PRESS RELEASE

March 31, 2020

Bank of Korea to Expand Financial Institutions' Collateral Capacity by 10.1 Trillion Won

- In order to ensure financial market stability and support timely implementation of the government's financial support package, the Bank of Korea Monetary Policy Board will implement the "Payment and Settlement Policy Response to the Spread of COVID-19" as follows:
 - The ratio of collateral for guaranteeing net settlements will be lowered by 20 percentage points (from 70% to 50%) effective April 10, 2020.
 - Accordingly, the BOK will postpone* its previously announced plan to increase the ratio by 10 percentage annually.
 - * The time when the ratio will be increased to 100% will be pushed back from August 2022 to August 2024.
 - The BOK will also broaden the eligible collateral for guaranteeing net settlements by including bonds issued by nine public institutions and bank debentures.
- As a result, the amount of collateral financial institutions are required to pledge with the BOK will be reduced by ₩10.1 trillion, from ₩35.5 trillion to ₩25.4 trillion (as of March 30, 2020), which will have the effect of providing an equivalent amount of liquidity to the financial market.

(Refer to attachment)

(Attachment)

◆ In order to ensure financial market stability and support timely implementation of the government's financial support package, the Bank of Korea Monetary Policy Board will implement the "Payment and Settlement Policy Response to the Spread of COVID-19" as follows:

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Ratio of Collateral for Guaranteeing Net Settlements lowered by 20%p

□ The Bank of Korea (BOK) has decided to lower the ratio of collateral* financial institutions are required to pledge with the BOK for guaranteeing net settlements, by 20 percentage points (from 70% to 50%) effective April 10, 2020.

* Financial institutions are required to pledge collateral with the BOK to guarantee final settlements between themselves of customer transactions made via retail payment systems such as online banking (net settlements#). As of March 30, 2020, the total collateral amounted to ₩35.5 trillion.

The final settlements of these transactions are conducted at 11:00 a.m. on the next business day, through their current accounts with the BOK on a multilateral netting basis.

○ Accordingly, the BOK will postpone its previously announced plan to increase the ratio by 10 percentage annually.

— As a result, the time when the ratio will reach 100% will be pushed back from August 2022 to August 2024.

Changed Schedule for Raising Ratio of Collateral for Guaranteeing Net Settlements

	Current	Apr. 2020	Aug.1 2020	Aug.1 2021	Aug.1 2022	Aug.1 2023	Aug.1 2024
Before	70%	70%	80%	90%	100%	100%	100%
After	⇒	50%	50%	70%	80%	90%	100%

- As a result, the required amount of collateral will be reduced by ₩10.1 trillion, from ₩35.5 trillion to ₩25.4 trillion (as of March 30, 2020), which will have the effect of providing an equivalent amount of liquidity to the financial market.
- The new measure will take effect from April 10.

I Broadening of Eligible Collateral for Net Settlements

- The BOK will temporarily broaden the eligible collateral for guaranteeing net settlements by including bonds issued by nine public institutions* and bank debentures**.

* KEPCO, Korea Expressway Corporation, Korea Gas Corporation, Korea Land & Housing Corporation, Korail, Korea Rail Network Authority, K-Water, Korea SMEs & Startups Agency, and Korea Deposit Insurance Corporation

** Debentures issued by the National Agricultural Cooperative Federation and Nonghyup Bank, the National Federation of Fisheries Cooperatives and Suhyup Bank, and banking institutions established by the Bank Act

- The regulatory details on collateral between the net settlement risk management system and the BOK's lending facilities will be matched in consideration of their close interconnectedness*.

* When a counterparty (bank) in a net settlement fails to settle, the BOK completes the settlement, using the collateral pledged by the bank to guarantee net settlements as the collateral for lending.

Eligible Securities as Collateral For Net Settlements

Before	After
Government bonds, Monetary Stabilization Bonds, government-guaranteed bonds, KDB bonds, IBK bonds, KEXIM bonds, KHF MBS	Government bonds, Monetary Stabilization Bonds, government-guaranteed bonds, KDB bonds, IBK bonds, KEXIM bonds, KHF MBS
(Added)	<p>Debentures issued by the National Agricultural Cooperative Federation and Nonghyup Bank, the National Federation of Fisheries Cooperatives and Suhyup Bank, banking institutions established by the Bank Act, and bonds issued by nine public institutions*</p> <p>* KEPCO, Korea Expressway Corporation, Korea Gas Corporation, Korea Land & Housing Corporation, Korail, Korea Rail Network Authority, K-Water, Korea SMEs & Startups Agency, and Korea Deposit Insurance Corporation</p>

- This measure is expected to reduce the burdens of financial institutions.
- In the past, the BOK also took similar measures to broaden the range of collateral eligible for guaranteeing net settlements in order to reduce financial institutions' collateral burden while ensuring that overall credit risk is managed.

Past Measures to Expand Range of Eligible Collateral for Guaranteeing Net Settlements

Collateral added	Date	Purpose
MBS issued by KHF	Jan. 1, 2016 (Regulation amended in Nov. 2015)	To reduce asset management restrictions that financial institutions experienced from issuing low fixed-rate "Relief Loans" aimed at improving household debt structure
KDB bonds, IBK bonds, KEXIM bonds	Aug. 1, 2019 (Regulation amended in Nov. 2018)	To relieve financial institutions' burden from increased collateral-to-net debit cap ratio (from 50% to 70%)

- The new measures will take effect in May (effective until end-March 2021) after completion of modification and testing of the IT system.