BANK OF KOREA

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Ceilings on the FX Derivatives Positions of Banks Raised by 25%

- 40% → 50% for Domestic Banks, 200% → 250% for Foreign Bank Branches

The Ministry of Economy and Finance, the Financial Services Commission, the Bank of Korea, and the Financial Supervisory Service agreed to raise the ceilings on the FX derivatives positions of banks by 25%, to lessen supply and demand imbalances in the swap market by expanding the supply of foreign currency liquidity.

- This decision raises ceilings on the FX derivatives positions of domestic banks from the current 40% to 50%, and those of foreign bank branches from 200% to 250%, starting from March 19, 2020.

<Attachment> Ceilings on the FX Derivatives Positions of Banks Raised by 25%

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<Attachment>

Ceilings on the FX Derivatives Positions of Banks Raised by 25%

The Ministry of Economy and Finance, the Financial Services Commission, the Bank of Korea, and the Financial Supervisory Service examined domestic foreign currency liquidity conditions and discussed measures in response at the Macroeconomic and Financial Meeting held on March 16, 2020.

- The examination found that the foreign currency liquidity of domestic financial institutions remains generally favorable, with the foreign currency liquidity coverage ratio(LCR) of domestic banks standing at 128.3%(preliminary) at the end of February, far exceeding the regulatory ratio(80%).

- It was assessed, however, that there are concerns that the domestic FX swap market could exhibit higher volatility and temporary herd behavior, due mainly to demand related to foreign stock investment funds.

Accordingly, the four institutions agreed to raise ceilings on the FX derivative positions of banks by 25% to lessen the supply and demand imbalances in the swap market through expanded supply of foreign currency liquidity based upon the existing contingency plan.

- This decision raises ceilings on the FX derivatives positions of domestic banks from the current 40% to 50%, and those of foreign bank branches from 200% to 250%.

- Ceilings on FX derivatives positions were adopted in October 2010 to prevent abrupt capital inflows and short-term borrowings. They have been operated flexibly in accordance with market conditions and reforms of other prudential requirements.

- This measure will take effect on March 19, 2020. As a result of this enhancement in banks' foreign currency supply capacity, the supply is expected to increase to some extent, mainly driven by banks with higher FX derivatives positions.

Adjustments to FX Derivatives Position Ceilings

	Introduction	1st adjustment	2nd adjustment	3rd adjustment		4th adjustment
(Introduction Adjustment)	(Oct. 2010)	(Jul. 2011)	(Jan. 2013)	(Jul. 2016)	⇨	(Mar. 19 2020)
Domestic banks	50.0%	40.0%	30.0%	40.0%		50.0%
Foreign bank branches	250.0%	200.0%	150.0%	200.0%		250.0%

The four institutions are conducting daily monitoring of FX swap market developments and overseas financing conditions, as well as financial institutions' FX liquidity conditions. They will also remain strongly committed to close consultation and support to prevent any financing obstacles for firms and financial institutions.

- In close cooperation with other relevant institutions, they are preparing a variety of policy tools to respond to any changes in supply and demand conditions in the swap market, and plan to take swift action when necessary.