



KOREA FEDERATION OF BANKS

www.kfb.co.kr

9,3 gil, Myeong dong, Jung gu, Seoul, 100-021, Korea T. 82-2-3705-5245, F.82-2-3705-5263

April, 30, 2013

Robert deV. Frierson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, D.C. 20551

E-mail : regs.comments@federalreserve.gov

Re : Enhanced Prudential Standards and Early Remediation Requirements for Foreign Banking Organizations and Foreign Nonbank Financial Companies (Regulation YY, Docket Number 1438, RIN 7100 AD 86); Proposed Rule

Dear Mr. deV. Frierson,

The Korea Federation of Banks (KFB) is a bankers' association that represents and promotes the interests of the Korean banking industry as a whole. Our membership comprises of banks and other financial institutions, both domestic and international, operating in Korea.

The KFB appreciates the opportunity on behalf of its industry stakeholders to comment on the proposed rule (Proposed Rule) published by the Board of Governors of the Federal Reserve System (the Board) that would implement the enhanced prudential standards required to be established under section 165 of the Dodd-Frank Act (DFA) and the early remediation requirements required to be established under section 166 of DFA for foreign banking organizations and foreign nonbank financial companies supervised by the Board.

The KFB in consultation with its member banks have reviewed various aspects of the Proposal and the numerous negative impacts it creates against the Korean banking industry. In this regard, the KFB takes this opportunity to briefly highlight the unforeseeable issues and impacts created by the Proposed Rule vis-à-vis the Korean banking industry and submits the following comments.

1. Classification of foreign banks needs further division to allow for differentiated rules to be applied to foreign banks that have an insignificant impact on the United States financial system or minimal presence in the United States.

Many Korean banks with a presence in the United States have global assets which exceed USD 50 billion; however, their primary businesses and assets are predominantly concentrated in Korea. Korean banks business within the United States account for less than 1.5% of their total global assets.

The current group classification contained in the Proposed Rule needs to be further segmented to reflect different levels of actual significance in the United States financial system or markets, allowing exemptions from the Proposed Rule or relaxed applications of the Proposed Rule.

2. Additional overlapping regulation but different requirements between the home country bank supervisor and the Board create non-uniform regulations and reporting requirements.

The Proposed Rule seeks to regulate the top tier Korea-based parent companies of Korean banks having branches or subsidiaries in the United States, which unnecessarily creates the burden of nonconforming double regulation and reporting requirements on the Korean banks and their top tier parent companies.

Korean banks are members of the Financial Stability Board (FSB) and the Basel Committee on Banking Supervision (BCBS). Korea's home country supervisor proactively incorporates internationally-agreed upon principles on the regulation of the banking industry and in the supervision of member banks.

With respect to financial soundness, capital adequacy stress tests, and liquidity stress tests, it is appropriate to allow banks to follow the standards that the home country regulators have imposed on the Korean banks and their parent companies. Again, Korea's regulations are stipulated according to internationally-agreed upon principles instead of the standards of the Proposed Rule.

3. A foreign banking organization and its top tier parent holding company could both be subject to the Proposed Rule

A Foreign Banking Organization (FBO) can be interpreted as a foreign bank and include the foreign bank's holding company.

Thus, if a foreign bank holding company's only business presence in the United States is through its foreign banking subsidiary, the Proposed Rule appears to require the both entities to submit to the enhanced requirements subjecting both entities to the enhanced prudential standards and reporting requirements of the Proposed Rule. In such circumstances, the Proposed Rule needs clarification with regard to the actual party in interest. That is, which party needs to adhere to the Proposed Rule. In the current example, we believe only the foreign banking subsidiary should be the applicable party to submit to the Proposed Rule.

4. Specific Points on the Proposed Rule

- *U.S. Risk Committee Certification*

In the case of insignificant or minimal assets in the United States (e.g., less than USD 10 billion), the requirement of running a risk committee specifically for the bank's business activities in the United States creates an undue burden and is deemed to be excessive relative to the potential risk. Hence, an exception or exemption is warranted.

- *Stress Test Requirement*

A bank's proprietary system of stress testing approved by the home country supervisor should be accepted. (If the approach of the proprietary system of stress testing is acknowledged, there is no issue with observing the requirements.)

The requirement needs to be applied with flexibility. That is, customizing differentiated administrative measures depending on whether the failure of satisfying the stress test requirements would result in the instability of the United States financial system.

- *Intermediate Holding Company Requirement*

While this provision in the Proposed Rule is currently not applicable to Korean banks, the intermediate holding company requirements of a foreign

banking organization possessing greater than USD 10 billion in U.S. based assets need to be further stratified according to the direct level of impact that a foreign banking organization may have on the U.S. financial system.

- *Risk-Based Capital Requirement*

Korea's primary financial regulator, the Financial Supervisory Service (FSS) plans to adopt the Basel III capital regime with regard to Korean banks under its supervision. Nonetheless, current compliance and adoption to the Basel III capital regulations differ across various jurisdictions. Further, some jurisdictions still have not implemented the Basel II standards. Thus, compliance with the regulatory standards designated by home country supervisors need to be acknowledged as compliant with the requirement.

- *Liquidity Requirement*

Most Korean banks perform 30-day liquidity stress tests based on their internal scenario requirements. If, as the Proposed Rule requires results of 30-day, 90-day, and 1-year stress tests, the banks would be subject to the undue burden of conducting new excessive tests. Results of internal liquidity stress tests should be accepted even if not all of the benchmark 30-day, 90-day, and 1-year liquidity stress tests are conducted.

Additionally, if the home country adopts Basel III standards in accordance with the Basel III regime on liquidity, Korean banks should be allowed to comply only with the standards of the home country.

- *Single Counterparty Credit Limits*

The daily monitoring and monthly reporting thereof to the Board of single counterparty credit limits methods appears to be too excessive considering the scope of United States operations for Korean banks. Notwithstanding, Korean banks non-significant U.S. assets should be allowed to defer to their home country regulations which provide for similar rules and regulations.

- *Debt to Equity Limits*

This requirement addresses the actions to be taken in the case of U.S. financial stability being potentially undermined. The Board needs to properly analyze whether Korean banks with their limited asset size actually pose such a threat to the U.S. financial system. The Proposed Rules need further segmentation to reflect the different levels of impact on the system of the US financial market, based on which exceptions or exemptions may be warranted.

Moreover, in instances where the foreign banking organization receives notice to maintain a debt equity ratio of no more than 15-to-1 and where the U.S. branch and agency network needs to achieve and maintain on a daily basis eligible assets in an amount not less than 108 percent of the U.S. branch and agency's network's liabilities, the prescribed time periods for compliance may be too short requiring further extensions of time. Also please clarify the definition of qualified assets in the estimation of asset ratio.

- *Early Remediation Framework*

The Proposed Rule need further segmentation to reflect the varying levels of impact on the system of the US financial market, based on which exception clauses need to be added.

The KFB and its members understand and appreciate the Board's desire to effectively monitor and enhance financial stability in the United States. Nevertheless, the Board needs to reassess various thresholds parameters under the Proposed Rule and the practicality thereof. Korean banks, along with many other similarly situated foreign banks, are already under the umbrella of consolidated supervision. Furthermore, in terms of asset size, Korea banks possess the initial threshold of USD 50 billion to be subject to the enhanced prudential standards; however, the asset size of their U.S. operations compared to their overall assets are small in degree.

Thank you for providing the opportunity to industry stakeholders to comment on the Proposal. The KFB and its members shall continue to closely follow future developments regarding this work stream. If you have any questions whatsoever about our comments, please do not hesitate to contact us.

Yours sincerely,

A handwritten signature in black ink, reading "YungDae Kim". The signature is fluid and cursive, with the first name "YungDae" and the last name "Kim" clearly distinguishable.

YungDae Kim
Vice Chairman
Korea Federation of Banks