Basel Committee
on Banking Supervision

Regulatory Consistency Assessment Programme (RCAP)

Assessment of Basel large exposures regulations – Korea

December 2024

BIS

Note that this report refers to the RCAP grades prior to October 2025. The grade 'materially non-compliant (MNC)', ie one notch above the lowest grade, has since been renamed to 'partially non-compliant (PNC)' for greater clarity

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Glossary

BCBS	Basel Committee on Banking Supervision
BIS	Bank for International Settlements
C	Compliant (grade)
CCF	Credit conversion factor
D-SIBs	Domestic systemically important banks
DRSBB	Detailed Regulations on Supervision of Banking Business
FAQ	Frequently asked question
FSC	Korean Financial Services Commission
FSS	Korean Financial Supervisory Service
G-SIBs	Global systemically important banks
KDB	Korea Development Bank
KRW	Korean won
LC	Largely compliant (grade)
LEX	Large exposures
MNC	Materially non-compliant (grade)
NC	Non-compliant (grade)
RCAP	Regulatory Consistency Assessment Programme
RSBB	Regulations on Supervision of Banking Business

Preface

The Basel Committee on Banking Supervision (Basel Committee) places a high priority on the implementation of regulatory standards underpinning the Basel III framework. The prudential benefits from adopting Basel standards can only fully accrue if these are implemented in a full, timely and consistent manner by all member jurisdictions. The Committee established the Regulatory Consistency Assessment Programme (RCAP) to monitor, assess and evaluate its members' implementation of the Basel III framework.[1]

This report presents the findings of an RCAP Assessment Team (Assessment Team) on the adoption status of the Basel large exposures (LEX) framework in Korea on 30 September 2024. The assessment focused on the completeness and consistency of the Korean LEX regulations with the Basel LEX framework and relied on the information provided by the Korean authorities. The main counterpart for the assessment was the Korean Financial Supervisory Service (FSS).

The Assessment Team was led by Mr Derek Nesbitt, Senior Adviser, Banking Policy, Prudential Policy Directorate, Bank of England Prudential Regulation Authority (PRA), and comprised technical experts from the Commission de Surveillance du Secteur Financier (CSSF), the Financial Stability Institute (FSI), the Indonesia Financial Services Authority (OJK) and the Japanese Financial Services Agency (JFSA) (see Annex 1). The work was coordinated by the Basel Committee Secretariat with support from PRA staff.

The assessment began in October 2023 and comprised: (i) a self-assessment by the FSS (October 2023 to March 2024); (ii) an assessment phase (March to September 2024); and (iii) a review phase (in October 2024) including a technical review of the Assessment Team's findings by a separate RCAP Review Team and the Basel Committee. The assessment report ultimately reflects the view of the Basel Committee.

The Assessment Team acknowledges the cooperation received from the FSS throughout the assessment process.

1 See www.bis.org/bcbs/implementation.htm.

Executive summary

In Korea, the Basel III LEX framework is implemented through the Regulations on Supervision of Banking Business (RSBB) and the Detailed Regulations on Supervision of Banking Business (DRSBB). The LEX regulations in the RSBB and DRSBB have been implemented since 1 February 2024. The LEX requirements apply to all Korean banks, including all internationally active banks, except the Export-Import Bank of Korea and internet-only banks. Overall, as of 30 September 2024, the LEX regulations in Korea are assessed as largely compliant with the Basel LEX standards. This is one notch below the highest overall grade. Two components of the Basel LEX framework (scope and definitions; and minimum requirements and transitional arrangements) are assessed as compliant, while one component (value of exposures) is assessed as largely compliant.

The overall grade is driven by one potentially material finding related to exemptions for breaches of large exposure limits and two findings that were deemed not material. Regarding the treatment of breaches of large exposure limits, the Korean regulation allows banks to exceed the large exposure limit in a broader range of circumstances than is permitted in the Basel standard, which could potentially have an impact on the international level playing field.

The Assessment Team noted that the LEX regulations in Korea are super-equivalent to the Basel LEX framework in one area (see Annex 4). In accordance with the methodology and guidance provided in the RCAP Handbook for jurisdictional assessments, the stricter rules have not been taken into account as mitigants for the overall or component-level assessment of compliance.

Response from the Korean authorities

Korea's supervisory authorities have been communicating and collaborating with the Basel Committee over the years to ensure effective implementation of and compliance with the Basel standards. We strongly support the implementation of a globally consistent LEX standard and welcome the Basel Committee's efforts to accomplish this goal.

The FSS deeply appreciates the Assessment Team led by Mr Derek Nesbitt for its dedication and high level of expertise, which facilitated robust discussions throughout the review of the implementation of the LEX framework. We would also like to express our appreciation to the Secretariat for its efforts in supporting this process.

Throughout the RCAP process in 2024, Korea's banking supervisors were able to exchange constructive views and ideas with the RCAP Assessment Team. In particular, the assessment has given Korea's banking supervisors opportunities for an in-depth comparative review of the Basel III LEX standards and the standards adopted by Korea. It has brought greater clarity to our domestic LEX regime. We believe the RCAP is a very useful and important instrument that ensures consistency and transparency among cross-jurisdictional regulatory frameworks.

The FSS overall agrees with the "Largely compliant" grade of domestic regulations that have adopted the Basel LEX standards, as the assessment confirms that domestic LEX regulations are generally compliant with the Basel standards and that there are no material differences that could give rise to prudential or supervisory concerns or jeopardise comparability across international banks.

Overall, this assessment of "Largely compliant" is due to one finding that was assessed as potentially material. The potentially material finding is "Broader scope of exceptions for limit breach". In Korea, for example, if the limit is exceeded due to exchange rate fluctuations, decrease in equity capital, or corporate mergers, etc without additional credit extensions, it can be recognised as an exception.

However, the scope of exceeding the limit is set to reflect Korea's economic characteristics: Korea is a small, open economy that is heavily affected by exchange rate fluctuations, and companies in Korea are highly dependent on banks for funds, which can cause a limit breach in the event of corporate mergers, acquisitions, restructuring, etc.

Finally, Korea's supervisory authorities remain committed to the work of the Basel Committee and consistent implementation of the Basel standards. We will continue to embrace proposals and measures put forth by the Basel Committee to improve the consistency of banking standards across jurisdictions and work closely with the Basel Committee to further ensure strong banking standards.

1 Assessment context

1.1 Regulatory system

The Financial Services Commission (FSC) and the Financial Supervisory Service (FSS) are the two primary supervisory authorities in Korea. As Korea's principal supervisory authority empowered by the Act on the Establishment of Financial Services Commission, the FSC is given a broad statutory mandate to carry out two main functions: (i) deliberation and resolution of financial policies; and (ii) guidance and oversight of the FSS. The FSS acts as the executive supervisory authority for the FSC, and its key functions include supervision and examination of financial firms along with other enforcement and supervision activities.

The FSC and FSS have the statutory authority to draft and amend financial laws and regulations. The FSC is in charge of the implementation of the Regulations on Supervision of Banking Business (RSBB) and the FSS is in charge of the implementation of the Detailed Regulations on Supervision of Banking Business (DRSBB). These regulations stipulate matters delegated by higher laws such as the Banking Act and the Enforcement Decree of the Banking Act. All the regulations are legally binding on all applicable financial institutions.

1.2 Status of implementation of the large exposures framework

The FSC and FSS are responsible for implementing Basel III standards in Korea. The Basel III LEX framework is stipulated in the RSBB and DRSBB. The LEX regulations in the RSBB and DRSBB have been implemented since 1 February 2024. In addition, the FSS has issued a business reporting form under the DRSBB, and banks report LEX data every quarter according to this form.

Regarding the scope of application of LEX regulations, the LEX requirements apply to all Korean banks, including all internationally active banks, except the Export-Import Bank of Korea and internet-only banks. The application of the LEX regulations has been postponed for two years for the Korea Development Bank (KDB).

1.3 Scope of the assessment

The Assessment Team considered the large exposure limits applicable to a sample of internationally active banks in Korea as of 30 September 2024. The assessment had two dimensions:

- a comparison of Korean regulations with the Basel LEX framework to ascertain that all the required provisions have been adopted (*completeness* of the regulations); and
- whether there are any differences in substance between the Korean regulations and the Basel LEX framework and, if so, their significance (*consistency* of the regulations).

In its assessment, the Assessment Team considered all binding documents that effectively implement the Basel LEX framework in Korea. Annex 2 lists the Basel standards used as the basis for the assessment. The assessment did not evaluate the resilience of the banking system in Korea or the supervisory effectiveness of the Korean authorities.

The Assessment Team evaluated the materiality and potential materiality of identified deviations between the Basel LEX framework and the Korean regulations. The evaluation was made using a sample of eight internationally active Korean banks. Together, these banks comprise about 80% of the assets of internationally active banks in Korea. In addition, the Assessment Team reviewed the non-quantifiable impact of identified deviations and applied expert judgment as to whether the Korean regulations meet the Basel LEX framework in letter and in spirit. The materiality assessment is summarised in Annex 3, which also lists the sample of banks.

The Assessment Team noted that, in one area, the Korean rules go beyond the minimum Basel standards. Although these elements (listed in Annex 4) provide for a more rigorous implementation of the Basel Framework, they have not been taken into account for the assessment of compliance.

The outcome of the assessment is summarised using a four-grade scale, both for each of the three key components of the Basel LEX framework and for the overall assessment of compliance. The four grades are compliant (C), largely compliant (LC), materially non-compliant (MNC) and non-compliant (NC).

2 Assessment findings

2.1 Assessment grades and summary of findings

Overall, the Assessment Team finds the implementation of the LEX framework in Korea to be largely compliant with the Basel LEX framework. This grade is based on the materiality assessment as summarised in Annex 3.

Assessment grades

Table 1

Component of the Basel large exposures framework	Grade
Overall grade	LC
Scope and definitions	C
Minimum requirements and transitional arrangements	C
Value of exposures	LC

Assessment scale: C (compliant), LC (largely compliant), MNC (materially non-compliant) and NC (non-compliant).

2.1.1 Scope and definitions

This component is assessed as compliant with the Basel standard. No findings were identified.

There are two observations regarding the delay in the implementation of the Korean LEX framework and the exemption of the Export-Import Bank of Korea and internet-only banks from the LEX framework.

2.1.2 Minimum requirements and transitional arrangements

This component is assessed as compliant with the Basel standard. One non-material finding was identified.

The application of the Korean LEX framework to the Korea Development Bank (KDB) has been postponed for two years from the effective date of the regulation and will not become effective until 1 January 2026 to enable the smooth completion of an ongoing corporate restructuring. Considering the nature of the KDB and the fact that it will become subject to the LEX framework in January 2026, the Assessment Team considers the impact of the delayed implementation on financial stability and the international level playing field to be limited.

There is one observation regarding the reporting when there is a limit breach under the Korean regulation, which does not specify an explicit deadline for reporting a breach of the limit.

2.1.3 Value of exposures

This component is assessed as largely compliant with the Basel standard based on one potentially material finding and one non-material finding.

Regarding the former, the Korean regulation allows banks to exceed the large exposure limit in a broader range of circumstances than is permitted in the Basel standard. As this may affect the international level playing field in the future it is assessed as potentially material.

Regarding the latter, the Korean regulation states that the exposure value of "debt instruments" and equities must be defined as the accounting value of the exposure, while the Basel standard allows this treatment only for "straight debt instruments" and equities. The Assessment Team confirmed with the FSS and Korean banks that, while the Korean regulation omitted the word "straight", the use of the accounting value of the exposure is not intended to extend to non-straight bonds. Therefore, the finding is assessed as not material.

2.2 Detailed assessment findings

2.2.1 Scope and definitions

This component is assessed as compliant with the Basel standard. No findings were identified.

2.2.2 Minimum requirements and transitional arrangements

Section grade	**Compliant**
Basel paragraph number	93: Implementation date
Reference in the domestic regulation	RSBB Addendum <2024-4> Article 1 (18 January 2024)
Finding	The Basel LEX framework specifies that all aspects of the LEX framework must be implemented in full by 1 January 2019. Banks were required to adjust their exposures to abide by the large exposure limit by that date since no grandfathering arrangements were applied. The application of the Korean regulation to the Korea Development Bank (KDB) has been postponed for two years from the effective date of the regulation to enable the smooth completion of an ongoing corporate restructuring. That is, the KDB will only become subject to the LEX framework on 1 January 2026. The FSS notes that the KDB is 100% owned by the Korean government and the government can compensate for losses in the event of a loss, and that liquidity risk is low due to the low proportion of financing through deposits. The KDB is considered to be an internationally active bank and subject to the full Basel standards. Also, one of its exposures to a single counterparty currently exceeds 30% of Tier 1 capital. However, considering the nature of the KDB and the fact that it will become subject to the LEX framework in January 2026, the Assessment Team considers the impact of this deviation on financial stability and the international level playing field to be limited. Therefore, the deviation is assessed as not material.
Materiality	Not material

2.2.3 Value of exposures

Section grade	**Largely compliant**
Basel paragraph number	46: Calculation of exposure for trading book positions
Reference in the domestic regulation	DRSBB [Appendix 3-12] 26
Finding	The Basel LEX framework states that the exposure value for trading book positions of "straight debt instruments" and equities must be defined as the accounting value of the exposure (ie the market value of the respective instruments). The Korean regulation states that the exposure value of "debt instruments" and equities must be defined as the accounting value of the exposure. The Korean regulation omits the word "straight".

	The FSS stated that the use of the accounting value of the exposure is not intended to extend to non-straight bonds, despite the omission of the word "straight". In order to provide an approximate upper limit of the impact, the Assessment Team took into consideration that the percentage of Korean banks' trading book exposures accounts for a very small portion of their total exposures (around 2%). Therefore, the deviation is assessed as not material.
Materiality	Not material
Basel paragraph number	66: Interbank exposures
Reference in the domestic regulation	DRSBB [Appendix 3-12] Article 54
Finding	The Basel LEX framework allows supervisors to accept a breach of an "interbank limit" ex post in stressed circumstances in order to help ensure stability in the "interbank market". The Korean regulation allows banks to exceed the "large exposure limit" due to: (1) interbank transactions in order to stabilise the "financial market" in a crisis; and (2) the reasons stipulated in Article 35, paragraph 1, subparagraph 1 or 2 in the Banking Act. Regarding point (2), the reasons stipulated are: (i) situations where it is necessary for the national economy or for a bank to promote effectiveness in securing claims; and (ii) due to changes in the bank's equity capital or changes in the composition of the same borrowers although it did not extend further credit. The KDB is also allowed to exceed the limit due to various reasons stipulated in Article 31, paragraph 1, Enforcement Decree of the Korea Development Bank Act. Regarding point (1), the FSS has confirmed that there have not been any cases recognised as exceptions to date based on this article and stated that it expects that the "for financial market stability in crisis situations" criterion will be applied only to very limited and exceptional situations such as the Asian financial crisis in 1997. Regarding point (2), the FSS notes that these exemptions were added because companies in Korea are highly dependent on banks for funds and as a consequence there is a high probability of exceeding the limit due to corporate mergers, acquisitions, restructuring, etc. Also, it notes that point (2) was part of the regulatory framework that existed in Korea before the introduction of the Basel LEX regulation, ie a credit extension limit system for concentrated loans which was operated under the Banking Act. DRSBB [Appendix 3-12] Article 54. B carried this content forward into the Korean LEX regulation. To date, there has been one case of a limit breach accepted under point (2) in which an exposure increased due to a rise in exchange rates even though the bank did not extend additional credit. The Assessment Team considers that the breadth of exemptions to the large exposure limits set out in DRSBB [Appendix 3-12] Article 54 (2) is considerably broader than the exemptions set out in Basel LEX framework and it is possible that Korea-based banks could benefit from this. The current impact is assessed as limited because there has been only one case of a breach accepted under point (2) so far. However, as there is a high probability of the limit being exceeded again due to corporate mergers, acquisitions, restructurings, etc, according to the FSS there is a reasonable chance that this deviation may affect the international level playing field over the coming years. Therefore, the deviation is assessed as potentially material.
Materiality	Potentially material

2.3 Observations

The following observations highlight certain special features of the regulatory implementation of the Basel LEX framework in Korea. These are presented to provide additional context and information. Observations are considered compliant with the Basel standards and do not have a bearing on the assessment outcome.

2.3.1 Scope and definitions

Basel paragraph number	93: Implementation date
Reference in the domestic regulation	RSBB Addendum <2024-4> Article 1 (18 January 2024)
Observation	The Korean LEX framework entered into force on 1 February 2024. This is five years after the implementation date specified in the Basel standard, which is 1 January 2019.
Basel paragraph number	11: Scope of application
Reference in the domestic regulation	DRSBB [Appendix 3-12] Article 3
Observation	The LEX requirements apply to all Korean banks, including all internationally active banks, except the Export-Import Bank of Korea and internet-only banks. The Export-Import Bank of Korea is an export credit institution that does not have a deposit function but is subject to minimum capital requirements. Internet-only banks do not have international operations, focus on personal loans and, by law, are not allowed to extend credit to corporations other than small and medium-sized businesses. The FSS sees little practical benefit in applying the regulations to internet-only banks.

2.3.2 Minimum requirements and transitional arrangements

Basel paragraph number	18: Breaches of the large exposure limit
Reference in the domestic regulation	DRSBB [Appendix 3-12] Articles 7 and 55
Observation	The Basel LEX framework states that breaches of the limit, which must remain the exception, must be communicated "immediately" to the supervisor and must be rapidly rectified. The Korean regulation specifies that banks must report "without delay" the details and the reasons for exceeding the limit and a plan to resolve the limit exceedance. The regulation also specifies that banks that have reported exceeding the limit must submit the implementation status of the reported resolution plan for each quarter to the FSS Governor within the 20 days of the month following the end of each quarter. There is no explicit deadline (such as the end of the day or the next business day) for reporting a breach of the limit specified in the Korean regulation. The separate form No 124 (the reporting document) states that additional reporting is required if the limit is exceeded for a year. In addition, as a general supervisory action, the FSS may require a bank to make improvements if it determines that the bank's management of a limit breach is inadequate. The Assessment Team confirmed the status of implementation with the FSS and sample banks, and it appears that the sample banks are at least ready to report and rectify the limit breaches "as soon as possible". The FSS has confirmed one case of exceeding the limit, which was resolved within two business days. In addition, the sample banks do not currently expect any limit breaches.

2.3.3 Value of exposures

Basel paragraph number	31, FAQ 5: General measurement principles
Reference in the domestic regulation	DRSBB [Appendix 3-12] 13
Observation	The Basel LEX framework states that an exposure "amount" to a counterparty that is deducted from capital must not be added to other exposures to that counterparty for the purpose of the large exposure limit. FAQ 5 inserted "amount" into Basel LEX paragraph 31 and clarified that in case of a partial deduction of an exposure from capital, the remainder of that exposure value would have to be considered as exposure for LEX purposes.

	The Korean regulation states that an exposure to a counterparty that is deducted from Tier 1 capital for the purpose of calculating capital ratio based on risk-weighted assets under DRSBB [Appendix 3] must not be added to other exposures to that counterparty. However, the omission of the word "amount" could lead to a different interpretation of the required calculation. The FSS confirmed that, in the same way as specified in FAQ 5 of the Basel standard, under the Korean regulation the amount of exposure deducted from the capital is not added to other exposure to the counterparty for LEX limit purposes, while the remaining amount of exposures, which is not deducted from capital, is considered an exposure for LEX purposes. The FSS confirmed that currently there is no such case where an exposure is partially deducted from capital.

Annexes

Annex 1: RCAP Assessment Team and Review Team

Assessment Team Leader

Mr Derek Nesbitt	Bank of England Prudential Regulation Authority

Assessment Team members

Mr Bahrudin	Indonesia Financial Services Authority
Mr Joé Schumacher	Commission de Surveillance du Secteur Financier
Mr Jean-Philippe Svoronos	Financial Stability Institute
Ms Rieko Yamanaka	Japanese Financial Services Agency

Supporting members

Ms Ozgu Ozen	Bank of England Prudential Regulation Authority
Ms Yuka Kanai	Basel Committee Secretariat
Mr Carsten Folkertsma	Basel Committee Secretariat
Mr Olivier Prato (until 30 April 2024)	Basel Committee Secretariat
Mr Noel Reynolds (from 1 May 2024)	Basel Committee Secretariat

Review Team members

Mr Mohammed S Alghorayyeb	Saudi Central Bank
Mr Jurgen Janssens	National Bank of Belgium
Ms Emily Yang	Federal Reserve Bank of New York
Ms Joanne Marsden	Basel Committee Secretariat

Annex 2: List of Basel standards and implementing regulations issued by the Korean authorities

The following Basel standards were used as the basis of this RCAP assessment:

- *Supervisory framework for measuring and controlling large exposures*, April 2014
- *Frequently asked questions on the supervisory framework for measuring and controlling large exposures*, September 2016

Table A.1 lists the regulations issued by the Korean authorities to implement the LEX framework in Korea. Previous RCAP assessments of the Korean implementation of the Basel standards considered the binding nature of regulatory documents in Korea.[2] This RCAP Assessment Team did not repeat that assessment, but instead relied on the previous assessments' findings. Those assessments concluded that the types of instruments described in Table A.1 could be considered as binding on banks and supervisors for the purposes of an RCAP assessment.

Overview of relevant large exposure regulations in Korea — Table A.1

Domestic regulations	Type, version and date
Regulation on Supervision of Banking Business	Issued: 1 February 2024
Detailed Regulation on Supervision of Banking Business [Appendix 3-12] (LEX)	Issued: 1 February 2024

Source: FSS.

[2] See Section 1.2, Annex 2 and Annex 6 of Basel Committee on Banking Supervision, *Regulatory Consistency Assessment Programme (RCAP) Assessment of Basel III LCR regulations – Korea*, September 2016, www.bis.org/bcbs/publ/d379.pdf.

Annex 3: Materiality assessment

The outcome of the RCAP assessment is based on the materiality of the findings described in Section 2.2 and summarised in Table A.2. Assessment Teams evaluate the materiality of findings quantitatively where possible, or using expert judgment when the impact cannot be quantified.

The materiality assessment for quantifiable gaps is based on the cumulative impact of the identified deviations on the reported LEX of banks in the RCAP sample. These banks are listed in Table A.3.

Number of deviations by component — Table A.2

Component	Not material	Potentially material	Material
Scope and definitions	0	0	0
Minimum requirements and transitional arrangements	1	0	0
Value of exposures	1	1	0

RCAP sample banks — Table A.3

Banking group	Share of banks' assets in the total assets of the internationally active banks in the Korean banking system (in per cent)
Kookmin Bank	14.2
Shinhan Bank	13.8
KEB Hana Bank	13.7
Woori Bank	12.3
Industrial Bank of Korea	11.6
NongHyup Bank	11.0
Busan Bank	2.0
Daegu Bank	1.9

For this purpose, banking assets are based on the measure of total exposures used in the leverage ratio, which includes both on- and off-balance sheet exposures.

Source: FSS.

Annex 4: Areas where Korean rules are stricter than the Basel standards

In one area, the Korean rules have adopted a stricter approach than the minimum standards prescribed by the Basel Committee. These rules are listed below for information. The stricter rules have not been taken into account as mitigants for the overall or component-level assessment of compliance.

- The Korean regulation imposes a stricter limit of 20% on the exposures of non-GSIBs to D-SIBs and G-SIBs. The same stricter limit (ie 20%) applies to exposures of G-SIBs to D-SIBs.