To Whom It May Concern,

In response to consultative document released on 19 August 2010, titled “Proposal to ensure the loss absorbency of regulatory capital at the point of non-viability,” we hereby submit our opinions.

1. Regarding the Varying Degrees of Maturity of Different Capital Markets

Banks of countries with less developed capital markets are likely to experience difficulties with the issuance of non-common Tier 1 and Tier 2 capital instruments regardless of their financial strength. They may also expose themselves to the F/X risks by trying to issue such instruments denominated in a foreign currency in an advanced market.

Therefore, it is advised to allow each country to introduce the requirements set forth by the released draft in varying degrees in accordance with the status quo of its capital market. However, to prevent any adverse effects deriving from regulatory differences between countries, the issuance of non-common Tier 1 or Tier 2 capital instruments in a foreign market should only be allowed for the banks which exceed a certain level of operational requirement in the said market.

2. Regarding the Need to Ensure Objectivity in Deciding What Constitutes a Trigger Event

It will be difficult to ensure objectivity and possibly lead to heightened policy risk if regulatory bodies are left at their disposal to decide whether a trigger event occurred.

It is critical to predetermine a relevant market variable or regulatory ratio to be used as a measure of a trigger event so as to reinforce objectivity, and to prevent policy risk to the greatest extent possible.
3. Regarding the Likelihood of Investor Base Change and the passage of risks onto Insurance Companies and Pension Funds Investing in Banks

The extent of change in the investor base will be principally determined by whether the primary market of non-common Tier1 or Tier2 capital instruments is issuer-centric or investor-centric.

Countries with less developed capital markets normally demonstrate a heavy dependence on investors such as insurance companies and pension funds. Therefore, should the conversion-to-common or write-off requirements be enforced, it would be difficult to make a primary markets in those countries.

Please feel free to contact the risk review officers as provided below for any assistance you may need. We hope our comments will help you fine-tune the proposals. We would like to express our sincere appreciation for your continued efforts to bring positive changes to the financial industry.

Sincerely yours,

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