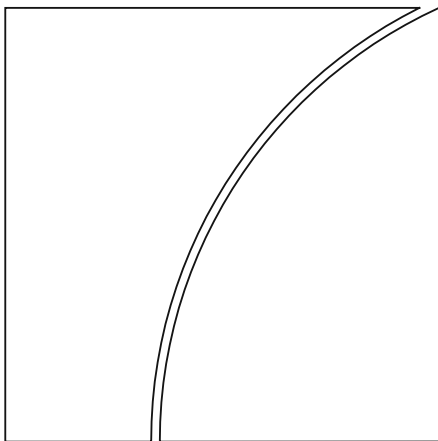


Basel Committee on Banking Supervision



Regulatory Consistency Assessment Programme (RCAP)

Assessment of the leverage ratio framework – Korea

October 2026



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Glossary

C	Compliant (grade)
D-SIBs	Domestic systemically important banks
DRSBB	Detailed Regulation on Supervision of Banking Business
FSS	Korean Financial Supervisory Service
G-SIBs	Global systemically important banks
LC	Largely compliant (grade)
LEV	Leverage ratio framework
LR	Leverage ratio
NC	Non-compliant (grade)
PNC	Partially non-compliant (grade)
RCAP	Regulatory Consistency Assessment Programme
SFT	Securities financing transactions

Preface

The Basel Committee on Banking Supervision 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 they are implemented in a full, timely and consistent manner by all member jurisdictions. The Basel Committee established the Regulatory Consistency Assessment Programme (RCAP) to monitor, assess and evaluate its members' implementation of the Basel III framework.

This report presents the findings of an RCAP Assessment Team (Assessment Team) on the adoption of the Basel leverage ratio framework (LEV) in Korea. The assessment focused on the completeness and consistency of Korea's leverage ratio regulations with the Basel standards and relied on information provided by Korea's authorities.

The Assessment Team was led by Mr Arthur Yuen, Deputy Chief Executive of the Hong Kong Monetary Authority (HKMA), and comprised technical experts from the Central Bank of Brazil, the Reserve Bank of India, Sveriges Riksbank, and the Bank of Spain (see Annex 1). The main counterpart for the assessment was the Korean Financial Supervisory Service (FSS). The work was coordinated by the Basel Committee Secretariat, with support from staff of HKMA.

The assessment began in October 2025 and comprised: (i) a self-assessment by FSS (October 2025 to January 2026); (ii) an assessment phase (January to June); and (iii) a review phase (July to October) including a review of the Assessment Team's findings by a separate RCAP Review Team and the Basel Committee. This assessment report ultimately reflects the view of the Basel Committee.

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

Executive summary

In Korea, the Basel leverage ratio standard is set out in the Detailed Regulation on Supervision of Banking Business (DRSBB), Appendix 3-8. Korea's leverage ratio framework took effect on 26 January 2015. Reporting requirements for the leverage ratio are specified in the FSS's prudential reporting framework and associated instructions. The leverage ratio requirements apply to all Korean banks, not only to internationally active banks

Overall, as of 30 June 2026, the regulations implementing the leverage ratio framework in Korea are assessed as compliant with the Basel Committee standards. This is the highest possible grade. All three applicable components of the Basel leverage ratio standard – definitions and application, and calculation; exposure measurement; and disclosure requirements – are also assessed as compliant. The component on buffer requirements and transitional arrangements for global systemically important banks (G-SIBs) is not applicable, as there are no G-SIBs headquartered in Korea.

The Assessment Team acknowledges the efforts made by the FSS throughout the assessment to enhance the consistency of its leverage ratio regulation, particularly through amendments to the exposure measurement and disclosure requirements issued before 30 June 2026, the assessment cut-off date. These amendments took immediate effect (see Annex 4 for a complete list).

Response from Korea's authorities

The Financial Supervisory Service (FSS) appreciates the expertise, diligence and professionalism of Mr Arthur Yuen and all members of the Assessment Team, which ensured that the assessment was conducted in a rigorous, objective, and effective manner. We also extend our gratitude to the Secretariat and the Review Team for their dedicated support. All of their open, constructive, and collaborative engagement with us throughout the entire process deserves much credit.

We believe that the RCAP is a valuable and important process that enhances the consistency and transparency of banking regulation and supervision across jurisdictions. As has been the case for other jurisdictions assessed, it offered a crucial chance to undertake an objective review of our leverage framework in relation to the Basel standards and affirm its alignment with them. We therefore welcome the assessment outcome, which concludes that our framework is compliant overall and across all three applicable assessment components.

The FSS has been working closely with the Basel Committee over many years to support the consistent and effective implementation of the Basel standards across jurisdictions and remains firmly committed to supporting the Basel Committee's ongoing efforts, which we believe will contribute to building a more stable global banking system.

1 Assessment context

1.1 Regulatory system

The Financial Services Commission (FSC) and the Financial Supervisory Service (FSS) are Korea's two primary financial authorities. Under the Act on the Establishment of the Financial Services Commission, the FSC has a broad statutory mandate to: (i) deliberate and decide on financial policy; and (ii) provide guidance to, and oversight of, the FSS. The FSS acts as the FSC's executive supervisory arm. Its core functions include the ongoing supervision and examination of financial institutions, as well as related enforcement activities.

Both the FSC and the FSS have statutory authority to draft and amend financial regulations. The FSC is responsible for the Regulations on Supervision of Banking Business (RSBB), while the FSS is responsible for the Detailed Regulations on Supervision of Banking Business (DRSBB). These instruments implement matters delegated by higher-level laws, including the Banking Act and its Enforcement Decree, and are legally binding on all applicable financial institutions. More information is provided in Annex 2.

1.2 Status of implementation of the leverage ratio framework

The FSC and the FSS are jointly responsible for implementing the Basel III standards in Korea. The leverage ratio requirements are set out in the DRSBB, Appendix 3-8.

Korea's leverage ratio framework took effect on 26 January 2015. Reporting requirements for the leverage ratio are specified in the FSS's prudential reporting framework and associated instructions. The leverage ratio requirements apply to all Korean banks, not only to internationally active banks.

1.3 Scope of the assessment

The Assessment Team considered the leverage ratio framework (LEV) applicable to a sample of internationally active banks in Korea as of 31 December 2025. The assessment had two dimensions:

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

In its assessment, the Assessment Team considered all binding documents that effectively implement the Basel LEV 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 Korea's authorities.

The Assessment Team evaluated the materiality and potential materiality of identified deviations between the Basel LEV and Korea's regulations. The evaluation was made using a sample of eight of Korea's internationally active banks. Together, as of 31 December 2025, these banks comprise about 76.8% 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 standards in letter and in spirit. The materiality assessment is summarised in Annex 3, which also lists the sample of banks.

The outcome of the assessment is summarised using a four-grade scale, both at the level of each of the four key components of the Basel leverage ratio framework and of the overall assessment of compliance. The four grades are compliant (C), largely compliant (LC), partially non-compliant (PNC) and non-compliant (NC). The overall grade reflects the level of compliance with the leverage ratio framework,

but not with the Basel standards on the definition of the capital, which determines the leverage ratio's numerator. Compliance with the Basel standards on the definition of capital has been assessed as a component of the RCAP Risk-Based Capital assessment conducted in 2016 and was graded largely compliant.¹

2 Assessment findings

2.1 Assessment grades and summary of findings

Overall, the Assessment Team finds the implementation of the Basel LEV in Korea to be compliant. This grade is based on the materiality assessment as summarised in Annex 3 and takes into account the rectifications issued by the assessed authorities in June 2026, as described in Annex 4.

Assessment grades		Table 1
Component of the Basel leverage ratio framework	Grade	
Overall grade	C	
Definitions and application, and calculation	C	
Exposure measurement	C	
Buffer requirements and transitional arrangements for global systemically important banks	NA	
Disclosure requirements	C	

Assessment scale: C (compliant), LC (largely compliant), PNC (partially non-compliant) and NC (non-compliant).

2.1.1 Definitions and application, and calculation

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

2.1.2 Exposure measurement

This component is assessed as compliant with the Basel standard. One not material finding was identified concerning the application of a credit conversion factor (CCF) lower than that prescribed by the Basel standard to unconfirmed standby letters of credit for certain transactions.

2.1.3 Buffer requirements and transitional arrangements for global systemically important banks (GSIBs)

In the absence of G-SIBs headquartered in Korea, this component of the Basel standard has not been implemented in Korea.

2.1.4 Disclosure requirements

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

¹ See Basel Committee on Banking Supervision, *Regulatory Consistency Assessment Programme (RCAP) assessment of Basel III risk-based capital regulations – Korea*, 2016; www.bis.org/bcb/pubs/publ/d380.htm

2.2 Detailed assessment findings

2.2.1 Definitions and application, and calculation

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

2.2.2 Exposure measurement

Basel paragraph number	LEV30.51: Credit conversion factors (CCF) applied to transaction-related contingent items
Reference in the domestic regulation	DRSBB [Appendix 3-8] 22
Finding	LEV30.51 applies a 50% CCF to certain transaction-related contingent items, including standby letters of credit related to particular transactions. The Basel text does not distinguish between “confirmed” and “unconfirmed” transactions for purposes of the CCF. Under Korean rules, a 50% CCF is applied to confirmed standby letters of credit related to particular transactions, while a 20% CCF is applied to unconfirmed standby letters of credit related to particular transactions. The Korean FSS explains that unconfirmed standby letters of credit reflect situations in which the bank’s guarantee obligation has not yet been confirmed, due to the possibility of transaction cancellation, such as the borrower’s failure to receive advance payments. It argues that these instruments become effective only after two conditions are met (the bank confirms the letter, and then a loss event happens) warranting a lower CCF than confirmed letters. The Assessment Team deems that the difference between confirmed and unconfirmed lies in who bears the payment risk, since confirmed credits include an additional confirming bank besides the issuing bank. Thus, if an “unconfirmed” standby letter of credit reflects a binding obligation of the issuing bank (with no additional confirmation required from that bank), the Basel standard would require a 50% CCF. As a result, applying 20% is less conservative than the Basel Framework requirement. According to the information provided by the Korean FSS, the proportion of unconfirmed standby letters of credit to the total exposure measure of sample banks is 0.14% as of 31 December 2025, with a maximum impact of 0.57% on the exposure measure for the most affected bank. In addition, while the future exposure growth on standby letters of credit may vary depending on economic conditions and the global trade volume, a review of these exposures over the past three years shows that there has not been any significant increase in these exposures as a proportion of banks’ overall exposures. The deviation is considered not material.
Materiality	Not material

2.2.3 Buffer requirements and transitional arrangements for GSIBs

In the absence of a G-SIB headquartered in Korea, this component of the Basel standard has not been implemented in Korea.

2.2.4 Disclosure requirements

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

2.3 Observations

The following observations highlight certain special features of the regulatory implementation of the Basel leverage ratio 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 Disclosure requirements

Basel paragraph number	DIS80.1: Template LR1 Summary comparison of accounting assets vs leverage ratio exposure measure
Reference in the domestic regulation	DRSBB [Appendix 3-8] 28 and Table 1
Observation	Basel disclosure template LR1 provides a reconciliation of total assets in the published financial statements to the leverage ratio exposure measure and includes specific instructions on how individual disclosure items should be reported. The Korean template LR1 does not include the specific disclosure instructions set out in the Basel Framework. This may reduce clarity and consistency in how the template LR1 reconciliation of total assets to the leverage ratio exposure measure is prepared and understood. Nevertheless, the Korean FSS believes that banks can adequately prepare the template based on the descriptions of the rows in the Korean template LR1 which are considered sufficiently self-explanatory.

Annexes

Annex 1 RCAP Assessment Team and Review Team

Assessment Team Leader

Mr Arthur Yuen	Hong Kong Monetary Authority
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Assessment Team members

Mr Fabiano Ruiz Dutra	Central Bank of Brazil
Ms Camilla Ferenius	Sveriges Riksbank
Mr Akhilesh Gokhale	Reserve Bank of India
Mr Diego Hernández	Bank of Spain

Supporting members

Mr Donald Chen	Hong Kong Monetary Authority
Mr Richard Chu	Hong Kong Monetary Authority
Mr Ivan Hui	Hong Kong Monetary Authority
Ms Amy Siu	Hong Kong Monetary Authority
Mr Carsten Folkertsma	Basel Committee Secretariat
Mr Pradeep Kumar	Basel Committee Secretariat
Ms Mathilde Lalaude-Labayle	Basel Committee Secretariat
Mr Noel Reynolds	Basel Committee Secretariat

Review Team members

Mr Stefan Hohl	Basel Committee Secretariat
Ms Alexandra Gebauer	German Federal Financial Supervisory Authority – BaFin
Mr Bülent Şevik	Turkish Banking Regulation and Supervision Agency
Ms Bingzhe Zhao	People's Bank of China

Annex 2 List of Basel standards and implementing regulations issued by Korea's authorities

The RCAP-LEV assesses member jurisdictions' compliance with the Basel leverage ratio framework. The scope of RCAP-LEV includes:

- The revised leverage ratio as published by the Basel Committee in December 2017 that includes the various refinements to the 2014 definition of the leverage ratio exposure measure. These refinements include modifying the way in which derivatives are reflected in the exposure measure and updating the treatment of off-balance sheet exposures to ensure consistency with their measurement in the standardised approach to credit risk.
- The June 2019 revision to the leverage ratio related to the treatment of client cleared derivatives.
- The leverage ratio global systemically important bank (G-SIB) buffer introduced by the 2017 reforms. The G-SIB buffer must be met with Tier 1 capital and is set at 50% of a G-SIB's risk-weighted higher-loss absorbency requirements.
- The disclosure requirements for the leverage ratio, including the key prudential metrics related to that framework. This will capture the revisions to the LEV disclosure requirements published by the Basel Committee in June 2019 (the requirements for banks to disclose their leverage ratios based on quarter-end and on daily average values of securities financing transactions).

In accordance with this scope, the chapters of the consolidated Basel Framework listed in Table A.1 were used as the basis of this RCAP assessment.

Chapters of the Basel Framework	Table A.1
	Chapter
Definitions and application	LEV10
Calculation	LEV20
Exposure measurement	LEV30
Buffer requirements for global systemically important banks	LEV40
Transition	LEV90
Disclosure requirements (key metrics related to leverage ratio and disclosure requirements for the leverage ratio)	DIS20 (Template KM1, rows 13–14d) and DIS80

Table A.2 lists the regulations issued by Korea's authorities to implement the Basel III leverage ratio framework in Korea. A previous RCAP assessment of Korea's implementation of the Basel standards considered the binding nature of its regulatory documents.² This RCAP Assessment Team did not repeat that assessment but instead relied on its findings. That assessment concluded that the types of instruments described in Table A.2 could be considered as binding on banks and supervisors for the purposes of an RCAP assessment.

² See Annex 7 of Basel Committee on Banking Supervision, *Regulatory Consistency Assessment Programme (RCAP) assessment of Basel III risk-based capital regulations– Korea*, 2016, www.bis.org/bcbs/publ/d380.htm.

Overview of relevant Basel III regulations in Korea

Table A.2

Domestic regulations	Type, version and date
Regulation on Supervision of Banking Business (RSBB)	Regulation issued in April 1998, revised in March 2026
RSBB [Appendix 2-10]	Regulation issued in July 2013, revised in December 2015
RSBB [Appendix 2-11]	Regulation issued in July 2013, revised in December 2015
Detailed Regulation on Supervision of Banking Business (DRSBB)	Regulation issued in April 1998, revised in March 2026
DRSBB [Appendix 3]	Regulation issued in December 2006, revised in March 2026
DRSBB [Appendix 3-5]	Regulation issued in November 2013, revised in January 2018
DRSBB [Appendix 3-6]	Regulation issued in November 2013, revised in March 2024
DRSBB [Appendix 3-8]	Regulation issued in January 2015, revised in June 2026
DRSBB [Appendix 3-10]	Regulation issued in January 2018, revised in August 2024
DRSBB [Appendix 3-12]	Regulation issued in January 2024
DRSBB [Appendix 20]	Regulation issued in December 2015, revised in November 2022
DRSBB [Appendix 21]	Regulation issued in December 2015
Regulation on Supervision of Financial Holding Companies (RSFHC)	Regulation issued in January 2018, revised in October 2025
RSFHC [Appendix 3-2]	Regulation issued in December 2015, revised in June 2021
RSFHC [Appendix 3-3]	Regulation issued in December 2015, revised in June 2021
Detailed Regulation on Supervision of Financial Holding Companies (DRSFHC)	Regulation issued in December 2000, revised in May 2025
DRSFHC [Appendix 1-2]	Regulation issued in November 2006, revised in November 2022
DRSFHC [Appendix 5]	Regulation issued in November 2006, revised in June 2024

Source: FSS.

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.3. The Assessment Team evaluates 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 leverage ratio exposure measure of banks in the RCAP sample. These banks are listed in Table A.4.

Number of deviations by component			Table A.3
Component	Not material	Potentially material	Material
Definitions and application, and calculation	0	0	0
Exposure measurement	1	0	0
Buffer requirements and transitional arrangements for global systemically important banks	NA	NA	NA
Disclosure requirements	0	0	0

RCAP sample banks		Table A.4
Banking group	Share of banks' assets in the total assets of the internationally active banks in Korea's banking system as of 31 December 2025 (in percent)	
Kookmin Bank	13.4%	
Shinhan Bank	13.8%	
Keb Hana Bank	13.1%	
Woori Bank	11.6%	
Industrial Bank of Korea	11.0%	
NongHyup Bank	10.3%	
Busan Bank	1.9%	
iM Bank	1.7%	

Banking assets are measured using the total exposures for the leverage ratio, which include both on-balance sheet and off-balance sheet exposures. For none of the sample banks is the leverage ratio a binding constraint. That is, no bank has Tier 1 capital required for the leverage ratio (including any G-SIB buffer) that exceeds the Tier 1 capital needed to meet risk-based capital requirements. The total risk-based capital requirements include: (i) the capital conservation buffer plus any higher loss absorbency requirements for G-SIBs; (ii) any countercyclical capital buffer requirements; and (iii) any other higher domestic Pillar 1 loss absorbency requirements, including for D-SIBs.

Source: FSS.

Annex 4 Rectifications made by Korea's authorities

List of rectifications made by the FSS

Table A.5

Basel paragraph	Reference in Korea's regulations	Description of the rectification
LEV30.7	DRSBB Appendix 3-8, article 6-2	Revised the relevant regulation to provide that in the case of a temporary exemption of central bank reserves from the leverage ratio exposure measure, the Financial Supervisory Service (FSS) Governor may propose an increase in the minimum leverage ratio requirement to the Financial Services Commission (FSC), which is in charge of setting the minimum capital ratio.
LEV30.12	DRSBB Appendix 3-8, article 9	Regarding the recognition of cash pooling arrangements, added a missing condition requiring a supervisory assessment on the appropriate frequency of transferring individual customer accounts into a single account.
LEV30.31.(4)	DRSBB Appendix 3-8, article 16	Revised the relevant regulation to clarify the conditions under which the effective notional amount of a written credit derivative may be reduced, namely by (i) specifying that only the negative change in the fair value that is reflected in the bank's Tier 1 capital can be taken into account; and (ii) including a missing condition that the effective notional amount of the offsetting credit protection purchased through credit derivatives must also be reduced by any resulting positive change in fair value that is reflected in Tier 1 capital.
LEV30.48	DRSBB Appendix 3-8, article 22	Revised the relevant regulation to clarify that off-balance sheet exposures after deducting provisions cannot be less than zero.
DIS20.5	DRSBB, Separate Form, No.120 26.B.(1)	Added rows requiring the disclosure of the leverage ratio which reflects the mean value of securities financing transactions (SFTs).

Source: FSS.

Annex 5 National discretions implemented by Korea's authorities

Implementation of national discretions by Korea's authorities

Table A.6

Basel paragraph	Description	National implementation
LEV30.7	Treatment of central bank reserves in exceptional circumstances	Although national discretion is stipulated in the DRSBB, it has never been exercised. DRSBB [Appendix 3-8] 6-2 (Supervisory Authority's Discretion in exceptional circumstances) The FSS Governor may temporarily exempt central bank reserves from the total exposure measure in exceptional macroeconomic circumstances. When such an exception is invoked, banks must report to the FSS Governor the impact of any temporary exemption and their plans to improve the leverage ratio, both of which should be disclosed.
LEV30.47	Exemption of certain arrangements from the definition of commitment	DRSBB [Appendix 3-8] 22 Loans that meet all of the following conditions can be excluded from the credit conversion factor (CCF) calculation. This exception only applies to corporate loans where creditworthiness is thoroughly assessed on an ongoing basis. The conditions include: (i) Banks must not receive fees in consideration of concluding and maintaining commitments. (ii) Borrowers must make a request for initial withdrawal and for every additional one. (iii) Banks have full discretion regardless of a borrower's fulfilment of conditions for withdrawal. (iv) Per every additional withdrawal, banks must evaluate a borrower's creditworthiness before determining whether to process it.
LEV30.56	Treatment of certain off-balance sheet securitisation exposures	The FSS does not exercise the national discretion under LEV30.56.

Source: FSS.

Annex 6 Key leverage indicators of the banking system in Korea

Overview of leverage of Korea's banking system as of end-December 2025

Table A.7

Size of banking sector		
	Number of banks	Total assets (KRW, millions)
All banks incorporated in Korea, of which	20	4,765,429,229
G-SIBs, headquartered in Korea	-	-
Subsidiaries of foreign banks	2	141,825,961
Banks to which the Basel leverage ratio framework is applied	20	4,765,429,229
Breakdown of leverage ratio for eight RCAP sample banks (KRW, millions)		
Tier 1 capital		204,659,088
Total on-balance sheet exposures (excluding derivatives and SFTs, but including collateral)		3,224,669,854
Total derivative exposures		49,700,593
Total SFT exposures		81,703,264
Off-balance sheet items		303,393,379
Total leverage ratio exposure measure		3,659,467,091
Adjustments for temporary exemption of central bank reserves (if applicable)		-
Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)		5.59%
Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)		5.59%

Source: FSS.