



Business Forum
Korea Report
2010

Korea contact

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Fast facts

Date
1 September 2010

Delegates
140

Speakers
15

- SWIFT Partners**
- COMAS
 - Smartstream Technologies

Presentations and photos made at the event are available on swiftcommunity.net

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South Korea's Bid for Regional Financial Hub



Robust and stable financial systems and markets are the key to sustained economic development in Asia, whether we are in periods of crisis, recovery or growth. In 2010, Asia appears to be in recovery mode, perhaps leading the rest of the world out of crisis, but the Asian financial industry cannot be complacent. Financial institutions across the region are busy strengthening their offerings for local and international markets while refocusing on core products and regional advantages to obtain greater market share.

With the backdrop of global economic crisis, the Korean economy also experienced serious decline. In the fourth quarter of 2008, the economic growth rate fell by 5.1 per cent compared to the previous quarter. However, the economy returned to positive growth in the first quarter of 2009 and recovered to pre-crisis rates of 2.6 percent and 3.2 per cent in the second and third quarters. The Korean economy is recuperating faster than

any other OECD country, except Australia, and the OECD expects 5.8 per cent and 4.7 per cent growth in 2010 and 2011 respectively. The South Korean economy is likely to continue to improve throughout this year, as more people become satisfied with restored prosperity and market growth.

Against all that at our forum this year, we got to share best practices amongst Korea's financial industry customers, businesses and consumers. We came together to cooperate, exchange ideas and contribute in shaping a strong financial services market to grow as a hub for South Korea. I hope you enjoy reading about our discussions and we look forward to working closely with the Korean community to achieve our common goals.

Michael Cheung
Head of North Asia
SWIFT



Michael Cheung
Head of North Asia,
SWIFT



Suk-tae Oh
Regional Head of Research,
Standard Chartered First
Bank Korea

The 2010 Business Forum kicked off in downtown Seoul on 1 September. The SWIFT community in South Korea came together to discuss the global economic outlook after the wide-sweeping financial meltdown, South Korea’s mission to grow as a regional financial hub, what is currently happening in the global trade scene and how SWIFT connectivity solutions support global trade.

In 2010 Asia appears to be in recovery mode, leading the rest of the world out of crisis. South Korea and China, in particular, quickly rebounded from the worldwide economic turmoil thanks to robust and stable financial systems and markets. What remains to be seen is if these two countries will sustain the pace of recovery and whether South Korea will become a financial hub in the region? Furthermore, what role can SWIFT play in support of Seoul’s bid to grow as a financial hub? Those were the key questions underlying the one-day gathering of financial professionals from different sectors of the financial arena.

Other themes that stood out throughout the event were the rising significance of the renminbi (RMB) and the growing role of SWIFT in international trade as more and more companies choose to trade on non-LC based terms. Overall, the speakers were positive regarding Asia’s future economic vitality despite the rather gloomy short-term global economic outlook.

Michael Cheung, head of North Asia at SWIFT opened the third Business Forum in Seoul by stressing the core values of SWIFT: community, standards and platform. He explained that SWIFT posted negative growth in 2009 after the global economic crisis but saw a strong 7.2% growth in transaction business, thanks mainly to a strong Asian economy. He also touched upon SWIFT’s new five-year plan, which has a two-pronged focus:

strengthening core competencies and reducing customer’s total cost of ownership (TCO) by strengthening interoperability between financial infrastructures.

Mr Cheung commented positively on the future of the South Korean financial market, noting that “South Korea’s financial market will further open as the country has an aggressive plan to sign free trade agreements with 50 trading partners around the world. The G20 summit scheduled for November in Seoul will also boost South Korea’s international standing.”

Financial Stability before Bidding for Hub Status

In his opening keynote speech, Suk -Tae Oh, regional head of research at Standard Chartered First Bank in Seoul, expressed reserved optimism about the economic outlook in South Korea and the rest of the world. He predicted that the global economy, including the US, would further slow down in 2010, but said that a double dip recession would not materialise in the US.

He also warned that the South Korean economy could be greatly affected by the types of economic policies that Washington implements to fend off a double dip recession and how the markets respond to those policies. Mr Oh stated, “In the first half of 2010, the South Korean economy grew in the range of 7–8% year on year, but this growth was largely export-driven and reflected a favourable foreign exchange rate, which greatly helped manufacturing exporters such as Hyundai Motors.” Mr Oh further elaborated on the overall economic condition in South Korea, “the depressed property market and high level of private debt held by households, small and medium sized enterprises and public companies will hamper economic growth but, overall, the fundamentals are strong, with a relatively



low unemployment rate, positive business sentiment, and stable inflation.”

With regard to the financial hub initiative, Mr Oh was not overly optimistic. He stressed that the South Korean government should focus on stabilising the financial market rather than putting energy toward the hub drive. He pointed out that when a market is shaken by a crisis, it is not advisable to try to establish a hub position. On a positive note, the growing interest of foreign investors in South Korean bonds signals rising external confidence in the South Korean economy, which will advance the South Korean currency’s internationalisation. Mr Oh concluded by saying that once the market is stabilised, foreign exchange will follow suit; the South Korean won will become an international trade currency and South Korea will naturally become a hub of financial activities in the region.

The Rise of the Renminbi as a Key International Currency

Esmond Lee, executive director of the financial infrastructure department at the Hong Kong Monetary Authority, is excited about the opportunity presented by the Chinese government’s easing of currency controls in relation to cross-border trade settlement. In explaining Hong Kong’s bid to develop itself as an offshore renminbi service centre, he stressed that the rising role of the renminbi in the global trade scene should not be underestimated. In fact, he compared the recent events about the renminbi to the two most important monetary events of the 20th Century: the rise of the US dollar as a key international currency and the revaluation of the UK’s pound sterling. He said the SWIFT-based renminbi RTGS platform at the HKMA will play a critical role in providing a seamless interface with CNAPS (RTGS in mainland China), CMU (the securities clearing and settlement system in China) as well as the

HKD, USD and EUR RTGS.

Mr Lee also commented on the common platform model for post-trade processing infrastructure for bond clearance and settlement in the Asia-Pacific region. To address similar disadvantages, five central securities depositories (CSDs) in Asia, including Bank Negara Malaysia, the Hong Kong Monetary Authority and Euroclear, formed a task force to facilitate the development of the Asian bond market and enhance the attractiveness of Asian debt securities to foreign investors through developing a cost-effective and efficient post-trade infrastructure.

Answering a participant’s question about the financing opportunities in renminbi for the many South Korean companies operating in Hong Kong and mainland China, Mr Lee said that any corporate structure can open a renminbi account with any Hong Kong bank and clear its trade position with China in renminbi. He remarked, “Currently there are about RMB 100 billion in deposits and some RMB 30 billion invested in debt securities in Hong Kong. As the renminbi liquidity pool is expected to grow, renminbi financing will be made easier and more investment opportunities will be created for foreign companies, such as Chinese shares listed on the Hong Kong Stock Exchange. It is also possible to issue renminbi denominated corporate debts in Hong Kong without prior approval from the financial authority”, he explained.

More Organizations Opt to “Go Paperless”

In the afternoon, Michael Kang, senior manager of the trade and services division at Korea Exchange Bank, opened the Payment and Trade session with statistics about the growing number of companies moving to paperless electronic trade arrangements such as e-Nego and



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KITA





Chris Park
Executive Director,
Treasury Services Product
Management - Korea,
J.P. Morgan Treasury Services



Steve S W Park,
VP, Head of Product
Management Team,
Global Payments & Cash,
HSBC

National trade trend: Drastic increase of non-L/Cs %

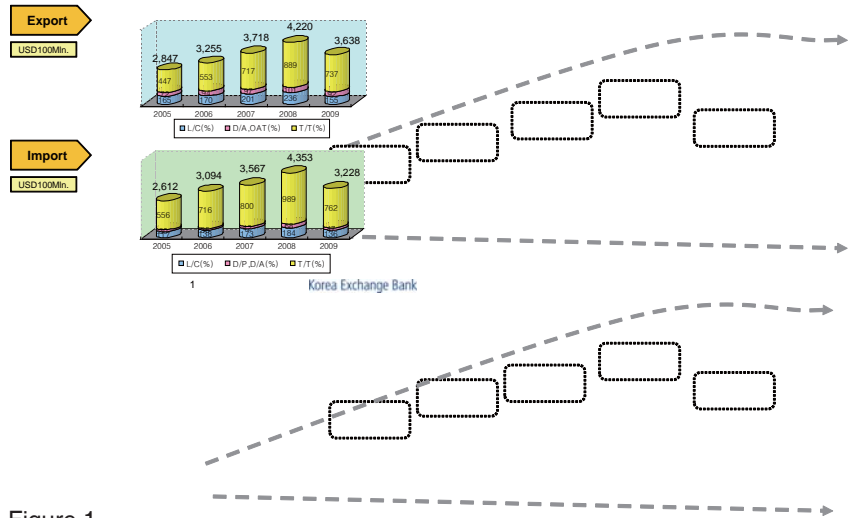


Figure 1

SWIFT's Trade Services Utility (TSU) (Figure 1). The e-Nego system is designed to support companies to connect to the nationwide u-trade hub (uTH) for LC-based trade. The TSU is used for the increasing volume of non-LC based trade, most notably open account. Mr. Kang said that the integration between the SWIFT TSU and uTH will be facilitated by uTH acting as a service bureau of SWIFT. He predicted that "such an interface will eventually arrive because of some important driving forces, which include the growing number of non-LC transactions, banks' seeking a greater role in trade financing and the increasing corporate appetite for paperless trading schemes."

After Mr Kang's schematic workflow description of electronic trade, Jinna Choi, manager of the paperless trade office at the Korea International Trade Association, made a detailed presentation of a real-life cross-border trade implementation case of the e-Nego mechanism. She highlighted

how paperless trade benefits companies in terms of operational efficiency, cost savings and improved carbon performance. "With the successful launch of the e-Nego project in March 2010, many big companies, including Samsung C&T Corporation and CJ Cheiljedang, expressed their intention to use e-Nego as they see tangible advantages being generated from it, which include significant cost and resource savings, streamlined trade processes and faster collection of export proceeds. As no paper submissions or transportation is required, the scheme helps lower companies' CO2 footprints in the trade process and supports the government's green growth initiative as well," explained Ms Choi with enthusiasm.

Chris Dong-Woo Park gave an overview on JP Morgan's renminbi international trade settlement service and the expected future course of action by the Chinese government in expanding renminbi settlement in international trade. He was



cautious in his outlook of renminbi internationalisation due to concerns about whether renminbi will become fully convertible, including capital account activities, and by when. According to Mr Park, investors will be able to participate in China's financial and capital markets through renminbi offshore clearing centres. He said the Chinese government is likely to expand the scope of renminbi use for its external trade payables over time but he also warned companies of some important considerations before switching to renminbi settlement at this point, "If you expect larger renminbi receipts than payments, US dollar can be a better option. If you expect renminbi payments to be larger than renminbi receipts, seek a hedging option. Check whether your banking partner is allowed to trade in renminbi."

Steve Si-Woo Park, head of the product management team, global payments and cash from HSBC Korea aptly portrayed the changing banking relations in the globalised world and how the SWIFT MT 101 RTF messages can make everyone's life easier in the multi-bank trading environment. Pointing to the benefits of utilising SWIFTnet, Mr Park added, "SWIFT MT 101 allows customers to manage all their payment needs in different countries and across different institutions through a single electronic banking platform. For both executing and forwarding banks, the SWIFT messaging-enabled transaction arrangement creates new income opportunities as banks can expand their traditional banking role supporting international trade." (Figure 2)

MT101 RFT (Request for Fund Transfer)

A customer can request a payment from its primary relationship bank called the forwarding bank- to debit its account with another bank (called the executing bank).

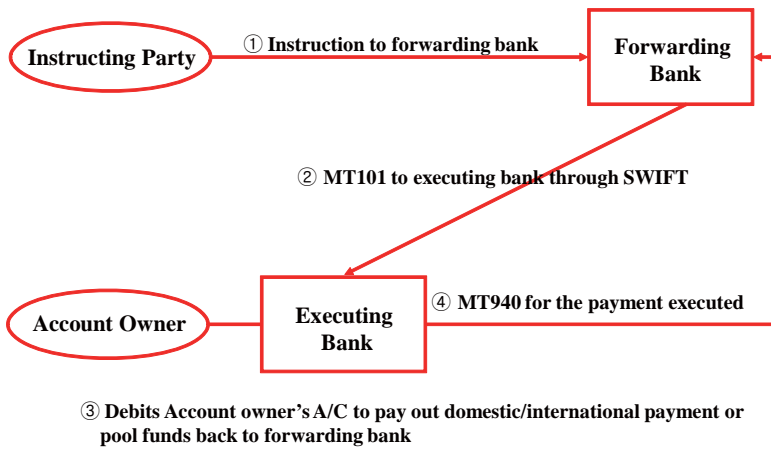


Figure 2



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Ⓜ **Sang-Joon Park**
 Head of Direct Securities
 Services, Korea,
 Deutsche Bank AG



Ⓜ **Kwanrae Min**
 Director of Global Securities
 Services Team,
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Ⓜ **Heetaek Hwang**
 Relationship Manager,
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“European banks are very active in taking advantage of the efficient SWIFT MT 101 arrangement whereby the execution bank only needs to check whether the payment request message is sent from the designated forwarding bank before proceeding with the debit from the owner’s account. This is simple but, in order to do this, there should be bilateral agreements between the participating parties. We need to promote such bilateral agreements in consideration of the positioning of the executing banks in the domestic financial transaction structure,” said Mr Park. He also touched upon SWIFT SCORE as a new single connection model for corporations’ direct access to SWIFT and communication ability with all SWIFT banks.

Automation and Standardisation: Keys to Success

In the separate Securities and Funds session, the speakers focused on the challenges facing foreign investors in South Korea and the urge to create a more favourable regulatory environment and strengthen market health to attract more foreign investors and support regional financial hub efforts.

Sang-Joon Park, head of direct securities services at Deutsche Bank in South Korea talked about some obstacles that prevent foreign investment in South Korea in terms of market infrastructure and business operation, which include securities lending and borrowing rules, short time frame for proxy voting and insufficient translation of corporate disclosures. Other regulatory challenges facing foreign investors were also mentioned. (Figure 3) He then voiced some concerns regarding global securities players such as Deutsche Bank, calling for closer collaboration between the Korea

Regulatory Challenges Faced by Foreign Investors



		What are the Challenges ?
Regulatory Compliance	Short-Selling Rule	<ul style="list-style-type: none"> The short-seller should enter into a borrow contract before placement of short-sale orders Required to indicate short-sale orders to be compliant with the Up-Tick Rule Notification of offshore borrowing execution time to onshore SLB intermediaries
	Securities Borrowing Limit	<ul style="list-style-type: none"> Borrowing from Korean residents over KRW 50bn is subject to Central Bank <u>prior</u> reporting requirement; over KRW 30bn is subject to <u>post</u>-trade reporting requirement
	Segregated Account	<ul style="list-style-type: none"> Omnibus/Nominee Account is not allowed → Segregated account at each investor / beneficial owner’s level
	OTC Trade / FOP Trade	<ul style="list-style-type: none"> OTC Trade allowed exceptionally → Alternative: Block Trading during the regular hours or off-hours at the Exchange FOP Transfer possible only between the same IRC (Investment Registration Certificate) accounts or NCBOs (No Change of Beneficial Ownership)

Figure 3

Deutsche Bank
 Direct Securities Services

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Securities Depository (KSD) and SWIFT to seamlessly enable STP and standardisation for inbound and outbound transactions to increase efficiency and reduce costs. He also advocated improving the regulatory environment in South Korea in order to attract more investment from foreign investors into the territory.

In response to Park's call, Gwan-Rae Min, director of the global securities services team at KSD, summarised KSD's efforts to overcome the limits of a traditional central securities depository. He assured the audience that "a market infrastructure should strive to increase liquidity and capital by way of enabling process efficiency and hence attract more local and foreign investment. KSD will make every effort to this end. For example, KSD has established a unique global custody model by expanding its role from a domestic securities depository to a global securities depository.

Hee-Taek Hwang, relationship manager at SWIFT Korea, remarked that SWIFT is working closely with KSD and other market players to enable end-to-end operational efficiency and reduce costs and risk. After elaborating on key drivers and benefits of SWIFT enabled automation, he concluded his remarks by saying, "SWIFT is proud to contribute to South Korea's financial stability, which is critical to allow South Korea to grow as a regional financial hub."

Technological Developments

In the day's final session, Young-Cheol Yoo, head of the technical support department at COMAS, Inc., a local financial IT solution provider and SWIFT service partner, shared his experience of building a financial architecture by combining eNisis and SWIFT Alliance Integrator to create a new local financial entity called for the newly established Korea Finance Corporation (KoFC), a policy lender for small and medium sized companies, which was created as a spin-off from the Korea Development Bank as part of the state-run lender's privatization plan. He explained that winning the project was attributable to a combination of the company's dedicated focus and financial system integration expertise and the proven stability and scalability of the SWIFT interface.

Kelvin Lam, SWIFT's customer engineer for Asia Pacific, provided an overview of the major evolution of SWIFT services and Alliance products. One of the new features that he touched upon was the optional Remote Support through which an engineer at a support centre can access remotely a customer's SWIFT system to evaluate and assist the customer. Remote Support is a secure, efficient, reliable and inexpensive way of managing and troubleshooting the SWIFT system. The Remote Support session is hosted on the secure SWIFT IP network and the customer has full control and supervision as the customer can decide the level of access and the entire session is video recorded and stored at SWIFT for later auditing. There is a fee for the service but customers will benefit from reduced downtime and lower costs for expertise and maintenance.

Brown Lee, regional manager at SWIFT Korea, continued on from his colleague's lead and talked about how SWIFT Consulting Services deliver bottom-line value to customers. SWIFT Consulting Services is a dedicated group of experts providing unmatched support to customers backed by extensive knowledge of financial markets, systems, message standards, an entire suite of SWIFT products, and system integration at a very competitive cost. Using Consulting Services will allow customers to reap benefits such as increased focus on core business, lower TCO, scalable infrastructure and greater STP rates, said Mr Lee. For example, "It is a must for customers to upgrade to Alliance Access 7.0 by Q1, 2012. We have handled some 500 cases all across the world. We can deliver great benefits to customers. Most of our services require 10-50 man-days of consultancy. While this is not a full-fledged long-term IT consulting operation, we provide critical help to businesses in a cost-effective way," emphasised Mr Lee.



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▲ Kelvin Lam
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