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ACT ON ISSUANCE OF COVERED BONDS

[Enforcement Date 14. Sep, 2018.] [Act No.15471, 13. Mar, 2018., Partial
Amendment]

금융위원회 (은행과)02-2100-2954



법제처 국가법령정보센터

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CHAPTER I GENERAL PROVISIONS

Article 1 (Purpose) The purpose of this Act is to contribute to the development of the financial markets and national economy through the stable, long-term financing of finance companies, etc., and the structural improvement of household debts, by prescribing matters concerning issuing covered bonds of finance companies, etc., and matters concerning protecting investors in covered bonds.

Article 2 (Definitions) The terms used in this Act shall be defined as follows: [<Amended by Act No. 14242, May 29, 2016>](#)

1. The term "finance company, etc." means any of the following entities:
 - (a) A bank established with authorization under the Banking Act;
 - (b) The Korea Development Bank established under the Korea Development Bank Act;
 - (c) The Export-Import Bank of Korea established under the Export-Import Bank of Korea Act;
 - (d) The Industrial Bank of Korea established under the Industrial Bank of Korea Act;
 - (e) The NH Bank established under the Agricultural Cooperatives Act;
 - (f) The Suhyup Bank under the Fisheries Cooperatives Act;
 - (g) The Korea Housing Finance Corporation incorporated under the Korea Housing Finance Corporation Act (hereinafter referred to as the "Korea Housing Finance Corporation");
 - (h) Deleted;[<Amended by Act No. 15147, Nov. 28, 2017>](#)
 - (i) Any other company prescribed by Presidential Decree, which performs financial business affairs in accordance with another Act;
2. The term "eligible issuer" means an entity referred to in subparagraph 1, which meets requirements specified in Article 4 and is entitled to issue covered bonds;
3. The term "covered bond" means a bond issued under this Act, whose holder can exercise the right to repayment against an issuer, and the principal and interest of which shall be paid in preference to any other bond of a third party from any cover pool provided as collateral by an issuer;

4. The term “cover pool” means the assets securing the payment of principal and interest of covered bonds, that are comprised in accordance with Article 5, and are registered in accordance with Article 6 (1) 2.

Article 3 (Relations with Other Acts) (1) The provisions of the Secured Bond Trust Act shall not apply to covered bonds issued in accordance with this Act.

(2) With respect to the issuance of covered bonds by an eligible issuer, this Act shall prevail over the Banking Act, the Commercial Act and the Financial Investment Services and Capital Markets Act.

CHAPTER II ISSUANCE AND REGISTRATION

Article 4 (Qualifications to be Eligible Issuers) (1) A financial institution, etc. which intends to issue covered bonds, shall satisfy all of the following qualifications to be an eligible issuer:

1. Must hold at least 100 billion won of capital as at the end of the immediately previous fiscal year;
2. Must comply with the standards for sound financial status classified as follows:
 - (a) Financial institutions, etc. referred to in subparagraph 1 (a) through (f) of Article 2: Their capital to risk-weighted assets ratio under the standards of the Bank for International Settlements, shall be at least 10/100 as at the end of the immediately previous fiscal year;
 - (b) Financial institutions, etc. referred to in subparagraph 1 (i) of Article 2: They shall meet the standards prescribed by Presidential Decree in consideration of the characteristics of their financial business affairs;
3. Must manage and control the risk related to the issuance of covered bonds in accordance with their own procedures and methods;
4. Must satisfy the requirements prescribed by Presidential Decree to stabilize domestic financial markets and protect the investors in covered bonds.

(2) Details necessary for the qualifications to be eligible issuers referred to in paragraph (1) shall be prescribed by Presidential Decree.

Article 5 (Eligibility Requirements for Cover Pools) (1) A cover pool serving as collateral for covered bonds shall be comprised of the following assets:

1. Underlying assets:

(a) Credit for mortgage loans satisfying all of the following requirements:

(i) Must be a loan for which a house defined in subparagraph 1 of Article 2 of the Housing Act is provided as collateral;

(ii) Must be a loan whose loan-to-value ratio (LTV) (referring to the ratio of a loan to the security value of a house) does not exceed 70/100 and which satisfies the requirements prescribed by Presidential Decree for managing loan exposure, such as requirements related to debt to income ratio (DTI) (referring to the ratio of the annual payment of principal and interest of debt to a debtor's annual gross income);

(iii) Must not be a loan either to an entity with respect to which the procedures for bankruptcy (hereinafter referred to as "bankruptcy procedures") or procedures for rehabilitation (hereinafter referred to as "rehabilitation procedures") under the Debtor Rehabilitation and Bankruptcy Act have been applied for or commenced, or to an entity with respect to which the joint management procedures taken by the creditor financial institutions and the creditor banks, or the management procedures taken by the main creditor bank, under the Corporate Restructuring Promotion Act (hereinafter both procedures shall be referred to as "management procedures for corporate restructuring") have been applied for or commenced;

(b) Credit for loans to the State, a local government, or any corporation directly established in accordance with any Act;

(c) National bonds, local bonds, or special bonds (referring to bonds issued by a corporation directly established in accordance with any Act);

(d) Credit for loans for which a ship or aircraft is provided as collateral and which meet the requirements prescribed by Presidential Decree to control loan exposure, such as loan-to-value ratio;

(e) Other good assets prescribed by Presidential Decree, which can enable securing stable cash flow;

2. Liquid assets:

(a) Cash (excluding the cash in a cover pool in accordance with subparagraph 3);

(b) Certificates of deposit issued by other finance companies, etc., maturing within 100 days;

(c) Other assets prescribed by Presidential Decree, which are easily convertible to cash within three months;

3. Other assets:

- (a) Money collected from the assets referred to in subparagraphs 1 and 2;
 - (b) Money and other property rights acquired in the course of the management, operation and disposal of the assets referred to in subparagraphs 1 and 2;
 - (c) Bonds acquired from the transactions of financial derivatives concluded under a plan for the issuance of covered bonds (hereinafter referred to as "issuance plan") to avoid the risk of exchange rates or interest rates, or any other risk related to a cover pool.
- (2) The total evaluation of a cover pool registered by an eligible issuer in accordance with Article 6, shall be at least 105/100 (hereinafter referred to as "minimum collateral ratio") of the total amount of credit (excluding any amount repaid) of the covered bond.
- (3) Liquid assets shall not exceed 10/100 of the total evaluation of a cover pool.
- (4) The Financial Services Commission may, as prescribed by Presidential Decree, restrict the portfolio of underlying assets so that they are not to be concentrated in any specific system for interest rates.
- (5) Detailed standards, methods, etc. for the evaluation of respective assets forming a cover pool, shall be prescribed by Presidential Decree.

Article 6 (Registration, etc. of Covered Bonds) (1) A finance company, etc. which intends to issue covered bonds, shall register the following matters with the Financial Services Commission:

1. Matters concerning an issuance plan:

- (a) Name; address; executive officers; and matters concerning major shareholders prescribed by Presidential Decree, of the finance company, etc., which issues covered bonds (hereinafter referred to as an "issuer");
- (b) Matters concerning the qualifications to be eligible issuers specified in Article 4, such as capital and balance sheet;
- (c) Matters concerning the terms and conditions of issuance, such as date of issue, total amount issued, interest rate, and maturity date;
- (d) Matters concerning funding structure and asset management structure of an issuer and investment portfolio of funds raised by the issuance of covered bonds (it shall be appropriate for stably securing funds of an issuer and improving the structure, etc. of household debts);

(e) Other matters concerning an issuance plan, which are prescribed by Presidential Decree;

2. Matters concerning a cover pool:

(a) Types and description of underlying assets;

(b) Types and description of liquid assets;

(c) Types and description of contracts for transactions of financial derivatives referred to in Article 5 (1) 3 (c);

(d) Total evaluation of the assets forming a cover pool, and description of such evaluation;

(e) The ratio of collateral to the total amount of credit (excluding any amount repaid) of covered bonds (hereinafter referred to as "required collateral ratio");

(f) Methods of managing and maintaining cover pools;

(g) Grounds for and methods of disposing of cover pools;

(h) Matters concerning trustee agencies (applicable only where the trustee agency of a cover pool has been appointed);

(i) Matters concerning supervisors of cover pools;

(j) Other matters concerning cover pools, prescribed by Presidential Decree.

(2) Where an issuer changes an issuance plan or any matter concerning a cover pool, it shall register it with the Financial Services Commission in advance: Provided, That where changing any minor matter prescribed by Presidential Decree which does not affect the repayment of covered bonds, an issuer shall report it to the Financial Services Commission within seven days from the date of change.

(3) Where an issuer falls under any of the following cases, the Financial Services Commission may refuse registration or registration of change filed under paragraphs (1) and (2) or require the issuer to change an issuance plan or any matter concerning a cover pool. In such cases, the Financial Services Commission shall give written notice specifying the ground within ten days from the date an application for registration is filed:

1. Where it prepares a false application for registration, or fails to state any necessary matter in such application;

2. Where it fails to meet any of the qualifications referred to in Article 4;

3. Where it fails to meet the composition requirements of a cover pool referred to in Article 5 (1);

4. Where it fails to satisfy the minimum collateral ratio referred to in Article 5 (2);
 5. Where its liquid assets exceed 10/100 of the total evaluation of a cover pool, in violation of Article 5 (3);
 6. Where it fails to satisfy the composition ratio of interest rates restricted in accordance with Article 5 (4);
 7. Where it evaluates the assets forming a cover pool, in violation of the standards and methods of evaluation referred to in Article 5 (5);
 8. Where it exceeds the limit on issuance referred to in Article 7 (1);
 9. Where it appoints a trustee agency disqualified under the latter part of Article 8 (5);
 10. Where it fails to appoint a cover pool supervisor, in violation of Article 9 (1) or appoints a cover pool supervisor disqualified under Article 9 (2);
 11. Where its issuance plan and portfolio of a cover pool violates this Act or other finance-related statutes, or is deemed likely to impair its soundness, the stability of financial markets or the protection of investors.
- (4) The Financial Services Commission shall allow the public to access, and shall also publicly notify, documents concerning registration or registration of change filed by an issuer pursuant to paragraphs (1) and (2).
- (5) Where an issuer registers covered bonds with the Financial Services Commission in accordance with paragraph (1), a registration statement provided for in Article 119 of the Financial Investment Services and Capital Markets Act shall be deemed submitted to and accepted by the Financial Services Commission on the date an application for registration is filed, and shall become effective on the day after the period prescribed by Presidential Decree: Provided, That this shall not apply where the Financial Services Commission refuses registration or requires the change of registration in accordance with paragraph (3).
- (6) Where an issuer files for registration of change under paragraph (2) prior to the issuance of covered bonds, a corrective registration statement provided for in Article 122 of the Financial Investment Services and Capital Markets Act shall be deemed submitted to and accepted by the Financial Services Commission on the date an application for registration of change is filed, and shall become effective on the day after the period prescribed by Presidential Decree: Provided, That this shall not apply where the Financial Services Commission refuses registration or requires the change of registration in accordance with paragraph (3).

(7) Methods and procedures for filing for registration or registration of change of, allowing access to, giving public notice of, etc. an issuance plan and a cover pool, shall be prescribed by Presidential Decree.

Article 7 (Issuance Limit, etc.) (1) An issuer which registers an issuance plan and matters concerning a cover pool in accordance with Article 6, may issue covered bonds, within the limit prescribed by Presidential Decree, not exceeding 8/100 of its total assets as at the end of the fiscal year immediately before the planned date of issuance.

(2) The following conditions shall be specified in covered bonds:

1. Maturity date of covered bonds;
2. Types and the total face value of a cover pool;
3. Required collateral ratio.

(3) Where an issuer issues covered bonds, it shall, without delay, post the details of issuance and matters concerning a cover pool on its website, and report such issuance to the Financial Services Commission.

CHAPTER III MANAGEMENT OF COVER POOLS

Article 8 (Management and Maintenance of Cover Pools) (1) An issuer shall manage a cover pool, separated from the cover pool of other covered bonds registered according to any other issuance plan, and other assets of the issuer.

(2) An issuer shall keep and preserve books of account for each cover pool.

(3) Where the total evaluation of a cover pool is anticipated to be reduced to or below a required collateral ratio, or the assets forming a cover pool cease to meet the eligibility requirements referred to in Article 5 (hereinafter referred to as "eligibility requirements for a cover pool"), an issuer shall comply with the required collateral ratio and the eligibility requirements for a cover pool by adding or substituting underlying assets and liquid assets, without delay. In such cases, the relevant assets shall be deemed to form the cover pool until they are added or substituted.

(4) Where the total evaluation of a cover pool exceeds a required collateral ratio, an issuer may, after obtaining written consent of the cover pool supervisor, de-register some of the registered assets forming the cover pool of covered bonds issued under an issuance plan, to the extent the required collateral ratio is maintained.

(5) An issuer may appoint a trustee agency to perform affairs concerning the management of a cover pool and the protection of investors provided for in paragraphs (1) through (4). In such cases, the trustee agency shall be qualified as a cover pool supervisory referred to in Article 9 (2).

(6) If necessary to manage a cover pool, an issuer, trustee agency or cover pool supervisor appointed in accordance with Article 9, may obtain a temporary loan, to the extent prescribed by Presidential Decree.

(7) Necessary matters concerning methods and procedures for managing and maintaining cover pools, procedures for appointing trustee agencies, etc., shall be prescribed by Presidential Decree.

Article 9 (Qualification Requirements and Appointment, etc. of Cover Pool Supervisors) (1) An issuer shall, with approval of the Financial Services Commission, appoint a cover pool supervisor (hereinafter referred to as "supervisor") to independently supervise the eligibility of the cover pool.

(2) A supervisor shall satisfy all of the following requirements:<Amended by Act No. 15147, Nov. 28, 2017>

1. Must be any of the following entities:

- (a) An entity qualified as a bond administration company under Article 480-3 of the Commercial Act;
- (b) The Korea Housing Finance Corporation (excluding where an issuer is the Korea Housing Finance Corporation);
- (c) A corporation employing at least five managerial staff members, including the following specialists, necessary to perform duties as a supervisor, and having capital of at least one billion won:
 - (i) At least two of attorneys-at-law, certified public accountants or certified appraisers;
 - (ii) At least one person who has experience in performing affairs concerning the issuance of a covered bond determined and publicly notified by the Financial Services Commission, such as the management of bonds and the issuance of securities;
- (d) An entity prescribed by Presidential Decree deemed qualified under the above items (a) through (c);

2. Must not fall under any of the following grounds for disqualification:

- (a) Where an issuer is a finance company, etc. referred to in Article 2 (1) (a) through (g):
A person in a special relationship (including a person who was in a special relationship at any point during the last three years) under Article 2 (1) 8 of the Banking Act;
- (b) Where an issuer is a finance company, etc. referred to in Article 2 (1) (i): Any ground for disqualification prescribed by Presidential Decree in consideration of the characteristics of the financial affairs in which the issuer engages.
- (3) A supervisor may withdraw from its office with the consent of the creditors who hold at least 75/100 of the total amount of credit (excluding any amount repaid; hereafter referred to in this Article as "the total amount of credit").
- (4) Where a supervisor falls under any of the following cases, an issuer may dismiss the supervisor from office with approval of the Financial Services Commission or with consent of creditors holding at least 75/100 of the total amount of credit:
1. Where it ceases to meet any of the qualification requirements referred to in Article 9;
 2. Where it fails to comply with its responsibilities referred to in Article 10;
 3. Where it unconscientiously engages in duties referred to in Article 11;
 4. Where it is not suitable for independently supervising the eligibility of a cover pool.
- (5) An issuer shall dismiss a supervisor from office where the dismissal thereof is required by the Financial Services Commission or creditors holding at least 75//100 of the total amount of credit on the ground that the supervisor falls under any of paragraph (4).
- (6) An issuer shall appoint a new supervisor immediately after a supervisor withdraws or is dismissed from office. In such cases, provisions concerning the appointment of a supervisor shall apply mutatis mutandis.
- (7) A supervisor who withdraws or is dismissed from office shall continue to engage in duties as a cover pool supervisor until a new supervisor is appointed.
- (8) The remuneration of a supervisor shall be paid by an issuer.

- Article 10 (Authority and Responsibilities of Supervisor)** (1) A supervisor shall have authority to conduct any and all juridical or non-juridical activities necessary for managing, maintaining, and disposing of a cover pool in the interest of persons with a preferential right to payment referred to in Article 13 (3).
- (2) Assets forming a cover pool sold or otherwise disposed of under Article 13 (3), shall be segregated from a supervisor's inherent property; and the supervisor shall manage them, separated from its other assets.

(3) Assets forming a cover pool sold or otherwise disposed of under Article 13 (3), shall be managed and maintained by a supervisor with the due care of a good manager; and the interest of persons with preferential rights to payment referred to in Article 13 (3), shall be protected.

Article 11 (Duties of Supervisors) (1) A supervisor shall perform the following duties:

1. Auditing a cover pool;
2. Inspecting and evaluating whether the eligibility requirements of the assets forming a cover pool and the required collateral ratio are met;
3. Monitoring and evaluating whether an issuer complies with the issuance plan and relevant statutes;
4. Monitoring whether an issuer infringes a preferential right to payment referred to in Article 13 (3) in the course of managing a cover pool;
5. Requesting an issuer to rectify any matter inappropriate for managing and maintaining the issuer's cover pool and protecting preferential rights to payment in relation to duties referred to in subparagraphs 1 through 4, if such exists;
6. Giving instructions over and supervising a trustee agency's business affairs (applicable only where a cover pool trustee agency is appointed) in relation to duties referred to in subparagraphs 1 through 5;
7. Conducting all juridical or non-juridical activities necessary to exercise preferential rights to payment referred to in Article 13, such as the disposal of a cover pool, application for auction thereof, and exercise of other rights.

(2) A supervisor shall prepare a quarterly report on the performance of duties referred to in paragraph (1) 1 through 7, and submit it to the Financial Services Commission, as prescribed by Presidential Decree, and shall serve it on the issuer and any person with a preferential right to payment who requests access.

(3) A supervisor may request an issuer to provide materials necessary to perform the duties referred to in paragraph (1).

(4) Where bankruptcy procedures are commenced against an issuer, the Korea Deposit Insurance Corporation under Article 3 of the Depositor Protection Act may request a supervisor to provide any material related to the performance of duties referred to in paragraph (1); and may, if necessary to protect ordinary creditors, such as the depositors of the issuer, recommend the supervisor to rectify its duties.

(5) Where an supervisor fails to comply with a recommendation of rectification under paragraph (4) without just cause, the Korea Deposit Insurance Corporation may request the Financial Service Commission to take a measure for rectification, and the Financial Service Commission may order the supervisor to comply with such recommendation after investigation into the relevant fact.

Article 12 (Bankruptcy Remoteness, etc. of Cover Pool) (1) Where an issuer becomes bankrupt or rehabilitation procedures are commenced against an issuer, the underlying assets of the issuer shall not constitute the debtor's assets which a bankruptcy estate of the issuer or the administrator of rehabilitation procedures has authority to manage and dispose of.

(2) No cover pool of an issuer shall be subject to compulsory execution (excluding compulsory execution for persons with preferential rights to payment in accordance with Article 13 (3)), or a conservative measure, temporary injunction, or comprehensive injunction prescribed by the Debtor Rehabilitation and Bankruptcy Act.

(3) Where management procedures for corporate restructuring are commenced against an issuer, assets forming the cover pool of such issuer shall not constitute assets subject to management.

(4) Even where debts are discharged, adjusted, or changed or other limitations are imposed on debts based on the rehabilitation procedures or management procedures for corporate restructuring of an issuer, a preferential right to payment referred to in Article 13 shall not be affected.

(5) Except as otherwise expressly provided for in this Act, where an outstanding amount of a covered bond which is not yet paid still remains, an issuer shall not dispose of the cover pool or provide it as collateral on other debts; and the cover pool disposed of or provided as collateral in violation of the above provisions, shall not be effective against persons with preferential rights to payment referred to in Article 13 (3).

CHAPTER IV PREFERENTIAL RIGHTS TO PAYMENT, RIGHTS TO DUAL RECOURSE, ETC.

Article 13 (Preferential Rights to Payment) (1) The holders of covered bonds (including credit for interest on principal and interest in arrears and credit for damages incurred from the non-repayment of debts; hereinafter the same shall apply), shall have the right to payment in preference to third parties (hereinafter referred to as "preferential right to payment")

from the cover pool.

(2) A person holding any of the following credit shall have the same preferential right to payment as the holders of covered bonds:

1. Credit which the other party to a transaction of financial derivatives related to Article 5 (1) 3 (c) has against an issuer;
2. Credit for expenses for the repayment, maintenance and management of covered bonds and the management, disposal and sale of a cover pool;
3. Credit for remuneration of a supervisor.

(3) In any of the following cases, a supervisor may dispose of a cover pool in compliance with the methods of disposing of the cover pool registered under Article 6, and appropriate it for the payment of credit to the holders of covered bonds and the persons holding the credit referred to in paragraph (2) (hereinafter referred to as "person with a preferential right to payment"):

1. Where the issuer is unable to fully or partially repay the credit to persons with preferential rights to payment on the date of maturity;
2. Where any ground for the disposal of the cover pool registered in accordance with Article 6 arises;
3. Where any ground for enforcing acceleration clauses, occurs.

(4) Where persons with preferential rights to payment fails to receive the full or partial payment of principal and interest of their credit based on the preferential rights to payment, they may receive the payment of such principal and interest from other assets of the issuer, and may participate in bankruptcy procedures or rehabilitation procedures against the issuer within the extent of the credit not repaid.

(5) Where either dividend distribution through bankruptcy procedures or repayment through rehabilitation procedures is implemented from other assets of an issuer earlier than from the cover pool thereof, persons with preferential rights to payment may participate in the relevant procedures, and receive bankruptcy dividends equivalent to, or payment of principal and interest of, the total amount of credit (excluded any amount repaid) of covered bonds. In such cases, other creditors may demand the persons with the preferential rights to payment to deposit such dividends and the amount repaid.

(6) Where the money acquired from a cover pool or the disposal or sale thereof, remains after appropriating such money for the repayment of the credit to persons with

preferential rights to payment, the supervisor shall transfer the remaining portion to the issuer, the bankruptcy administrator or the rehabilitation administrator (applicable only where bankruptcy procedures or rehabilitation procedures are commenced against the issuer).

Article 14 (Rights to Dual Recourse) Persons with preferential rights to payment may demand an issuer to pay their credit on the date of maturity, and the issuer shall not reject or suspend the full or partial payment of such credit under the pretext of their preferential rights to payment.

Article 15 (Special Exceptions to Requirements for Counteraction) (1) Where any cause or event referred to in Article 13 (3) occurs, an issuer or supervisor shall notify the debtors of the credit forming its cover pool, of the fact of registration of such cover pool and the details of the supervisor's authority to sell or dispose of such cover pool (hereinafter referred to as "fact of registration, etc."); or shall obtain consent from the debtors of such credit; and if the issuer or supervisor fails to do so, he/she or it shall not assert the effect of registration against the debtors of credit: Provided, That where the issuer or supervisor sends the notice of the fact of registration, etc, to any of the following addresses by certified mail at least twice, but such notice is returned as 'address unknown', it shall be deemed that the notice is given on the date he/she or it publicly notifies the fact of registration, etc. in at least two daily newspapers (including at least one daily nationwide newspapers), the main distribution area of which includes the place of the domicile of the debtors of credit and posts them on the issuer's website:

1. Addresses of the credit debtors specified in registration documents concerning the cover pool registered in accordance with Article 6 (referring to the last known addresses of the credit debtors where addresses of the credit debtors specified in the register are not the last known addresses of the credit debtors and the issuer or supervisor knows the last known addresses of the credit debtors;
2. Last known addresses of credit debtors where the addresses of the credit debtors are not specified in registration documents concerning the cover pool registered in accordance with Article 6 and the issuer or supervisor knows the last known addresses of the credit debtors.

(2) Where any credit debtor is notified or grants his/her consent pursuant to paragraph (1), the provisions of Articles 451 and 452 of the Civil Act concerning effect of acceptance and notification and estoppel, shall apply mutatis mutandis to the fact of registration, etc. In such cases, the issuer shall be construed as the transferor and the supervisor shall be construed as the transferee.

(3) Where a cover pool is registered under Article 6, requirements for counteraction prescribed in Article 450 (2) of the Civil Act shall be deemed satisfied, and the fact of registration, etc. shall bind a third party in addition to the debtors of credit contained in the cover pool.

Article 16 (Special Exceptions to Rights to Open-End Mortgage) (1) Where any credit secured by the right to open-end mortgage is registered as underlying assets forming a cover pool, the credit registered as a cover pool shall, if any credit is subsequently secured by the relevant right to open-end mortgage after such registration, prevail over such credit occurring after the registration in exercising the relevant right to open-end mortgage, making appropriations for repayment and exercising other rights.

(2) Where any credit contained in a cover pool and secured by the right to open-end mortgage, is sold or otherwise disposed of under this Act, the relevant right to open-end mortgage may be transferred together with such secured credit before principal of the credit secured by the relevant right to open-end mortgage is finally verified.

CHAPTER V PUBLIC NOTIFICATION AND SUPERVISION

Article 17 (Management and Public Notification of Risk) (1) An issuer shall establish separate risk management standards and procedures (hereinafter referred to as "risk management system") concerning the issuance and repayment of covered bonds.

(2) An issuer shall monitor the following matters based on the risk management system referred to in paragraph (1) on at least a quarterly basis:

1. Total amount of credit (excluding any amount repaid) and maturity date of covered bonds;
2. Composition of a cover pool, and classification by maturity period of credit contained in the cover pool;

3. Current value of a cover pool evaluated in consideration of all risks;
 4. Other matters prescribed by Presidential Decree.
- (3) An issuer shall post the following matters on its website on a quarterly basis:
1. Findings from the monitoring of risk management under paragraph (2);
 2. Reports prepared by a supervisor and submitted to the Financial Services Commission in accordance with Article 11 (2);
 3. Evaluation and public notification as to whether the issuance of covered bonds is beneficial to the debtors of the credit for mortgage loans.
- (4) Detailed methods and procedures for the risk management and public notification of an issuer, shall be prescribed by Presidential Decree.

Article 18 (Investigation) Where deemed necessary for protecting investors, the Financial Services Commission may request an issuer and its trustee agency and supervisor (hereinafter referred to as "issuer, etc.") to submit materials concerning their duties or property, or require staff members of the Finance Services Commission to investigate into their duties and/or property.

Article 19 (Performance Improvement Order) Where the performance of duties of an issuer, etc. is deemed to impair the interest of the holders of covered bonds, the Financial Services Commission may order the issuer, etc. to change the kinds and methods of its duties, deposit its assets, or take other measures necessary to perform or improve its duties.

CHAPTER VI SUPPLEMENTARY PROVISIONS

Article 20 (Provision of Financial Information, etc.) (1) Notwithstanding Article 4 of the Act on Real Name Financial Transactions and Confidentiality, an issuer (including a trustee agency, if appointed; hereinafter the same shall apply) may provide a supervisor or persons with preferential rights to payment with information on financial transactions, credit information and personal information (limited to the information based upon which whether or not the eligibility requirements of assets are satisfied can be determined; hereinafter referred to as "financial information, etc.") of the debtors of the credit contained in a cover pool to the minimum extent necessary to perform the following duties with respect to the issuance of

covered bonds:

1. Composition of a cover pool under Article 5;
2. Registration of covered bonds under Article 6;
3. Management and maintenance of a cover pool under Article 8;
4. Duties of a supervisor under Article 11.

(2) An issuer which provides information on financial transactions in accordance with paragraph (1), shall notify the debtors of the credit contained in a cover pool of the provision of such information: Provided, That the issuer need not give notice, with consent of the relevant debtors.

(3) No person who is or was engaged in performing duties referred to in paragraph (1), shall use, other than for purposes prescribed by this Act, the information on financial transactions acquired in the course of performing such duties, or provide or disclose such information to third parties.

(4) No person who becomes aware of any information on financial transactions in accordance with paragraph (1), or no person who acquires the information on financial transactions provided or disclosed in violation of paragraphs (1) and (3) (including a person who subsequently acquires such information from a person who has acquired it), shall use, other than for purposes prescribed by this Act, such information, or provide or disclose it to third parties.

(5) Necessary matters concerning the provision, etc. of financial information, etc. under paragraphs (1) and (2) shall be prescribed by Presidential Decree.

Article 21 (Management of Personally Identifiable Information) (1) The Financial Services Commission (including the Governor of the Financial Supervisory Service entrusted with the duties of the Financial Services Commission in accordance with Article 23), may manage materials containing personally identifiable information prescribed by Article 24 of the Personal Information Protection Act (hereafter referred to in this Article as "personally identifiable information") if essential to performing the following duties:

1. Restricting composition of a cover pool under Article 5 (4);
2. Handling, accessing, and publicly notifying registration affairs concerning covered bonds under Article 6;
3. Granting approval of the appointment, or requesting the dismissal, of a supervisor under Article 9;

4. Receiving reports of a supervisor under Article 11 (2);
5. Conducting investigation under Article 18;
6. Issuing a performance improvement order under Article 19.

(2) An issuer and supervisor may manage materials containing personally identifiable information to the extent necessary, according to the following classification, if essential to performing the following duties:

1. Forming cover pools under Article 5;
2. Registering covered bonds under Article 6;
3. Managing and maintaining cover pools under Article 8;
4. Appointing, accepting resignation of, dismissing, and newly appointing a supervisor under Article 9;
5. Conducting duties of a supervisor under Article 11;
6. Exercising a preferential right to payment under Article 13;
7. Notifying the fact of registration, etc. under Article 15.

Article 22 (Special Exceptions to Designation, etc. of Insolvent Financial Institution) (1) Where the Financial Services Commission takes a timely corrective measure under Article 10 of the Act on the Structural Improvement of the Financial Industry, or decides the transfer of a contract, the suspension of business, or the cancellation of authorization and permission, as an administrative disposition under Article 14 of the same Act (hereinafter referred to as in this Article “determination on financial restructuring”), it may appoint for a fixed period of up to six months, or change a trustee agency to manage a cover pool of covered bonds and protect investors.

(2) Where any cause of a determination on financial restructuring ceases to exist within the period under paragraph (1), the Financial Services Commission may take measures prescribed by the Act on the Structural Improvement of the Financial Industry, separated from the relations of rights and duties concerning covered bonds as well as the business affairs concerning a cover pool.

(3) Where the creditors holding at least 75/100 of the total amount of credit (excluding any amount repaid) of covered bonds give consent, the Financial Services Commission may order the transfer of a contract related to covered bonds to other eligible issuers.

Article 23 (Entrustment of Duties) The Financial Services Commission may entrust part of the authority bestowed under this Act to the Governor of the Financial Supervisory Service, as prescribed by Presidential Decree.

CHAPTER VII PENALTY PROVISIONS, ETC.

Article 24 (Penalty Provisions) (1) A person who uses information on financial transactions other than for purposes prescribed in this Act, or provides or discloses it to any third party, in violation of Article 20 (3) or (4), shall be punished by imprisonment with prison labor for not more than five years or by a fine not exceeding 50 million won. <Amended by Act No.

15471, Mar. 13, 2018>

(2) Any of the following persons shall be punished by imprisonment with prison labor for not more than three years or by a fine not exceeding 30 million won:<Amended by Act No.

15471, Mar. 13, 2018>

1. A person who prepares a false application for registration under Article 6 (1);
2. A person who fails to manage a cover pool, separated from a cover pool of other covered bonds or other assets of the issuer, in violation of Article 8 (1);
3. A person who fails to manage a cover pool, separated from a supervisor's other property, in violation of Article 10 (2);
4. A person who sells or otherwise disposes of a cover pool or provides it as collateral on other debts, in violation of Article 12 (5);
5. A person who fails to comply with a performance improvement order under Article 19.

Article 25 (Joint Penalty Provisions) Where the representative of a corporation or an agent or employee of, or other persons employed by, a corporation or an individual commits any violation prescribed in Article 24 in relation to the business affairs of the corporation or individual, not only shall such violator be punished accordingly, but the corporation or individual also shall be subject to a fine prescribed in the relevant Article: Provided, that this shall not apply where the corporation or individual does not neglect to pay due diligence to and supervise the relevant business affairs in order to prevent such violations.

Article 26 (Administrative Fines) (1) Any of the following persons shall be subject to an administrative fine not exceeding ten million won:

1. A person who fails to file for registration of change or a report on change in accordance with Article 6 (2);
 2. A person who fails to give public notice or submit a report pursuant to Article 7 (3), or who gives false public notice or submits a false report thereunder;
 3. A person who fails to keep and preserve books of account for each cover pool, in violation of Article 8 (2);
 4. A person who fails to add or substitute assets, in violation of Article 8 (3);
 5. A person who fails to newly appoint a supervisor, in violation of Article 9 (6);
 6. A person who fails to comply with an order for compliance, in violation of Article 11 (5);
 7. A person who violates the duty to establish a risk management system, the duty to monitor or the duty to give public notice under Article 17;
 8. A person who fails to notify the provision of information on financial transactions, in violation of Article 20 (2).
- (2) Administrative fines under paragraph (1) shall be imposed and collected by the Financial Services Commission, as prescribed by Presidential Decree.