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**ENFORCEMENT DECREE OF THE ACT ON ISSUANCE OF COVERED
BONDS**

[Enforcement Date 01. Nov, 2018.] [Presidential Decree No.29269, 30. Oct, 2018.,
Amendment by Other Act]

금융위원회 (은행과)02-2100-2954



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Article 1 (Purpose) The purpose of this Decree is to prescribe matters delegated by the Act on Issuance of Covered Bonds and matters necessary for the enforcement of said Act.

Article 2 (Qualifications to be Eligible Issuers) (1) The procedures and methods referred to in Article 4 (1) 3 of the Act on Issuance of Covered Bonds (hereinafter referred to as the "Act"), shall include the following matters:

1. Standards for appointing and supervising a trustee agency if an issuer appoints a trustee agency pursuant to Article 8 (5) of the Act;
2. Other detailed standards for managing and controlling risk related to the issuance and repayment of covered bonds, which are prescribed and publicly notified by the Financial Services Commission.

Article 3 (Eligibility Requirements for Cover Pools) (1) "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)" in Article 5 (1) 1 (a) (ii) of the Act means any of the following requirements:

1. The proportion of loans, for which the DTI ratio (referring to the ratio of the annual payment of principal and interest of debt to a debtor's annual gross income) does not exceed 70/100 at the time such loans are granted, must be at least equal to the standard prescribed and publicly notified by the Financial Services Commission; and in such cases, the detailed method of computing the DTI ratio shall be prescribed and publicly notified by the Financial Services Commission;
2. The relevant loans must be secured by a first mortgage or first open-end mortgage;
3. Where the security right created over a house is a mortgage, the total amount of the relevant loan must be secured by such mortgage; and where the security right created over a house is an open-end mortgage, the maximum amount of credit must be at least equal to the standard prescribed and publicly notified by the Financial Services Commission;

4. The proportion of loans with respect to which the amount of debt to be paid by mortgage loan obligors in the present or future to the finance company, etc. (hereinafter referred to as "issuer") issuing the relevant covered bond is at least equal to the standard prescribed and publicly notified by the Financial Services Commission, must not exceed the standard prescribed and publicly notified by the Financial Services Commission.

(2) "Requirements prescribed by Presidential Decree to control loan exposure, such as the loan-to-value ratio (LTV)" in Article 5 (1) 1 (d) of the Act means any of the following requirements:

1. The relevant LTV ratio (referring to the ratio of a loan to the security value of a ship or aircraft) must not exceed 70/100;
2. A ship or aircraft provided as collateral must be insured for at least the amount prescribed and publicly notified by the Financial Services Commission.

(3) "Assets prescribed by Presidential Decree" in Article 5 (1) 1 (e) of the Act means any of the following assets backed or secured by a first mortgage satisfying the requirements specified in Article 5 (1) 1 (a) of the Act:

1. Asset-backed securities referred to in the Asset-Backed Securitization Act;
2. Mortgage-backed bonds referred to in the Korea Housing Finance Corporation Act;
3. Mortgage-backed securities referred to in the Korea Housing Finance Corporation Act.

(4) "Assets prescribed by Presidential Decree" in Article 5 (1) 2 (c) of the Act means any of the following assets:

1. National bonds issued by countries prescribed and publicly notified by the Financial Services Commission, based upon credit ratings thereof, etc.;
2. Assets issued by finance companies incorporated pursuant to foreign statutes (hereafter in this paragraph and Article 7 (2), referred to as "foreign finance companies") and satisfying the requirements prescribed and publicly notified by the Financial Services Commission, based upon credit ratings thereof, etc., which are similar to the certificates of deposit specified in Article 5 (1) 2 (b) of the Act;
3. Savings or installment savings deposited with finance companies, etc. or foreign finance companies, maturing within three months.

(5) Where mortgages satisfying the requirements referred to in Article 5 (1) 1 (a) of the Act are included among underlying assets, the Financial Services Commission may ensure that the proportion of mortgages with a fixed interest rate, is at least equal to the standard prescribed and publicly notified by the Financial Services Commission, pursuant to

paragraph (4) of the same Article.

Article 4 (Standards and Methods for Evaluating Cover Pools) (1) Any asset included in the cover pool referred to in Article 5 (1) of the Act, shall be evaluated based upon the final market price at which such asset is traded in the securities market referred to in Article 8-2 (4) 1 of the Financial Investment Services and Capital Markets Act (including overseas securities markets defined in subparagraph 1 of Article 2 of the Enforcement Decree of the same Act); and where no reliable market price therefor is available as at the date of evaluation, such asset shall be evaluated based upon the fair market value determined in consideration of the following matters for each type of assets: Provided, That assets that fail to meet the eligibility requirements for cover pools referred to in Article 5 of the Act and bonds referred to in paragraph (1) 3 (c) of the same Article, shall be evaluated at zero:

[<Amended by Presidential Decree No. 29269, Oct. 30, 2018>](#)

1. Book value of the relevant asset calculated according to the accounting standards referred to in Article 5 (1) of the Act on External Audit of Stock Companies;
2. Face value of the relevant asset;
3. Acquisition price of the relevant asset;
4. Transaction price of the relevant asset;
5. Price offered for the relevant asset by a person referred to in Article 260 (2) 3 of the Enforcement Decree of the Financial Investment Services and Capital Markets Act;
6. Exchange rate as at evaluation.

(2) Where a foreign currency-denominated covered bond is issued, the value of assets evaluated under paragraph (1) shall be converted at an exchange rate specified in the relevant subparagraph according to the following classifications:

1. Where an issuer concludes a contract for transacting derivatives to hedge against foreign exchange rate exposure referred to in Article 5 (1) 3 (c) of the Act (hereafter in this paragraph, referred to as "derivative contract"), for the total valuation of assets in a cover pool evaluated under paragraph (1): The total valuation of assets in the cover pool shall be converted at an exchange rate specified in the relevant derivative contract;
2. Where an issuer does not conclude a derivative contract, for the total valuation of assets in a cover pool under paragraph (1): The total valuation of assets in the cover pool shall be converted at an exchange rate as at evaluation;

3. Where an issuer concludes a derivative contract, only for part of the total valuation of assets in a cover pool under paragraph (1): Such part of the total valuation shall be converted at an exchange rate specified in the relevant derivative contract, and the remainder thereof shall be converted at an exchange rate as at evaluation.

(3) The Financial Services Commission may prescribe and publicly notify details necessary for evaluating assets under paragraphs (1) and (2).

- Article 5 (Registration, etc. of Covered Bonds)** (1) "Major shareholders prescribed by Presidential Decree" in Article 6 (1) 1 (a) of the Act means persons specified in Article 9 (1) of the Financial Investment Services and Capital Markets Act.
- (2) "Matters prescribed by Presidential Decree" in Article 6 (1) 1 (e) of the Act means:
1. Protection of the obligors of bonds included in a cover pool;
 2. An additional issuance plan, such as the limit on additional issuance and scheduled deadline for issuance, if any plan exists to issue additional covered bonds by expanding a cover pool;
 3. A financing plan for repaying covered bonds;
 4. Any other plan prescribed and publicly notified by the Financial Services Commission, which relates to issuing, distributing, and repaying covered bonds.
- (3) "Matters prescribed by Presidential Decree" in Article 6 (1) 2 (j) of the Act means matters concerning temporary loans referred to in Article 8 (6) of the Act.
- (4) "Minor matter prescribed by Presidential Decree" in the proviso to Article 6 (2) of the Act means:
1. Obvious errors, such as clerical mistakes;
 2. Name or location of an issuer;
 3. Other matters prescribed and publicly notified by the Financial Services Commission, which do not affect decisions on investment in covered bonds, among matters concerning an issuance plan referred to in Article 6 (1) 1 of the Act.
- (5) The Financial Services Commission shall keep, at a specified place, documents concerning registration or registration of change filed by an issuer for three years so that such documents can be accessed by the public, and shall post such documents on its website for public notification, pursuant to Article 6 (4) of the Act.
- (6) "Period prescribed by Presidential Decree" in the main sentence of Article 6 (5) of the Act and the main sentence of Article 6 (6) of the Act, means ten days, respectively.

Article 6 (Limit on Issuance of Covered Bonds) (1) "Limit prescribed by Presidential Decree" in Article 7 (1) of the Act means 4/100 of the total assets as at the end of the fiscal year immediately before the scheduled date of issuance: Provided, That the Financial Services Commission may set the issuance limit at 2/100 of the total assets as at the end of the fiscal year immediately before the scheduled date of issuance, if it deems that the interests of general creditors, such as depositors of an issuer, are likely to be compromised, taking into account the following matters:

1. The required collateral ratio referred to in Article 6 (1) 2 (e) of the Act;
2. Other matters prescribed and publicly notified by the Financial Services Commission, which relate to capital adequacy, asset quality and liquidity of an issuer.

Article 7 (Method, etc. of Managing and Maintaining Cover Pools) (1) An issuer shall keep and preserve books of account for each cover pool, in a data processing system, pursuant to Article 8 (2) of the Act.

(2) Where an asset in a covered pool is money or substitute therefor, an issuer shall deposit such asset in a separate account opened by the issuer or an account of another finance company, etc. or a foreign finance company. In such cases, the issuer shall indicate that such asset deposited in the relevant account belongs to a particular covered pool.

(3) Where an issuer appoints a trustee agency pursuant to Article 8 (5) of the Act, the appointment shall be notified to the Financial Services Commission without delay.

(4) "Extent prescribed by Presidential Decree" in Article 8 (6) of the Act means the extent necessary to pay the credit for expenses referred to in Article 13 (2) 2 of the Act on an issuer's account.

Article 8 (Method of Submitting Reports by Cover Pool Supervisors) A cover pool supervisor referred to in Article 9 (1) of the Act shall submit to the Financial Services Commission a report on duties performed, along with evidential documents, within 30 days from the end of each quarter pursuant to Article 11 (2) of the Act.

Article 9 (Risk Management and Public Notification) (1) "Matters prescribed by Presidential Decree" in Article 17 (2) 4 of the Act means:

1. Types of the bonds referred to in Article 5 (1) 3 (c) of the Act which are included in a cover pool, and the risk hedge ratio;

2. Occurrence, or the possibility of the occurrence, of any event referred to in Article 13 (3) of the Act;
 3. Any other matters prescribed and publicly notified by the Financial Services Commission, which may affect the payment of principal and interest of covered bonds.
- (2) In any event referred to in Article 13 (3) of the Act, an issuer shall notify the Financial Services Commission of such occurrence without delay.
- (3) The public notification referred to in Article 17 (3) of the Act shall be made within 45 days from the end of each quarter.

Article 10 (Method and Procedures for Making Notification, etc.) (1) Notification under the main sentence of Article 20 (2) of the Act shall be made in writing, by phone (including mobile phone text messages) or by email, within 30 days from the date an issuer provides the relevant information.

(2) Article 32 (1) of the Credit Information Use and Protection Act shall apply mutatis mutandis to the method and procedures for obtaining consent under the proviso to Article 20 (2) of the Act.

Article 11 (Entrustment of Duties) (1) The Financial Services Commission shall entrust the following duties to the Governor of the Financial Supervisory Service established under the Act on the Establishment, etc. of Financial Services Commission (hereinafter referred to as the "Governor of the Financial Supervisory Service"), pursuant to Article 23 of the Act:

1. Receiving and examining applications for registration or registration of change referred to in Article 6 (1) of the Act or the main sentence of Article 6 (2) of the Act;
2. Receiving reports referred to in the proviso to Article 6 (2) of the Act;
3. Providing documents for access by the public and public notification thereof under Article 6 (4) of the Act;
4. Receiving reports referred to in Article 7 (3) of the Act;
5. Receiving and examining applications for approval for appointment of cover pool supervisors or new cover pool supervisors under Article 9 (1) or (6) of the Act;
6. Receiving and examining applications for approval for dismissal of cover pool supervisors under Article 9 (4) of the Act;
7. Receiving reports on duties performed, under Article 11 (2) of the Act;
8. Requesting the submission of materials, and performing an investigation referred to in Article 18 of the Act;

9. Receiving reports on appointment of trustee agencies referred to in Article 7 (3);

10. Receiving reports referred to in Article 9 (2).

(2) The Governor of the Financial Supervisory Service shall report the details about the performance of duties entrusted pursuant to paragraph (1), to the Financial Services Commission quarterly: Provided, That the Financial Services Commission may determine a reporting period otherwise for the duties prescribed and publicly notified by the Financial Services Commission.

Article 11-2 (Review of Regulation) The Financial Services Commission shall review the appropriateness of the following matters biennially (meaning by every second anniversary from the base date), counting from the following relevant base dates; and shall take measures, such as making improvements:

1. Qualifications to be eligible issuers referred to in Article 2: January 1, 2015;

2. Limit on issuance of covered bonds referred to in Article 6: January 1, 2015.

[This Article Newly Inserted by Presidential Decree No. 25840, Dec. 9, 2014]

Article 12 (Criteria for Imposing Administrative Fines) The criteria for imposing administrative fines referred to in Article 26 (1) of the Act, shall be as specified in the attached Table.