

Introduction of Korea's Risk-free Reference Rate : KOFR



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Introduction of Korea's Risk-free Reference Rate

01 Why RFR?

1. Background
2. The Fall of CD rate & LIBOR
3. The Rise of RFR

01 / Background

Introduction of Korea's Risk-free Reference Rate

Background

Financial benchmarks **determine** the amount to be **paid, exchange, and the value** of a financial products

Interest rate benchmarks are used to **determine** the **amount of interest payable or receivable** for a wide range of **financial products**

The **CD rate in Korea**, and **LIBOR in international market** are the most **commonly used** interest rate benchmark

CD rate and LIBOR are calculated based on the **quote rate estimated and presented by panel** financial institutions

02 / The Fall of CD rate & LIBOR

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The Fall of CD rate

CD rate, the trading volume in the underlying market continues to contract

The LIBOR Scandal

In 2012, numerous big banks found to have manipulated LIBOR to their advantage

- ✓ Barclays, Citigroup, Deutsche Bank, JPMorgan Chase, Royal Bank of Scotland, and many others
- ✓ Deliberately submitted artificially low or high interest rate

CD rate and LIBOR no longer represent financial markets and lack the reliability required in interest rate benchmarks

03 / The Rise of RFR

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〈 Worldwide Transition to RFRs 〉

| Nation | As is | To be | | | |
|--------|------------------|----------------------------|----------------------------------|---------------------|---------------|
| | | Alternative Reference Rate | | Development of rate | Administrator |
| US | LIBOR → | SOFR | Secured Overnight Financing Rate | June '17. | FED NY |
| Swiss | LIBOR → | SARON | Swiss Average Rate Overnight | Oct. '17. | SIX |
| UK | LIBOR → | SONIA | Sterling Overnight Index Average | April '17. | BOE |
| EU | EONIA LIBOR → | €STR | Euro Overnight Index Average | Sept. '18. | ECB |
| | EURIBOR → | EURIBOR ⁺ | Euro Interbank Offered Rate | July. '19. | EMMI |
| JPN | LIBOR → | TONA | Tokyo Overnight Average Rate | Dec. '16. | BOJ |
| | TIBOR → | TIBOR ⁺ | Tokyo Interbank Offered Rate | - | JBA |

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02 Why KSD?

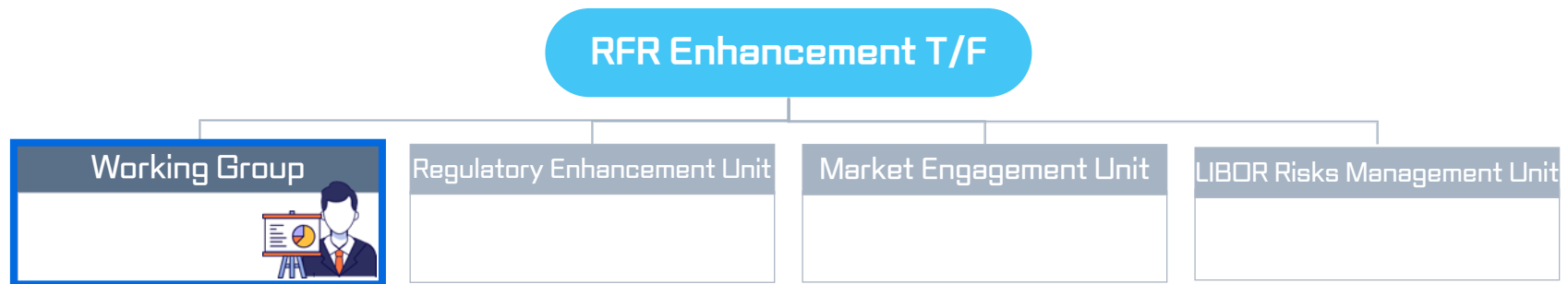
1. The Development of KOFR
2. Why KSD?

01 / The Development of KOFR

Introduction of Korea's Risk-free Reference Rate

- ✓ Korea also initiated a project to create its own RFR
- ✓ KSD reflected feedback from market participants along with case studies

Interest Rate Benchmark rate improvement Team launched by FSC & BOK



- **Operation Group:** Financial Supervisory Services (FSS), BOK, KSD
- **Advisory Group:** Korea Institute of Finance(KIF), Korea Capital Market Institute (KCMI)
- **Market Participant Group:** 13 banks and 13 non-banking financial institutions

2. Why KSD?

WWW.KOFR.KR

Introduction of Korea's Risk-free Reference Rate

KSD | Korea Overnight Financing Repo rate(KOFR)

About KOFR

KOFR Rate

Information

KOR | ENG

03/24/2022 KOFR ▼ 0.035

1.187%

What is the RFR(Risk Free Reference Rate)?

RFR is the minimum theoretical rate of return that an investor can earn without any credit risk.

RFR can help improve the reliability of Korea's benchmark rate, and ensure consistency during international financial transactions.

03/25/2022

KOFR Index

1050.02307

▲ 0.03415

30-day avg.

1.28950%

▼ 0.00266

90-day avg.

1.26612%

▲ 0.00142

180-day avg.

1.04180%

▲ 0.00270

Pursuant to the Financial Benchmarks Act, the subject of mandatory disclosure by the Korea Securities Depository as an Administrator is the Korea Overnight Financing Repo rate(KOFR).
Please note that the KOFR Index and KOFR average interest rates provided via this website are supplementary information of KOFR provided for users' reference only.



02 / Why KSD?

Introduction of Korea's Risk-free Reference Rate

Data sufficiency for all data of Repo transactions.

- ✓ KSD is the only Repo transaction repurchase service payment organization in Korea

Expertise and experience in Repo transaction management

- ✓ KSD provides tri-party repo services, handling the settlement, and management of the traded securities

Highest level of IT infrastructure security

- ✓ KSD can prevent RFR distortion and manipulation errors

In this way, **KSD** was **evaluated** and **designated** as the **best institution** to **build** a **flawless and error-free RFR calculation system**

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03 Next Step

Next Step

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1. KOFR Futures & KOFR OIS(Overnight Index Swap)

- ✓ KRX opened the KOFR futures market on March 2022
- ✓ KOFR ETF was listed on KRX on April 2022
- ✓ KSD is working on measures to boost KOFR-based OIS transactions

2. Debt issuance Referred to KOFR

- ✓ KDB plans to gradually increase the proportion of KOFR FRN(Floating Rate Note)
- ✓ KSD is setting up market environment for financial institutions to issue KOFR-based bonds

3. Standard user manual

- ✓ KSD is preparing a standard user manual for protecting financial consumers

KSD will **continue to make efforts** to ensure the **KOFR** is **successfully settled** in the market



감사합니다
Thank You
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