

Treasury Management in South Korea

[Copyright 1999 - Knowledge Management Applications - All Rights Reserved - Updated 1999-10-19](#)

South Korea Overview

South Korea is an Asian country occupying a peninsula off the Chinese mainland and across the Korea straits from Japan.

The unit of currency is the Korean Won (KRW) which is commonly referred to as the Won. It is not further subdivided and transactions are generally expressed to the nearest 10 Won. The currency is convertible and its value floats freely against other currencies.

The Bank of Korea (BOK) is the central bank and executes the policies of the Ministry of Finance and Economy with respect to the payment mechanisms in the country and other financial matters. Central bank and other government reporting requirements have a substantial impact on cash management activity but the regulatory environment is liberalizing.

There are five payment and clearing systems in Korea that relate to cash and treasury management.

1. The Bank of Korea owns and operates a high value funds transfer system called the Bank of Korea Financial Wire Network or BOK-Wire. BOK-Wire is a Real Time Gross Settlement (RTGS) system which enables member financial institutions and the Bank of Korea to settle transactions across current accounts maintained with the Bank of Korea. Membership includes banks and non bank financial institutions. There is no minimum or maximum transaction amount for members, non members may use BOK-Wire through a member institution for amounts greater than KRW one billion.
2. Checks and other paper instruments are settled through clearing houses operated by the Korea Financial Telecommunications and Clearings Institute (KFTC) under the supervision of the BOK. The clearing house based in Seoul is the oldest and largest of the almost 50 clearing houses operating in South Korea. Clearing house members present checks and other paper instruments daily and receive net value through their BOK current account on the next business day.
3. The KFTC also operates a Giro Processing Center on behalf of participating banks. Giro transactions include debit and credit transfers and are generally of small value. Giro slips are presented at any participating bank which processes and then presents the slip to one of two processing centers nationwide. Clearing time depends on the type of transaction and ranges from two to five days. Settlement takes place on a daily basis through participant accounts held with the BOK.
4. The Interbank Funds Transfer System (IFT) is used for domestic credit transfers which are processed in real time on a same day basis and are available to the payee on the same day. The IFT is operated by the KFTC which routes the electronic instructions from participating banks and calculates the net settlement position of each participant which is settled through accounts with the BOK. There is a maximum transaction size of KRW 100 million in the IFT.

Weblinks

Background information from the [US CIA](#), [US Department of Commerce](#), [Library of Congress](#) and [US State Department](#)

Country profile information from [Ernst & Young](#)

Summary tax information from [DTT World Tax](#)

News and policies of [The Bank Of Korea](#)

Other government information from the [Ministry of Finance and Economy](#), [KOMSEP](#), [Korea Government Homepage](#), [IBK\(Industrial Bank of Korea\)](#), and [The Korea Development Bank](#)

General information from [Commercial Service Korea](#)

Commercial

5. The Cash Management System (CMS) is a Value Added Network (VAN) using the KFTC infrastructure to provide multibank balance reporting and funds transfer services. Participating banks accept electronic instructions from their customers in a common format and relay these instructions through the CMS network. Consolidated balance reports are also available through the CMS network. Service charges for the CMS are up to each participating bank while interchange charges are determined by a KFTC committee.

For tax purposes, a company is considered resident if management and control of the enterprise are based in Korea. Resident companies are taxed on worldwide income at a rate of 16% for the first KRW 100 million and 28% for amounts exceeding KRW 100 million. Non resident companies are taxed at the same rates for Korean source income. An additional surcharge of 10% is levied on resident companies. Residents and non residents are subject to a minimum tax of 15% (12% for small and medium size enterprises) on taxable income before deductions.

Treasury Management

The traditional focus of South Korean business activity has been on the export of manufactured products. Further concentration of this activity within large conglomerates known as Chaebol, a strict regulatory environment, and custom have led to the establishment of treasury centers elsewhere in the region.

The concept of treasury management is relatively new in South Korea and this has limited the application of common treasury management techniques. Multilateral netting has been permitted on a gross in/out basis with prior approval and may soon be permitted without restriction. Notional pooling of KRW is prohibited and participation in offshore USD pools by resident companies is prohibited. Sweeping and cash concentration are permitted.

Strict regulation of the Korean Won has limited its role as an international currency. Accordingly, traditional currencies of trade such as the US dollar, Euro, and Japanese Yen are used in lieu of the Won.

Multiple KRW accounts can be held to facilitate accounting objectives or as part of an overall treasury strategy. Sweeping (zero balancing) and concentration are permitted and are facilitated with the Cash Management System (CMS) operated by the KFTC.

Accounts

The basic KRW operating account is referred to as a current account and may be held by resident and non resident corporations. Banks are not permitted to pay interest on current accounts maintained by corporations. Deposit accounts with a minimum tenor of seven days are used to earn interest. Overdrafts are permitted for residents only subject to mutual agreement with the bank.

Resident and non-resident corporations registered in South Korea may hold accounts in South Korea that are denominated in KRW, US Dollars, and other currencies.

Negotiable certificates of deposit (NCD) and money market deposit accounts (MMDA) are available for amounts over KRW 50 million/one month and KRW

banking websites of [Citibank Korea](#), [HANVIT BANK](#), [Korea Exchange Bank](#), and [Shinhan Bank](#)

Online editions of [The Korea Herald](#) and [Korea WebWeekly](#)

Special information from [Life in Korea](#), [Hyun & Young Systems, Inc](#), and [Small and Medium Enterprises of Korea](#)

Contact [Global Cash Management Ltd](#)

100 thousand/seven days respectively. Treasury bills and to a lesser extent commercial paper are additional short term investment options.

Overdrafts are permitted for resident companies only. An additional source of short term credit is the discounting of trade bills with major commercial banks.

Payments and Receipts

Cash is a traditional way of settling retail and commercial obligations along with checks. Efficient electronic alternatives such as the IFT are replacing checks while new POS systems are replacing cash. The CMS which has many functional similarities to the German Multicash or the Belgian Isabel is rapidly growing in use.

Lockbox type arrangements are not prohibited but are not in use because of business customs. The growing use of efficient electronic alternatives makes the establishment of a lockbox network unnecessary.

Controlled disbursement is not possible because check presentment takes place at the end of the business day and before cover can be arranged the next morning. The growing use of electronic alternatives makes functional alternatives to controlled disbursement unnecessary.

Technology and Marketplace

Korea has a modern telecommunications system including fiber optic cable. Bandwidth is reasonable priced and readily available. High-speed voice/data connections are easy to obtain. Electronic commerce is not a common method of doing business in Korea. Electronic banking products including access systems and balance reporting, are available and commonly used.

The Korean banking system is recovering from the Asian financial crisis earlier in the 1990's. There have been many changes as a result of the crisis including greater involvement of foreign banks, consolidation of indigenous banks, and a general opening of the financial system. Major Korean banks include Kookmin Bank, Cho Hung Bank, Korea Exchange Bank, and Hanvit Bank which is a new entity reflecting the combination of Hanil Bank and Commercial Bank of Korea. The major international players include Citibank which is a full member of the KFTC, Chase, Deutsche Bank, and ABN-AMRO. HSBC failed to acquire a Korean bank but is now well positioned as a retail and cash management service provider.

Treasury Management in South Korea

[Copyright 1999 - Knowledge Management Applications - All Rights Reserved - Updated 1999-10-19](#)

Terms and Conditions of Use - The copyright of this document is owned by Knowledge Management Applications. You may display this document on a computer screen, print the entire document on paper, email the document to others, and store the document in electronic form on disk on any server or other storage device connected to a network for your personal use. You may not modify, extract pages, or in any way commercially exploit the document. The document is for your general information and does not constitute any form of advice, recommendation, or arrangement by Knowledge Management Applications. The information in this document is provided "as is" and there is no guarantee as to accuracy, completeness, or fitness for a particular purpose. The document contains direct links to sites on the World Wide Web. These sites are provided and maintained by others and your use of these links constitutes your acceptance of each site's terms and conditions of use. Your use of this document constitutes your acceptance of these conditions.