The Real Consequences of Macroprudential Regulations: Evidence from an Emerging Market

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Abstract

I examine the real effects of macroprudential foreign exchange (FX) regulations designed to reduce the risk taking by financial intermediaries. I exploit a natural experiment in South Korea at the bank level that can be traced through firms. The regulation limits banks' ratio of FX derivatives position to capital. By using cross-bank variation in the tightness of regulation, I show that the regulation causes a sudden reduction in the supply of FX derivatives. Controlling for hedging demand, I find that exporting firms reduce hedging with the constrained banks by 47%, relative to that with the unconstrained banks. I further show that the reduction in the banks' supply of hedging instruments results in a substantial decline in firm exports. For one-standard-deviation increase in firm's exposure to the regulation shock transmitted by banks, export falls by 17.1% for high-hedge firms and rises by 5.7% for low-hedge firms, resulting in the differential effect of 22.8%. Collectively, my results provide a novel implication that macroprudential FX regulations aiming to manage the risk taking of financial intermediaries can have an unintended consequence of inducing firms to reduce their exports.

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1 Introduction

Global financial shocks can severely destabilize financial and macroeconomic states of emerging markets (EM) through volatile capital flows. A surge in capital inflow can contribute to excessive credit expansions and build-up of systemic risk, and a sudden reversal of the capital inflow can lead to an increased vulnerability to crises. Figure 1 shows that the real GDP growth of emerging markets falls sharply when capital flows out. Therefore, managing volatile capital flow is a major concern to many EM economies. To address the vulnerabilities from external shocks, EM economies have commonly adopted two types of measures: macroprudential foreign exchange (FX) measures that are designed to limit systemic risks and capital controls that are designed to limit capital flows directly.

While the previous studies had largely focused on the role of the latter, growing number of countries have adopted the former, in the forms of measures to limit net or gross open FX positions, FX exposures, FX funding, and currency mismatch regulations. Figure 2 plots the number of EM economies that use macroprudential FX regulations based on the IMF's integrated Macroprudential Policy database compiled by Alam et al. (2020). As of 2018, 74 out of 98 EM economies are using macroprudential FX regulations. Figure 3 shows that they have been substantially tightened over the years, especially since the great financial crisis (GFC). A growing literature has documented the effectiveness of using macroprudential FX regulations[1]. However, relatively little consideration has been given to analyzing their real implications.

In this paper, I examine whether macroprudential FX regulations imposed on financial intermediaries have real effects on non-financial sector. Specifically, I study the effects of a regulation that limits banks' ratio of FX derivatives positions to equity on the supply of FX derivatives and on firms' exports. By exploiting a natural experiment in South Korea at bank level that can be traced through firms, I show that the regulation caused a sudden reduction

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[1]Bergant et al. (2020) show that a tighter regulation reduces the sensitivity of GDP growth to VIX movements and capital flow shocks. Ostry et al. (2012) shows that countries with stronger regulation were more resilient during the global financial crisis.

in the supply of FX derivatives, and it in turn induced firms to reduce their exports. To the best of my knowledge, this is the first paper to show that macroprudential FX regulations can have impact on firms' exports, due to a shortage of FX hedging instruments. This result has an important implication that macroprudential regulations could negatively impact non-financial firms' real economic outcomes, even if they achieve the goals in terms of mitigating vulnerabilities of financial sector.

How does macroprudential FX regulations affect firms' exports? I describe the mechanism by answering the following questions: First, how could the macroprudential FX regulations cause a reduction in the supply of FX derivatives? Second, how does a reduction in the supply of FX derivatives lead to a decline in exports?

The answer to the first question is related to the combination of the imbalances in the hedging demand (of exporters versus that of importers) and banks' costly equity financing. If the exporters' and importers' hedging demand were balanced, banks could have simply matched the two sides of offsetting demand, and the leverage-based FX regulatory constraint would not bind. Similarly, if it were costless for banks to raise equity capital, banks would have raised equity to meet the requirement and there would have been no sudden reduction in the supply of FX derivatives. However, I show that banks chose to reduce their FX derivatives position along their cross-border borrowing. This would be an optimal choice for banks if it is costly to raise equity. In fact, the two factors, the imbalance in the hedging demand and the intermediary constraint are not confined to the emerging market context. Du et al. (2018) finds that the interaction of the global imbalances in investment demand and funding supply across currencies and intermediaries' balance sheet constraint has resulted in covered interest rate parity (CIP) deviations in the currencies of developed markets, after capital requirements had been tightened globally in the post-GFC period.

The answer to the second question is related to firms' inability to smooth out the regulation shock transmitted by the banks by finding alternative sources of hedging. Even if a fraction of banks reduced the supply of FX derivatives following the regulation, firms

may substitute part of their hedging towards banks that are less constrained by the regulation. However, I show that this is not the case; firms' hedging with constrained banks fell compared to their hedging with unconstrained banks, and the total firm-level hedging also fell. These results suggest that firm-borrowing-channel, i.e., inability of firms to offset the liquidity shock transmitted by banks by borrowing from alternative sources of financing, is not limited to credit market, and can be extended to derivatives market. Firms' loss of FX hedging instruments resulting in decline in exports implies that the FX derivatives are crucial risk management tools for firms with exposure to FX risk.

A natural experiment in Korea provides a great setting to study the real effects of macro-prudential regulation for several reasons. First, it offers a setting in which the exposure to the regulation shock varies across banks. At the imposition of the regulation in Korea, not all banks were constrained, and bank-specific tightness of regulation is observed. This cross-bank heterogeneity in the strictness of regulation provides an identification strategy for my empirical analysis. Second, I use hand-collected data on the details of FX derivatives contracts at firm-bank level. This allows me to isolate banks' hedging supply from firms' hedging demand by comparing the hedging with constrained banks and the hedging with unconstrained banks for the similar firms in terms of firm characteristics within the same industry. Third, firm-level FX derivatives holdings and exports are observed, and therefore I can evaluate the real outcomes at the firm-level, by comparing the firms that had traded with constrained banks and those that had not.

To understand how the regulation shock to the banks propagates to firms, I proceed in three steps. First, I conduct bank-level analysis to analyze banks' response following the imposition of the regulation. The regulation requires all banks located in Korea to have the ratio of FX derivatives position to capital below a certain level. When this regulation was first announced, the constraint was binding for only a fraction of banks. I define the banks of which the ratio of FX derivatives position to capital exceeding the regulatory cap at the imposition of the regulation as treated group and compare their responses with

those of the banks of which the regulatory constraint was not binding. With diff-in-diff specification, I find that the constrained banks' FX derivatives position is reduced by more than unconstrained banks', and the gap between the two groups' FX derivatives positions decreases as the regulator tightens the regulation. This result suggests that it is costly for banks to raise equity capital and therefore banks cut down their FX derivatives position along with their FX borrowing.

Second, I use FX derivatives contract level data for two years, before and after the imposition of the regulation to estimate the transmission of regulation shock from banks to firms. I control for changes in hedging demand by examining the hedging with constrained banks and the hedging with unconstrained banks of the similar firm, by comparing firms within the same industry and having similar firm characteristics. I find that for the similar firm, its short FX derivatives position in foreign currency traded with constrained banks shifted up by 43% relative to that traded with unconstrained banks. This implies a contraction in hedging for the exporters and expansion in hedging for the importers. Both cases help loosening the banks' constraint, as the banks' long foreign currency position in FX derivatives would decrease. I find that the effect is much stronger for exporters than for importers; the exporters' hedging with constrained banks declined by 47% more than their hedging with unconstrained banks. The results are consistent with the regulation causing a sudden reduction in the supply of FX derivatives.

Third, to understand how regulation shock transmitted from banks to firms affect the real outcomes of firms, I conduct a firm-level analysis. I define exposed firms as those of which their main counterparty bank for FX derivatives was constrained and compare their change in FX derivatives position with non-exposed firms. I find that the exposed exporters' hedging fell by 49% compared to the non-exposed exporters. This firm-level reduction in hedging implies that firms were not able to offset the shock, as switching counterparty bank relationship is costly to firms. I further examine whether the reduction in the supply of FX derivatives affects firms' export, which is the main source of firms' exposure to FX risks. I

find that firms that used to hedge at least 10% of their export sales with FX derivatives, which I refer to as high-hedge firms, substantially reduced their exports. For one-standard-deviation increase in firm's exposure to the regulation shock transmitted by banks, export falls by 17.1% for high-hedge firms and rises by 5.7% for low-hedge firms, resulting in the differential effect of 22.8%.

In sum, my results suggest that the macroprudential FX regulation can cause a sudden reduction in FX derivatives, and it in turn lead to firms' reduction in exports. It is an important result that firms' outputs are negatively affected by macroprudential FX regulations, particularly for the firms that have been actively using FX derivatives to mitigate their exposure to FX risk. This implies that the regulation indeed achieves its goal of reducing the aggregate-level FX maturity mismatch, but only at the expense of reducing exports. Furthermore, my results on the muted effect on the importers combined with the negative effect on the exporters have a macroeconomic implication that the regulation could adversely impact the trade balance. It is concerning if a macroprudential regulation ends up de-stabilizing what it aims to stabilize in the first place. Although my analysis does not involve an overall welfare assessment, the consequence of limiting firms' FX hedging instruments should be taken into consideration in designing macroprudential policies.

The conclusions of this paper are applicable to other emerging market economies as well as developed economies. The leverage-based cap on banks' net position of FX spot or (and) derivatives position is very common; globally, about three out of four countries[2] had limits on financial sector's open FX positions as of 2018. The regulators in developed economies also do not allow banks to hold large unmatched FX positions. Therefore, my results have implications extending to the countries with similar regulations.

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[2]147 countries out of 192 were having limits on financial sector's open FX positions as of 2018, based on IMF's Annual Report on Exchange Arrangements and Exchange Restrictions. (AREAER) 27 of them are advanced economies.

Related Literature

This paper relates to various literatures. First, the main contribution of this paper is to the growing literature studying the effects of macroprudential regulations in the context of international finance. Prior work including Bruno et al. (2017) and Ostry et al. (2012) shows the effectiveness of the regulations in achieving their goals. Bruno and Shin (2014) study Korea's macroprudential FX policies that are analyzed in this paper, and find that the sensitivity of capital flows into Korea to global conditions decreased in the period following the introduction of the regulation.[3] I find a supporting evidence that the constrained banks' share of borrowing in foreign currency declined relative to the unconstrained banks. On the other hand, other papers within this literature, such as Aiyar et al. (2014), Cerutti et al. (2015), Reinhardt and Sowerbutts (2015), and Keller (2019) document leakages and unintended consequences of macroprudential regulations or capital controls. I extend this literature by providing a new evidence of unintended consequence of macroprudential regulation: a substantial decline in exports due to shortage of hedging instrument. A closely related work is of Keller (2019) who also uses a similar setting in Peru to identify the capital control shock transmitted through loan that resulted in the risk shifting from banks to firms. In my paper, the transmission channel is through FX derivatives rather than loans, and I focus on the real effects that arise from the shortage of firms' hedging instruments. Another closely related paper is of Ahnert et al. (Forthcoming) that evaluates the effectiveness and unintended consequences of macroprudential FX regulations using cross-country panel data. Unlike their work, I use bank-level data that can be traced through firms and I control for firm-level changes in export opportunities by using contract-level data.

Second, my paper relates to the large literature on the impact of financial shocks to the real economy. Theoretical work in Bernanke and Blinder (1988), Bernanke and Gertler (1989), Holmstrom and Tirole (1997) and Stein (1998) show that the financial shocks affect the real economy only if there are credit market imperfections in both bank and firm level.

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[3]See Choi (2014) as well.

Empirical studies of Khwaja and Mian (2008) and Schnabl (2012) identify the transmission of liquidity shock using within-firm estimator. Paravisini et al. (2014) study the effect of credit on exporting firms and find that credit shortages reduce exports through raising the variable cost of production. I add to this literature by documenting the evidence that is similar to the bank-lending channel and the firm-borrowing channel in derivatives market. In my setting, the macroprudential FX regulation combined with banks' costly external financing is the market imperfection on the bank side. On the firm side, I find that firms are not able to offset the shock by switching across banks, which suggests that switching across banks is costly to firms in derivatives market, like in credit market. Moreover, similar to the findings in credit market, larger firms appear to better cope with the unfavorable effects of bank shocks in derivatives market.

Third, my paper also relates to the literature examining the effects of frictions in financial intermediation on asset prices and real outcomes. In FX market context, Gabaix and Maggiori (2015) and Du et al. (2019) apply intermediary-based asset pricing models to the exchange rate literature. On the empirical side, Du et al. (2018), Avdjiev et al. (2019) and Fleckenstein and Longstaff (2018) document the link between CIP deviations and the intermediary constraints post the GFC. I contribute to the literature by documenting that FX macroprudential regulation can cause financial intermediation to be costly, and it can have real consequences.

Fourth, my paper relates to the literature on the real implications of derivatives hedging. Previous empirical studies including Allayannis and Weston (2015), Carter et al. (2006), Jin and Jorion (2006), Campello et al. (2011) and Gilje and Taillard (2017) find that hedging is associated with increase in firm values. I add to this literature on the importance of FX derivatives as corporate hedging tool for managing exposure to FX risk, by showing that firms' exports fall as the firms face a reduction in supply of FX derivatives.

Outline of the Paper

The remainder of the paper proceeds as follows: Section 2 discusses the regulatory background of the FX derivatives position limit. Section 3 describes the sample and data. Section 4 develops empirical methodology and reports the results. Section 5 concludes.

2 The Setting

2.1 Background

Reducing volatility of capital flows is a challenge for many emerging market economies. In case of Korea, a large part of the volatile capital flows had been attributable to banking sector's cross-border foreign currency (FC) liabilities.

From 2000 to 2007 prior to the GFC, Korea had had twin surpluses in the balance of payments and a surge in capital inflows (Figure 4). The surge in capital inflow was primarily driven by the banking sector's borrowings ("Others" category in Figure 5), which subsequently had a dramatic reversal during the GFC. The outflow during the fourth quarter of 2008 was close to $40 billion, which is about 4% of the country's annual GDP.

In terms of external debt, Figure 6 shows that Korea's external debt had increased throughout the 2000s prior to the GFC, and Figure 7 shows that the short-term component of the external debt rose substantially. Even after taking the huge accumulation of foreign exchange (FX) reserves (Figure 8) into account, liquidity defined as FX reserves less short-term debt, scaled by GDP[4], had been deteriorating from 2005 (Figure 9).

The surge in the banking sector's short-term borrowings was closely related to the increase in exporters' hedging demand (relative to importers' hedging demand) and banks' position covering practices. During 2006–2007, the high global demand lead exporters to have long-term US Dollar (USD) receivables, and exporters sold a large amount of USD

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[4]A measure of liquidity by Acharya and Krishnamurthy (2019)

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forwards to banks in order to hedge FX exposure from the USD receivables.[5] The left panel of Figure 10 presents the structure of firms' FX position. Because banks purchased USD forwards from exporters, they were long USD forwards. Had there been importer's hedging demand matching that of exporters', banks could have covered the long position by selling USD forwards to the importers. However, importers' hedging demand fell far short of exporters' hedging demand for several reasons. First, importers' FX liabilities are typically short-term and easier to predict. Second, it could be optimal for importers to not hedge when central bank aggressively accumulates FX reserves, in an anticipation that the reserves would be used to reduce currency depreciation (Acharya and Krishnamurthy (2019)). Third, the main importing sector in Korea is energy sector with market power, which allows them to pass the FX risk to their customers through pricing. (Kim (2010))

In the shortage of natural USD forward buyers, banks needed to cover the long position in USD forwards by constructing a short position in synthetic forwards. A short position in synthetic forwards is constructed by borrowing USD, converting USD to Korean Won (KRW) in FX spot market, and investing in risk-free KRW-denominated bonds. In this process, foreign bank branches[6] typically used short-term external USD borrowing from their parent banks. The structure of banks' FX position is illustrated in the right panel of Figure 10.

As a result, although its firms and banks hedged their FX mismatches, Korea was left with a substantial *maturity* mismatch which made the financial system vulnerable. Korea suffered severely from USD funding liquidity crisis during the GFC, as the banks were not able to roll over the short-term external debt. As shown in Figure 11, the average KRW CIP basis, a measure of FX funding liquidity, during 2007–2009 had been -300bps[7]. KRW also depreciated rapidly and Korea was close to suffering a currency crisis.[8] Figure 12 shows

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[5]McCauley and Zukunft (2008), Ree et al. (2012) and others

[6]The domestic banks' maturity mismatch was not as severe as the foreign bank branches. (Ree et al. (2012))

[7]The average for G10 currencies during the same period was -20.8bps with maximum deviation of -63.1bps for Danish Krone. (Du et al. (2018))

[8]International Monetary Fund (2012)

that USD appreciated by 34% during 2008.

2.2   Policy Measures

To address the vulnerabilities, Korea introduced two main macroprudential measures to improve resilience against capital flow volatility through the banking sector.[9]

FX Derivatives Position Limit

The first measure, announced in June 2010, was to limit banks' FX derivatives (FXD) positions relative to their capital:

$$\frac{\text{FXD Position}}{\text{Capital}} < \text{Regulatory Cap} \tag{1}$$

The FXD position is defined as monthly average of daily net aggregate delta-adjusted notional value[10] of all FXD contracts including FX forwards, swaps, and options that the bank holds. Since the net FXD position is aggregated across all currencies, banks' FXD position in a currency pair that does not involve KRW, e.g. EUR-USD pair, has no effect on the constraint. The equity capital base is defined as the sum of Tier 1 capital (paid-in capital) and Tier 2 capital (including long-term, longer than a year, borrowing from its parent bank) in all currencies. The exchange rate to convert KRW-denominated capital base to USD is the average of the exchange rate used for the previous year's calculation and previous year's average exchange rate.

The limit (1) is placed on each bank; the FXD position of a bank must be within a certain specified level relative to its equity capital at the end of the previous month. The current regulatory cap is 50% for domestic banks and 250% for foreign banks. Table 1 shows the historical change in the regulatory caps imposed on foreign bank branches and domestic banks. The regulation was tightened in the first three changes and loosened in the last

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[9]International Monetary Fund (2012), Bruno and Shin (2014)

[10]For non-USD FXDs, the notional values are converted to USD based on the day's exchange rate.

two. For my empirical analysis, the last change in 2020 is not included due to lack of data availability. According to the regulator's statements, the main underlying factors that led the regulator to adjust the limit is banking sector's aggregate short-term external debt and the USD funding liquidity condition.

The policy seeks to limit the short-term FC borrowings of banks by requiring them to put up more equity capital as they increase their FXD position. The link between banks' FXD position and short-term borrowing lies on the exporters' hedging demand in excess of the hedging demand of the opposite side, such as importers. Due to the imbalance in the hedging demand, it was easier for banks to hedge their forwards positions with offsetting positions in synthetic forwards by using cash instruments. In addition, foreign bank branches' accessibility to USD funding from their parent banks facilitated the hedging of derivatives by using cash. Figure 13 shows the co-movement between the aggregate net FXD position and the aggregate external short-term foreign currency (FC) borrowings of banking sector.

Macroprudential Stability Levy

The second measure, effective since August 2011, was to impose levy on the non-core FC denominated liabilities of the banking sector. This measure is designed to induce banks to cut down their FC borrowings by increasing their funding costs. The proceeds of the levy flow into the Foreign Exchange Stabilization Fund, which is separate from the revenue of the government and can be used as a buffer in the event of financial crises.

The levy is 20 basis points per year for non-deposit FC liabilities of up to 1 year maturity, and it is lower for longer-maturity: 10 bps for up to 3 year maturity, 5 bps for up to 5 year maturity and 2 bps for longer than 5 year maturity.

3 Data and Summary Statistics

3.1 Data Sources

I use three data sets for analysis: bank data, FXD contract data, and firm data. All data are public information. Banks' FXD position data is hand-collected from the banks' financial statements and the rest of banks' financial data is downloaded from Korean Financial Statistics Information System[11] managed by Korea's financial regulator, Financial Supervisory Service. FXD contract data of all listed firms is hand-collected from firms' financial statements published on Korean Data Analysis, Retrieval and Transfer (DART) System[12]. DART is the repository of Korea's corporate filings where the disclosure filings of all Korean firms subject to external audit (including listed and non-listed) can be downloaded in PDF format. The data source for firm-level financial data is TS2000, a commercial data aggregator managed by Korea Listed Companies Association. The market data such as spot, forward exchange rates and interest rates are obtained from Bloomberg and Datastream.

3.2 Bank Data

I focus on 46 banks that had been operating as of December 2009, the last reporting period before the imposition of FXD position limit. 29 are foreign bank branches and 17 domestic banks. The list of banks' full names are in Appendix (Table 28). Banks' on-balance sheet FX position, defined as FC assets less FC liabilities, FXD position, and the FX derivatives-position-to-capital (DPTC) ratio are observed on a monthly basis. Other financial variables of banks are observed on a quarterly basis. The sample period is from 2008 to 2018.

Aggregate Data

The mean DPTC ratio peaked at 16.9 in 2007 for foreign banks and at 0.4 in 2008 for domestic banks.[13] As of December 2009, the average DPTC ratio of foreign banks was 2.9,

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[11]http://efisis.fss.or.kr/fss/fsiview/indexw.html

[12]https://englishdart.fss.or.kr/

[13]Figure 20 in Appendix plots the time series of mean, 10-percentile and 90-percentile of DPTC ratio for

which exceeded the regulatory cap of 2.5. The top panel of Figure 14 shows that 14 foreign banks had DPTC ratio exceeding the regulatory cap, and all of them except one reduced their DPTC ratio below the regulatory cap six months after the first announcement. On the other hand, the average DPTC ratio of domestic banks was 0.17 as of December 2009, which was below the regulatory cap of 0.5. The bottom panel of Figure 14 shows that the 2 domestic banks with DPTC ratio above the regulatory cap reduced their DPTC ratio below the cap six months after the first announcement.

The top panel of Figure 15 plots the gross aggregate FXD position of banks with the announcement dates of position limit change. The bottom panel plots the regulatory cap on DPTC ratio. The gross aggregate FXD position decreased after the imposition of the limit, and it fell further following the subsequent tightening (lower regulatory cap) of the regulation.

Bank-specific Data

To study the effect of the FXD position limit on banks, I exploit the heterogeneity in the tightness of the regulation across banks. Table 2 reports banks' assets, derivatives positions (*DerivPosition*), capital, DPTC ratio, size of derivatives positions in excess of the limit (*DerivExceeded*), size of shock defined as *DerivExceeded*/*DerivPsotion* if the constraint was binding. The heterogeneity in DPTC ratio comes from both numerator and denominator, but more driven by the numerator[14]. Among the 46 sample banks, the FXD position limit constraint was binding for 16 banks as of Dec 2009, prior to the first announcement of the regulation. The constrained foreign banks had to reduce DPTC ratio below 2.5 and the constrained domestic banks had to reduce the DPTC ratio below 0.5.

The constrained banks as a group needed to reduce about 13 billion USD of their FXD position. Table 3 is bank summary statistics by whether the bank was constrained (treated) or not (control). The constrained banks consist mostly of foreign banks. They are on average smaller and had lower loans to assets ratio, and lower leverage. The differences in

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foreign banks and those of domestic banks, overlaid with the regulatory cap.

[14]The standard deviation of DPTA is 0.19 and that of CTA is 0.12

these characteristics are statistically significant, and therefore I control for the differences in my empirical analysis.

Figure 16 compares the average FXD position of constrained banks with that of unconstrained banks. It shows that the constrained banks reduced their FXD positions after the imposition of regulation, relative to unconstrained banks. In terms of FXD market share, Figure 17 shows that the constrained banks' share fell while foreign banks' share is relatively stable. This is because unconstrained foreign banks took over a part of constrained foreign banks' share.

3.3 FXD Contract Data

All non-financial firms in Korea have been required to disclose the details of their existing financial derivatives contracts in disclosure since 1999.[15] I hand-collected the details of FXD contracts for years 2009 and 2010. Among about 300 firms that had been using FXD as of 2009, I focus on 148 firms that continued to use FXD in 2010. 132 of them fully disclosed their counterparty information, while 16 firms disclosed only the main counterparty.[16] Although I am not able to include the 16 firms (with large FXD market shares) in the contract-level analysis, I include them in firm-level analysis.

FXD contract is defined as a firm-bank pair. I aggregate all contracts for a single firm-bank pair in case a bank had multiple contracts with the same bank in the same year. The net FXD position is computed by aggregating the delta-adjusted notional of individual FXD contracts for the firm-bank pair. A positive net FXD position indicates long position in USD, or USD equivalent amount for non-USD foreign currency such as EUR. While the delta of forwards, futures and swaps is 1, the delta of each option needs to be calculated.

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[15]Ban and Kim (2004)

[16]The top 10 firms' market share of FXD usage (sum of FXD assets and FXD liabilities) is 88%, yet none of them reports the full list of counterparties. This is because the regulator does allow firms to disclose at the aggregate level, as opposed to the contract level if: (1) the number of contracts is excessively large, and (2) the payoff structure is simple such that profit and losses from the contracts would be predictable, given the future movements in the exchange rate. When firms report at the aggregate level, they typically do not disclose the full list of counterparties.

For the regulatory purpose, Black-Scholes model is used to calculate delta of options. I take a simplified assumption that the delta of every option contract is 0.5. With this assumption, a long position in a call and a short position in a put would result in delta of 1, which is consistent with delta of forwards. This assumption is conservative; using Black-Scholes delta would only make the results stronger.[17] To illustrate the calculation of net FXD position, suppose that an exporting firm A sold USD forward with notional of $100 and wrote USD call option with notional of $100 to bank B in year 2009. In this case, the net FXD position of the firm-bank pair (A,B) is $ −150. The negative sign indicates that the firm would make a loss from its FXD trades with bank B in case USD appreciates.

The sample contains 251 contracts, 132 firms, and 33 banks[18]. Table 4 is the contract-level summary statistics by exposure. The contracts that do not involve KRW and the contracts without side (buy or sell) information are excluded.[19] In terms of the direction of contracts, roughly half of the contracts are firms taking long position in foreign-currency. In terms of pairs, USD-KRW pair is most common (86%). All contracts that involve KRW, but not USD, JPY or EUR are categorized as one group. In terms of type, forwards are most common.

A contract is "Exposed" if the firm dealt with a constrained bank, a bank that was required to reduce its derivatives position at the end of year 2009. 40% of the contracts are exposed and 60% are non-exposed. The contract characteristics (size, side, pair and type) of exposed firms are significantly different from those of non-exposed firms and therefore I control for the contract characteristics in my analysis.

3.4   Firm Data

The contract-level data is aggregated at the firm-level. Table 5 provides summary statistics on firm-level data by exposure. A firm is classified as "Exposed" if its main FXD counterparty

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[17]Most of the options are exotic options with Black-Scholes delta in the range between 0.7 and 0.9.

[18]13 banks in the bank data set do not have any FXD contract with sample firms.

[19]Non-KRW FXD contracts, such as EUR-USD pair, do not affect banks' FXD position limit, and they compose only 4% of total contract notional.

bank (in terms of notional) is constrained. The exposed and non-exposed firms are similar in terms of all characteristics except FC liability share and FC mismatch. The full-sample average net FXD position of firms is -8% of assets (similar in terms of sales), which means that firms on average make loss equal to 8% of assets in case USD appreciates by 1 Won. This translates into approximately 20% in terms of export hedge ratio; firms hedge a fifth of their export sales using FXD. To take a concrete example, suppose that an exporter's total sales is $100 worth and the share of export sales is 50%. Suppose that the export sales are all account receivables and therefore the firm has $50 to receive in the future. If the firm hedges $10 worth of USD forwards, 20% of export sales is hedged. For completeness, I show summary statistics of the full sample including the 16 firms that disclosed only the main counterparty in Table 6.

I categorize firms into net FXD buyers and net FXD sellers.[20] The net FXD buyers are the firms with positive net FXD position. These firms profit from their FXD trades in case foreign currency appreciates, and they are typically importers or firms with FC borrowings. They mostly use swaps that match the exact cash flows of their FC loans or FC bonds they issued. Their median FC liability hedge ratio, defined as FXD bought amount divided by FC liabilities, is 0.56. The correlation between FC liabilities and net FXD position is 0.78.

The FXD sellers are the firms with negative net FXD position, and they are typically exporters. They primarily use forwards to hedge their export sales. Their median export hedge ratio, defined as FXD sold amount divided by export sales is 0.68. The hedge ratio of FXD sellers is not so informative about whether firms used FXDs for hedging or speculating purpose, because unearned revenues are not captured in sales. To be specific, a manufacturing firm "JinSungTEC" had export hedge ratio of 9.95, which may look like its FXD was for speculating purpose. However, the firm received export orders for the next ten years and its FXD was to hedge the future USD cash inflows. Since the orders flow into unearned revenue account until the products are delivered, they do not affect sales. This kind of case makes it

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[20]Tables 29 – 31 in Appendix provide the list of firms with information on their hedging practices.

difficult to identify whether firms were hedging or speculating by simply looking at the hedge ratio. Nevertheless, strong correlation (-0.93) between export sales and net FXD position suggests that the primary purpose of holding FXD was to hedge rather than to speculate.

4 Empirical Methodology and Results

The facts that the regulation is in terms of DPTC ratio and that not all banks were exceeding the regulatory cap provide an identification strategy. By exploiting the cross-bank heterogeneity in DPTC ratio, I first estimate the impact of regulation on banks' FXC positions, capital, FC liabilities and FC loans for period from 2008 to 2018 with difference-in-difference (DiD) estimator. Second, in order to disentangle banks' hedging supply from firms' hedging demand, I use FXD contract-level data for years 2009 and 2010, and estimate the transmission of the regulation shock from banks to firms. Third, I study the impact of changes in FXD position of firms on their real outcomes.

4.1 Impact of Regulations on Banks

This section studies the impact of the regulations on banks' FXD positions, capital, FC liabilities and FC loans.

Banks' Adjustments of FX Derivatives Positions and Capital

Since the regulation is enforced in terms of the DPTC ratio, banks may manage the ratio by adjusting their derivatives position or their capital bases (or both). I show that the banks mostly adjusted the former, using the following base-line specification:

$$Y_{it} = \beta_0 + \beta_1 Constrained_i + \beta_2 Regulation_t + \beta_3 Constrained_i \times Regulation_t + \varepsilon_{it} \quad (2)$$

The outcome variable is either log of derivatives holdings (*LogDeriv*) or log of capital (*LogCapital*). *Constrained$_i$* is a dummy variable that indicates whether the constraint

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was binding for bank i. $Regulation_t$ captures the time-variation in the overall tightness of the regulation. $Regulation_t$ is defined as an inverse of the regulatory cap on DPTC ratio; it is 0 before the imposition of the regulation, and higher value indicates tighter regulation. The bottom panel of Figure 16 plots the $Regulation_t$. Because the regulatory cap on the DPTC ratio is different for foreign banks and domestic banks, I construct $Regulation_t$ by taking either a simple average or a weighted average. $Regulation_t^{Avg}$ denotes the simple average and $Regulation_t^{WAvg}$ denotes the weighted average where the weight is the derivatives positions. I use the official announcement dates rather than the effective dates (presented in Table 1) whenever the regulatory caps are adjusted, as banks may preemptively react to the regulation upon the announcements.[21] I also estimate the above specification (2) by weighted least squares, where the weights are the size of derivatives position as of Dec 2009. For some specifications, I add bank fixed effects to control for differences in time-invariant factor among banks:

$$Y_{it} = \beta_0 + BankFE_i + \beta_2 Regulation_t + \beta_3 Constrained_i \times Regulation_t + \varepsilon_{it} \qquad (3)$$

I cluster standard errors by bank.

DiD specification parallel-trends assumption. The Figure 16 which plots the aggregate FXD position (top panel) and the normalized average FXD position by treatment (middle panel) shows that the trends had indeed been parallel.[22] It would be a concern if banks in the control group are indirectly affected by the regulation as firms substitute the banks in the treated group with the banks in the control group. In subsection 4.2 and subsection 4.3, I document that firms are typically unable to switch banks. Moreover, I study the effect when excluding three banks that were unconstrained but became constrained after the regulation.

Table 7 reports the results. The top panel results are based on the simple average

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[21] The first news article mentioning that the regulators are considering introducing a regulation related to banks' FX derivatives positions came out about two weeks earlier (on 27 May 2010). My results are robust to changing the imposition date from the official announcement date (13 June 2010) to the first news date (27 May 2010).

[22] The very initial sample period is GFC.

constraint $Regulation_t^{Avg}$. The main coefficient of interest is β_3 and it is expected to have negative sign because the constrained banks' FXD position relative to unconstrained banks' is expected to decrease as the regulation gets tighter (higher $Regulation_t$). The estimated β_3 coefficients in Column (1) and (2) imply that the constrained banks' FXD position is reduced by 60^{23}-62% more than unconstrained banks' per unit increase in $Regulation_t$. β_3 remains negative and significant when bank fixed effects are added (Column 2), estimated under the weighted least squares model where the weight is pre-shock FXD position (Column 3), and the bank fixed effects are added to the weighted least squares model (Column 4). Columns (5)-(8) are results when the outcome variable is capital. I find that β_3 is small and insignificant.

In sum, the results suggest that the constrained banks chose to reduce their FXD position instead of increasing their capital. These results are robust to using weighted average constraint $Regulation_t^{WAvg}$, as reported in the bottom panel of Table 7. Tables 8 and 9 are results based on separate estimations for foreign banks and domestic banks, respectively. They suggest that the full-sample results are driven by the foreign banks.

While it is not surprising to find that DPTC ratio of constrained banks decreased after the regulation, the result that banks reduced the DPTC ratio by adjusting their FXD position rather than their equity capital is not obvious. If equity financing is costly, banks would choose to reduce DPTC ratio by cutting down the FXD position along with the short-term external borrowing from the parent banks, rather than to increase their equity capital.

Impact on FX Derivatives Pricing

If the reduction in FXD position was driven by the shift in supply as opposed to demand, I expect to see an increase in the mark-up on FXD contracts. An increase in mark-up corresponds to decrease in USD forwards prices as exporters are sellers of USD forwards. Put differently, constrained banks would lower forward prices to reduce their long positions.

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[23]$1 - \exp(-0.913)$

Since I do not observe firm-specific pricing (mark-up) on derivatives, I am not able to directly show that the constrained banks lowered USD forward prices relative to the unconstrained banks. Yet, I show suggestive evidence that the mark-up of USD forwards increased after the regulation by comparing short-term and long-term covered interest rate parity (CIP) deviations.

Define CIP deviation $(x_{t,t+n})$ as difference between the USD rate $(y^{\$}_{t,t+n})$ and the USD rate implied by forward price $(f_{t,t+n})$, spot exchange rate (s_t)[24], and KRW rate $(y^{\text{W}}_{t,t+n})$:

$$x_{t,t+n} = y^{\$}_{t,t+n} - \left(y^{\text{W}}_{t,t+n} - \frac{1}{n}(f_{t,t+n} - s_t) \right) = \frac{1}{n}(f_{t,t+n} - s_t) - (y^{\text{W}}_{t,t+n} - y^{\$}_{t,t+n})$$

CIP deviation would likely fall as firms raise mark-up by lowering forward prices. Because banks' long positions in USD forwards are concentrated in the longer tenor, regulation would likely affect the long-term CIP deviation than the short-term one. Figure 18 plots 3-month and 3-year CIP deviations. It shows that the 3-year CIP deviation fell relative to 3-month CIP deviation, particularly after the first two announcements. (The last vertical line indicates loosening of the regulation as opposed to a tightening.)

Impact on Banks' Foreign Currency (FC) Liabilities and FC Loans[25]

Figure 19 shows that banks' FX positions are reasonably hedged; their on-balance sheet FC positions offset off-balance sheet FX derivatives positions. As banks need to match their FC assets and FC liabilities, a reduction in the net long FXD positions would lead to either a decrease in FC liabilities or an increase in FC assets (or both). To understand how the regulations affect banks' FX balance sheets, I estimate the same specification (2) with the outcome variables: FC loans share and FC liabilities share.

Table 10 shows that the constrained banks reduced both FC loan share and FC liability share relative to unconstrained banks when the observations are weighted by the pre-shock

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[24]Value of 1 USD in terms of KRW; higher s_t means USD appreciation.

[25]For this analysis, the closed banks are excluded (for now) due to data availability.

FXD position. The decrease in FC loan share could be due to the other macroprudential measure, the levy on the non-core FC liabilities, which raises the effective cost of FC funding.

Impact on Banks' Security Holdings

Although it is not the focus of this paper, banks' adjustments of security holdings following the regulations suggest that the government bonds used in constructing the synthetic short USD forward positions were short-term government bonds rather than long-term ones. Table 13 shows this result. Korea Treasury Bonds (KTBs) are long-term (3-year to 30-year) government bonds, and Monetary Stabilization Bonds (MSBs) are short-term (91-day to 2-year) bonds issued by Bank of Korea. Columns (5)-(8) in Table 13 show that the constrained banks reduced their short-term government bond holdings, as they reduced their long USD position in forwards.

All of the main results on banks' adjustments of FX derivatives positions, capital, FC liabilities, FC loans and security holdings are robust to excluding three banks[26] that were unconstrained but became constrained after the regulation. (Appendix Table 32–34)

4.2   Transmission of Shock to Firms

This section uses contract-level data to estimate the transmission of the regulation shock from banks to firms. An identification challenge is to disentangle the hedging demand and the hedging supply; the observed relative reduction in hedging by firms that traded with constrained banks could be due to an increase in hedging demand of firms that traded with unconstrained banks, as opposed to a decrease in supply from constrained banks. To illustrate the identification challenge, suppose that exporters predominantly trade FXD with unconstrained banks while non-exporters predominantly trade with constrained banks. If exporting opportunities improve as economies recover from the financial crisis, the exporting firms that traded with unconstrained banks would demand more hedge than the firms that

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[26]DB, GS, Mizuho

traded with constrained banks.

To address this problem, I examine the change in FXD hedging across contract relationships *within* the same industry and the firms with similar characteristics. Since half of the sample firms have a single contract relationship, the firm fixed effects approach (in Khwaja and Mian (2008) and Schnabl (2012), for example) would excessively reduce the sample size. Therefore, I choose OLS specification with controls for firm characteristics:

$$\Delta FXD_{i,j} = \alpha + \beta \, Constrained_i + FirmControls_j + BankControls_i + ContractControls_{i,j} + \varepsilon_{i,j}$$

(4)

The outcome variable is the change in FXD hedging between year 2009 and 2010. The identification assumption is that the change in hedging demand is uncorrelated with the regulation shock, conditional on observed characteristics.

The dependent variable is change in firm j's scaled net FXD position with bank i. I winsorize the extreme 4% of the scaled net FXD position to ensure that the results are not driven by outliers. $Constrained_i$ is a dummy variable that takes value of 1 if the contract is dealt with a constrained bank and 0 if otherwise. Firm controls include log size, scaled net FXD position before the shock, FC liability share, and 7 industry dummies. I also include contract and bank characteristics to make sure that the results are not confounded by pre-shock differences in contract or bank characteristics. Bank controls include log size, loans to assets ratio, leverage ratio, and foreign bank indicator variable. Contract controls include bank i's share of firm j's total FXD position, derivative type, and currency pair. The derivative type for contract (i, j) is the percentage of FXDs dealt between firm j and bank i that are classified as forwards, swaps, options, and futures. Similarly, currency pair is the percentage of FXDs that are categorized as USD-KRW pair, JPY-KRW pair, EUR-KRW pair and other pairs involving KRW, which I refer to as XXX-KRW. I cluster standard errors at the bank level.

Table 14 presents the results. Column (1) shows the specification without any control

variables. The scaled net FXD position of the contracts dealt with constrained banks increased by 2.3% after the shock, compared to the contracts with unconstrained banks. The firms' FXD position becoming less negative means a decrease in banks' net long FXD position. This is the direction that makes banks less constrained, and therefore the positive sign of β is consistent with expectation. Column (2) adds firm controls, bank controls and contract controls, and it shows that the scaled net FXD position of the contracts with constrained banks increased by 1.3% after the shock, relative to the contracts with unconstrained banks. Given that the pre-shock average scaled net FXD position (of firm-bank pair) was -3% before the shock, the 1.3% increase in scaled net FXD position translates into 43%[27] reduction in hedging, which is economically significant. I further find that the net option positions increase by 9.9% relative to forwards. As the pre-shock net option position was negative, an increase in net position means a reduction in hedging via options. This result is related to the fact that firms' exotic option positions incurred huge losses during the global financial crisis, which I explain in further detail in the next sub-section. Columns (3)-(6) are subsample results; I separately estimate specification (4) for sell contracts and buy contracts. I classify FXD contracts as sell contracts if firms take short position in foreign currency and buy contracts if otherwise. The firms with sell contracts are typically exporters hedging their export sales, and the firms with buy contracts typically hold FC liabilities. I find that the full-sample results are mainly driven by the sell contracts. In terms of magnitude, sell contracts with constrained banks shrank by 3.7% while buy contracts expanded by 0.3%, relative to the contracts with unconstrained banks. The estimated coefficient for the sell contract (3.7%) implies a reduction in hedging of 47% when it is compared to the average scaled net FXD position before the shock (-7.8%).

Since the bank-specific tightness of regulation (*Shock*) is observed, I also use the following

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[27](-3+1.3)/(-3)-1

specification by replacing binary variable $Constrained_i$ in (4) with $Shock_i$:

$$\Delta FXD_{i,j} = \beta + \beta_{Shock}Shock_i + FirmControls + BankControls + ContractControls + \varepsilon_{i,j}$$

(5)

$Shock_i$ is the percentage of bank i's FXD position that banks were required to reduce at the imposition of the regulation, presented in Table 2.

Table 15 presents the results. The full sample results, columns (1) and (2) are weaker than those under the specification (4). However, columns (3)-(6) show that subsmaple results are still large and significant. Column (4) shows that one standard deviation increase[28] in $Shock$ leads to 2% increase in scaled net FXD position (which is decrease in hedging) for sell contracts. Column (6) shows that one standard deviation increase in $Shock$ increased scaled net FXD position by only 0.2%.

All results are robust to replacing the dependent variable, assets-scaled FXD position, with sales-scaled FXD position. The results with sales-scaled FXD position are reported in Appendix.

Relation to Exotic Options Crisis

Most of the options in the sample are Knock-In Knock-out (KIKO) exotic options that many small and medium-sized enterprises entered before the financial crisis.[29] Typical payoff structure of exotic options is presented in Appendix (Figure 23). The continued appreciation trend of KRW with low volatility triggered the popularity of the exotic options and many firms presumably entered into the contracts without having a good understanding of the risks. Some firms sued banks for not fully informing them of the potential risks, after making large losses during the financial crisis. The case of non-financial firms suffering from exotic FX derivatives positions is not unique to Korea; many EM countries had similar experience.[30]

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[28]Standard deviation of $Shock$ is 11.8%.

[29]About 500 SMEs were holding Knock-In Knock-Out (KIKO) exotic options contracts in June 2008, and the number decreased to about 300 SMEs at the end of 2008.

[30]Korea, Sri Lanka, Japan, Indonesia, China, Brazil, Mexico and Poland (See Dodd (2009))

To test whether the option contracts are driving the main results, I use the same specification without the option contracts. These results are independent of the simplified assumption that the delta of options is 0.5. Table 16 presents the results for specification (4), and Table 17 shows the results for specification (5). The subsample results are still significant after excluding the options, although they are slightly weaker than the analysis including the options. Table 16's Column (4) shows that the scaled net FXD position of sell contracts with constrained banks increased by 2.5%. Table 17's Column (4) shows that one standard deviation increase in *Shock* leads to 1.5% increase in the scaled net FXD position.

The results from the contract-level analysis suggest that the regulation caused a reduction in the supply of hedging, and the effect was particularly large for the sell contracts, which are typically exporters' contracts. Exporters' hedging with constrained banks decreased considerably, by 47%, compared to their hedging with unconstrained banks.

4.3   Impact on Real Outcomes of Firms

This section uses firm-level data to estimate the impact of changes in FXD position of banks on real outcomes of firms. To estimate the impact of the regulation shock on firms' outcomes, I use the following OLS specification:

$$\Delta Y_j = \beta_E \; Exposed_j + FirmControls + \varepsilon_j \tag{6}$$

for the full sample (148 firms), including the firms that do not fully disclose the list of their counterparties. The dummy variable $Exposed_j$ is 1 if the firm j's main bank is constrained and 0 if otherwise. The firm control variables are same as those in the contract-level regression. The identification assumption is that the change in hedging demand is uncorrelated with the bank exposure, conditional on observables.

For the subsample of 132 firms that disclosed complete list of their counterparites and

notional amounts for each counterparty, I use the following specification:

$$\Delta Y_j = \beta_{\overline{E}} \, Exposure_j + FirmControls + \varepsilon_j \qquad (7)$$

where $Exposure_j$ is the notional-weighted average shock of firm j's counterparty banks.

Impact on Firms' Exposure to Exchange Rate

Tables 18 - 20 present the result for outcome variables related to firms' exposure to exchange rate risk: firm's net FX position *excluding* FXD position ($PosExcFXD$), net FXD position ($NetFXD$) and net FX position *including* FXD position ($PosIncFXD$). $PosExcFXD$ and $PosIncFXD$ are defined as:

$$PosExcFXD = (Exports + FCAssets - FCLiabilities)/TotalAssets$$

$$PosIncFXD = (Exports + FCAssets - FCLiabilities + NetFXD)/TotalAssets$$

Positive sign indicates long position in foreign currency. $PosExcFXD$ measures firms' balance sheet exposure to exchange rate risk before hedge, and $PosIncFXD$ measures firms' overall after-hedge exposure to exchange rate. Firms' economic exposure to exchange rate risk, sensitivity of their operating profits to change in exchange rate for instance, is not captured by $PosExcFXD$ or $PosIncFXD$. Table 18 presents the full-sample result. Columns (1) and (2) show that the effect of the regulation shock is positive but not statistically significant, which implies that the regulation shock did not cause firms to adjust their overall balance sheet exposure to exchange rate risk. Column (3) shows that the exposed firms, whose main FXD counterparty bank was constrained, shifted up their net FXD position by 2.8% more than the non-exposed firms whose main bank was unconstrained. This translates into 35% reduction in hedging, given that the pre-shock average net FXD position of firm was -8%. This result of reduction in hedging at firm-level, combined with the finding from the contract-level analysis that firms' hedging with constrained banks fell compared

to their hedging with unconstrained banks, suggest that switching counterparty bank (from constrained to unconstrained bank) is costly to firms. Column (4) shows that the result is significant after controlling for firm characteristics. Columns (5) and (6) show that the firm's net FX position moved up by about the same magnitude as the net FXD position, although they are not statistically significant.

Given that the main contract-level regression result was primarily driven by the sell contracts, it is natural to hypothesize that the FXD selling firms would be most affected. To test this hypothesis, I used the specification (6) separately for FXD selling firms and FXD buying firms. The FXD selling firms are defined as the firms with negative net FXD position and they are typically exporters. Table 19 shows that the full-sample results are indeed driven by FXD selling firms. Column (1) and (2) show that the regulation shock did not significantly change their before-derivatives positions. Consistent with the contract-level regression results, column (3) and (4) show that the net FXD position shifted upward. The exposed firms increased the scaled net FXD position by 7% compared to non-exposed firms. Columns (5) and (6) show that the after-derivatives position for exposed firms increased by similar magnitude as net FXD position, 7% compared to non-exposed firms.

Table 20 presents the results for FXD buying firms. It shows that the regulation shock did not significantly affect the before-derivatives positions, derivatives positions, or after-derivatives positions.

Tables 21– 23 show the results when the 16 firms with partial disclosure are excluded, and the results are overall stronger than the full sample. This is likely to be related to the fact that the 16 firms are large firms. Due to the lack of data availability (on the full list of counterparty banks), I am not able to verify that the large firms were able to substitute the constrained banks with non-constrained; still, my results indirectly suggest that the regulation shock affected the small firms by more than the large firms. In Table 21, columns (3) and (4) show that the net FXD position shifted upward by 4–5% and columns (5) and (6) show that the after-derivatives position shifted up by 5–6%. Consistent with the full

sample results, Table 22 shows that the effects are stronger for the FXD sellers. Both net FXD position and after-derivatives scaled net FXD position moved up by 7–9%.

Tables 24– 26 show the results for specification (7) is used for the firms with full disclosure. The results are qualitatively similar with tables 21– 23.

Impact on Firms' Exports and FC Assets

Provided that the reduction in banks' hedging supply primarily affected exporters (FXD sellers), I confine sample to FXD sellers and examine the impact of the shock on their exports. I hypothesize that the impact would be larger for the firms with high export hedge ratio, and use the following specification to estimate the impact on exports:

$$\Delta Y_j = \beta_E \ Exposure_j + \beta_h HighHedge_j + \beta_{Eh} Exposure_j \times HighHedge_j + FirmControls + \varepsilon_j$$

$$(8)$$

$Exposure_j$ is the weighted average shock of firm j's counterparty banks. $HighHedge_j$ is an indicator variable that takes 1 if firm j's FXD sold amount is greater than 10% of its export sales, and 0 if otherwise. With this definition, about 75% of FXD selling firms are classified as high-hedge firm ($HighHedge = 1$). The results are robust to the choice of threshold (0.1); the results get even stronger if I use a continuous variable, hedge ratio itself. I examine the impact on log export sales ($Exports$), export share ($ExpShare$), log FC assets (FCA), and net FXD position scaled by assets ($NetFXD$). FC assets include cash, deposits, and account receivables.

Table 27 presents the results. Column (3) shows that the impact on exports is substantial. For one standard deviation increase in $Exposure$, firm's export falls by 17.1% for high-hedge firms and rises 5.7% for low-hedge firms, and therefore the differential effect is 22.8%. Column (4) adds firm controls and the differential result is similar. Column (5) and (6) show that the differential effect is 26–44% reduction in FC assets. Column (7) and (8) show that the regulation affected high-hedge firms more than low-hedge firms, in terms of the net FXD

position.

5   Conclusion

In this paper, I exploit a natural experiment in South Korea to examine the real effects of macroprudential FX regulations designed to reduce the risk taking by financial intermediaries. By using the cross-bank variation in the tightness of regulation, I find that the regulation that limiting banks' ratio of FX derivatives position to equity caused a sudden reduction in the supply of FX derivatives. By using within-firm estimator, I find that exporters' hedging with the constrained banks was reduced by 47%, relative to that with the unconstrained banks. Moreover, I find that the reduction in turn caused firms relying on FX derivatives as a hedging tool to reduce exports substantially. I offer a mechanism where the imbalances in hedging demand, banks' costly equity financing, and firms' costly switching of banking relationship play a central role in explaining the empirical findings.

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Figures

Figure 1: EM Capital Flows and GDP Growth

The top panel is Bloomberg EM capital flow proxy index. It is a daily composite index of the performance of four asset classes that appears to mimic the flow of money into and out of emerging markets (where growing values are indicative of inflow and shrinking values are indicative of outflow). The bottom panel is EMs' real GDP growth.
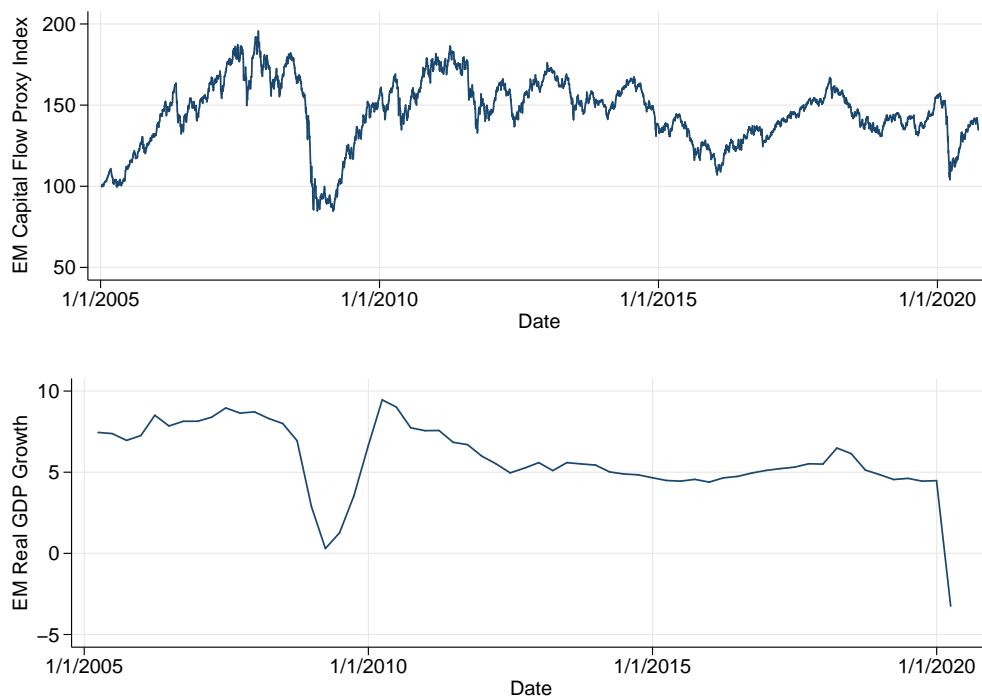
Figure 2: Number of Countries using Macroprudential FX Regulations

The number of emerging market (and developing economies) countries using macroprudential FX regulations, based on IMF integrated Macroprudential Policy Database.
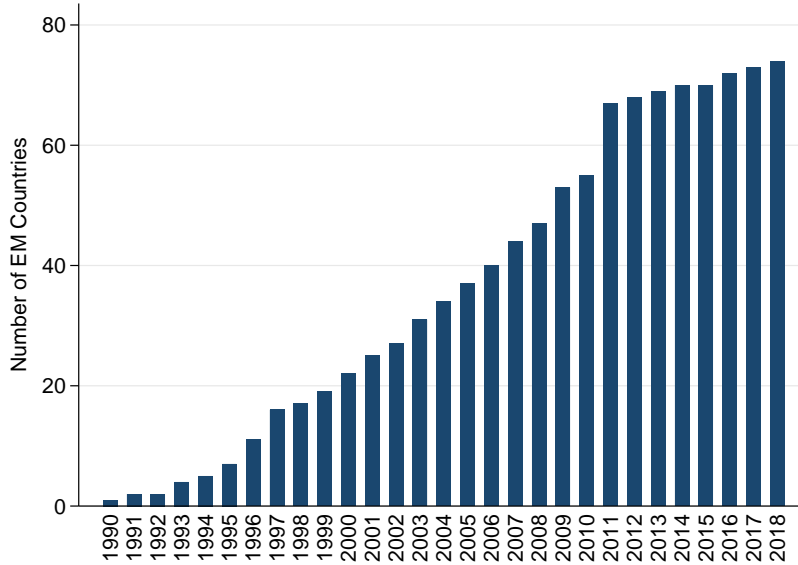
Figure 3: Tightness Macroprudential FX Regulations

The cross-country average of the number of the tightening measures (net of loosening ones), based on IMF integrated Macroprudential Policy Database.
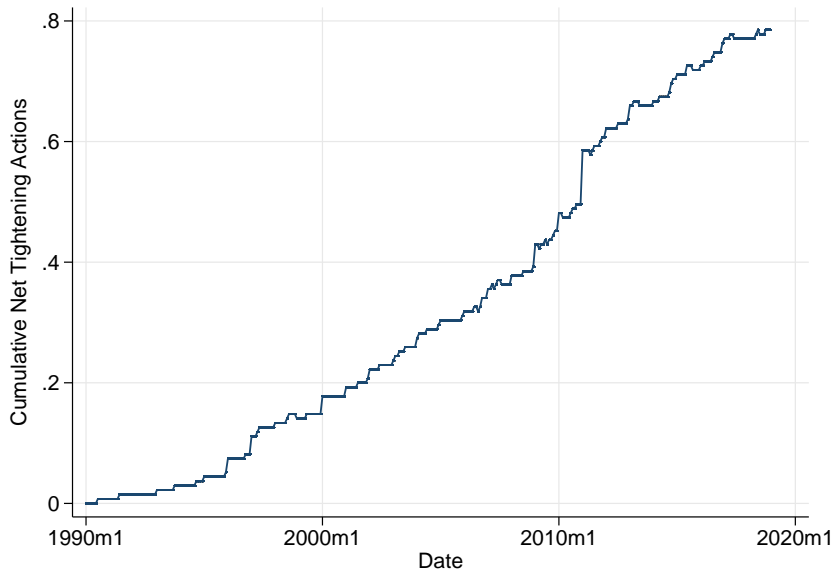
Figure 4: Balance of Payments

From 2000 through 2007, Korea had twin surpluses in BOP.
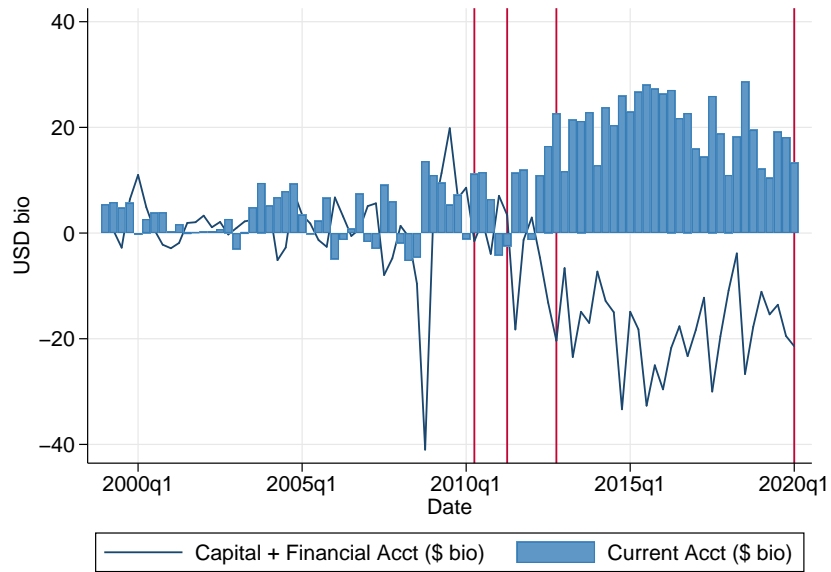
Figure 5: Gross Foreign Capital Inflows
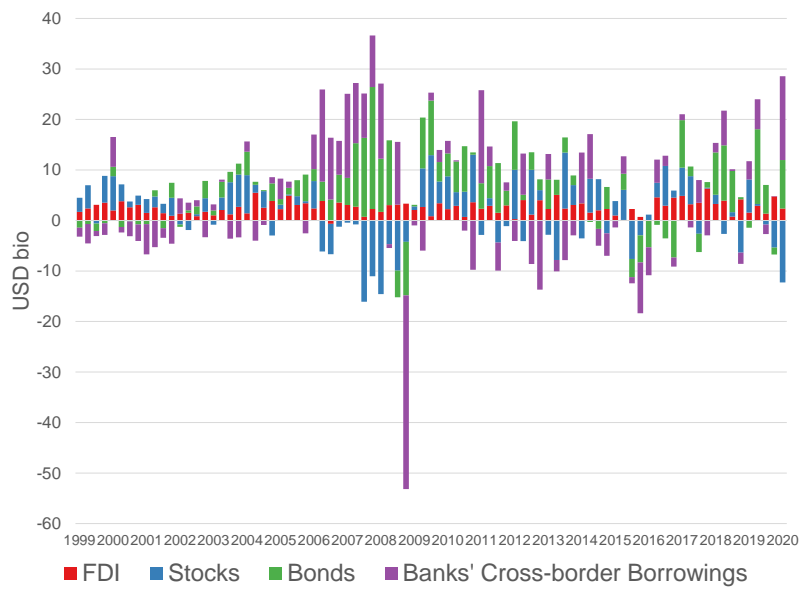
Figure 6: Total External Debt
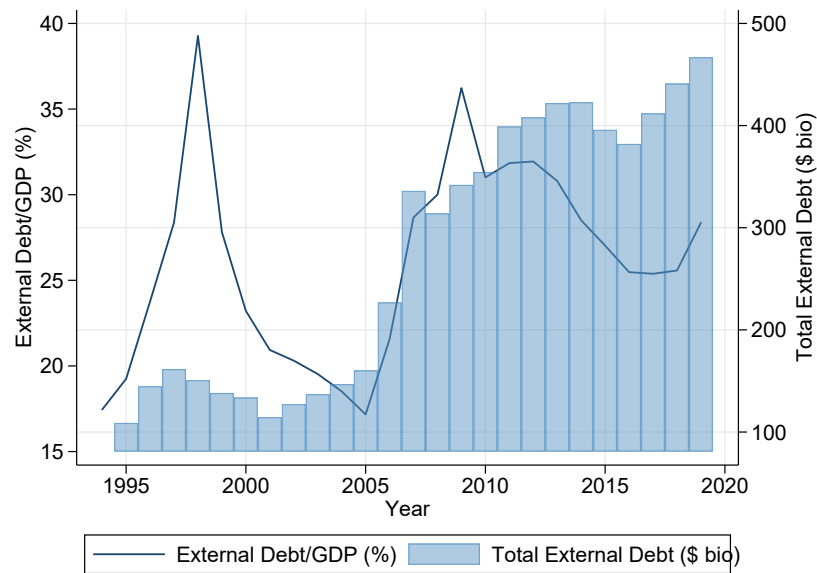
Figure 7: Short-term External Debt
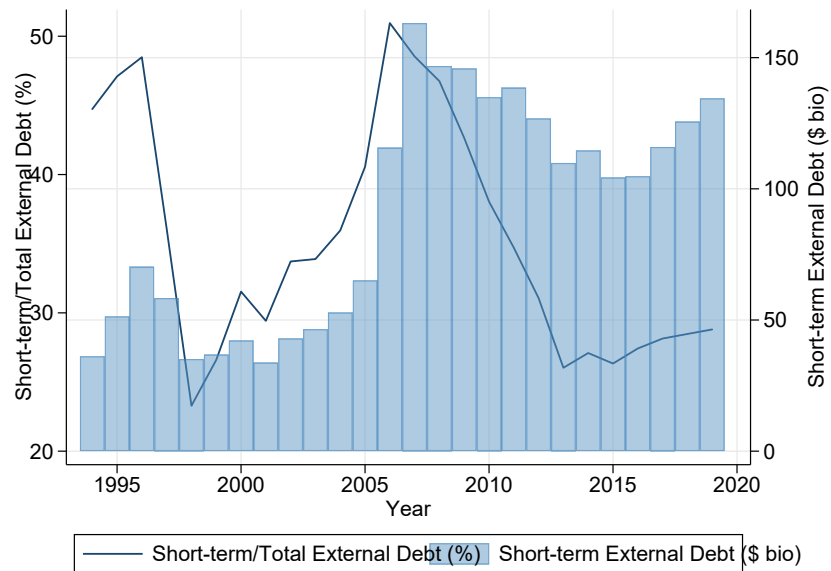
Figure 8: FX Reserves
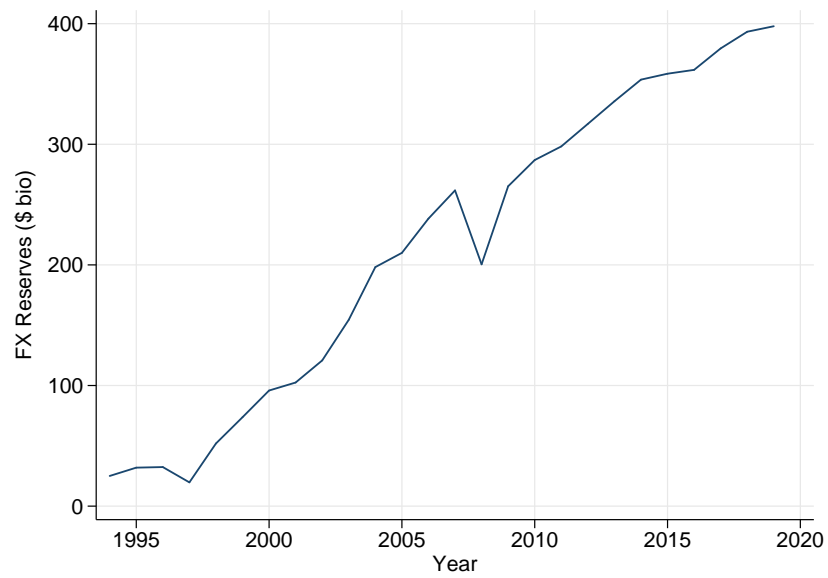
Figure 9: Liquidity

Liquidity= (FX Reserves - Short-term External Debt)/GDP
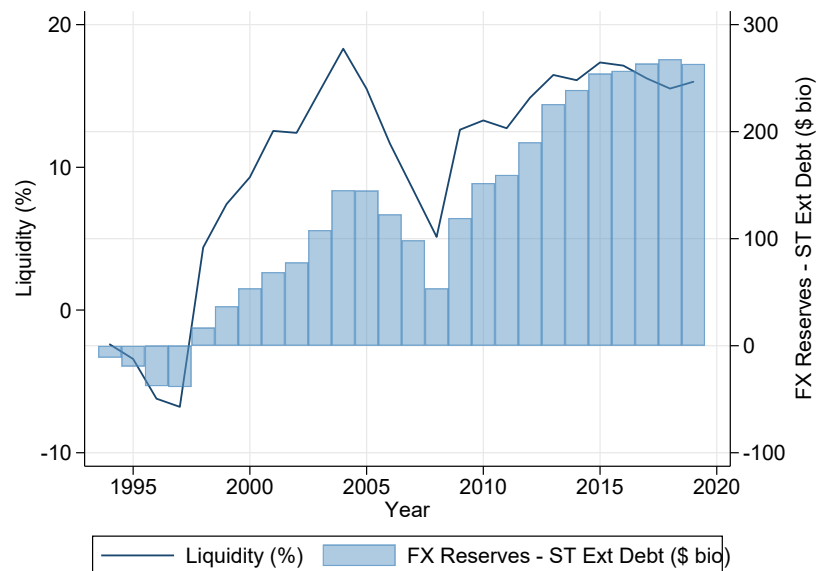
Figure 10: FX Position of Exporters and Banks before the Regulation

Firms			Banks		
Long FC:	*Short FC:*		*Long FC:*	*Short FC:*	
FC Receivables	**FX Derivatives**	$\rightarrow$	**FX Derivatives**	**FC Borrowing**	<- Cross-
(Long-term)	(Long-term)		(Long-term)	(Short-term)	border
	FC Loans		FC Loans	FC Deposits	

Figure 11: CIP Bases

10-day moving average of daily CIP basis

$$x_{t,t+n} = y_{t,t+n}^{\$} - \left(y_{t,t+n}^{\text{\pounds}} - \frac{1}{n}(f_{t,t+n} - s_t)\right) = \frac{1}{n}(f_{t,t+n} - s_t) - (y_{t,t+n}^{\text{\pounds}} - y_{t,t+n}^{\$})$$
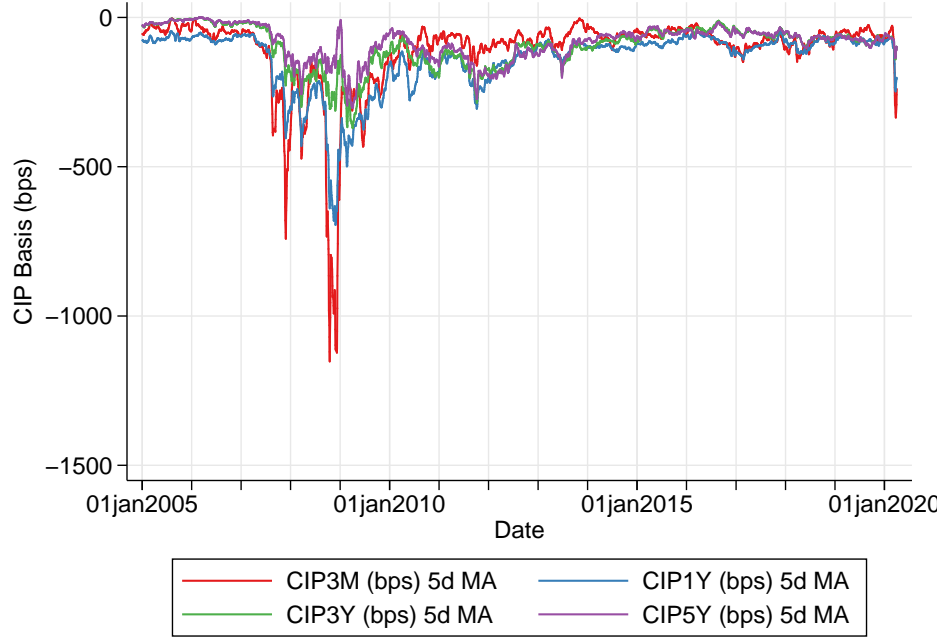
Figure 12: Korean Won Exchange Rate

USDKRW is the value of 1 USD in terms of Korean Won (KRW); higher USDKRW means
KRW depreciation.

Figure 13: FX Derivatives Position and External Short-term Borrowings

The red line (top line) is the aggregate external short-term debt and the blue line (bottom line) is the aggregate net FXD position of the banking sector.
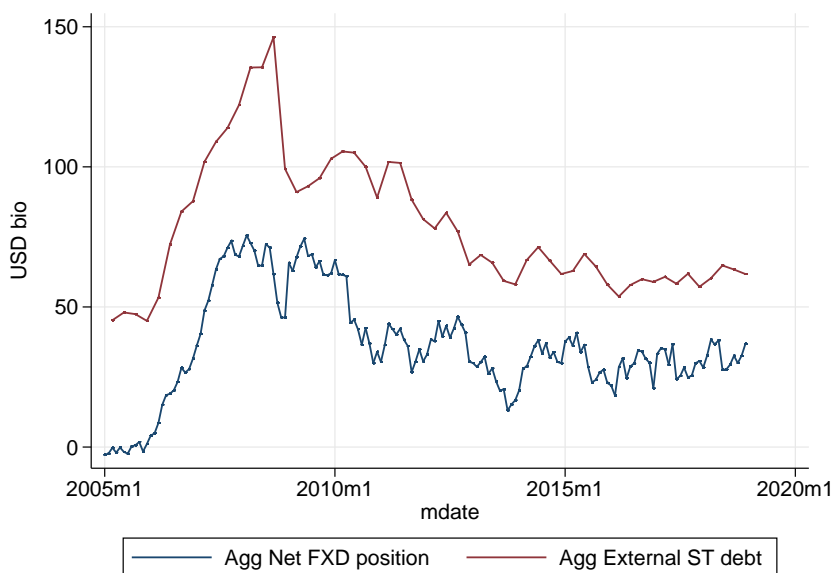
Figure 14: FX Derivatives Position to Capital (DPTC) Ratio, before and after the Regulation

The histograms of FX derivatives position to capital (DPTC) ratio six months before and six months after the regulation. The top panel is for the foreign banks and the bottom panel is for the domestic banks.

Foreign Banks
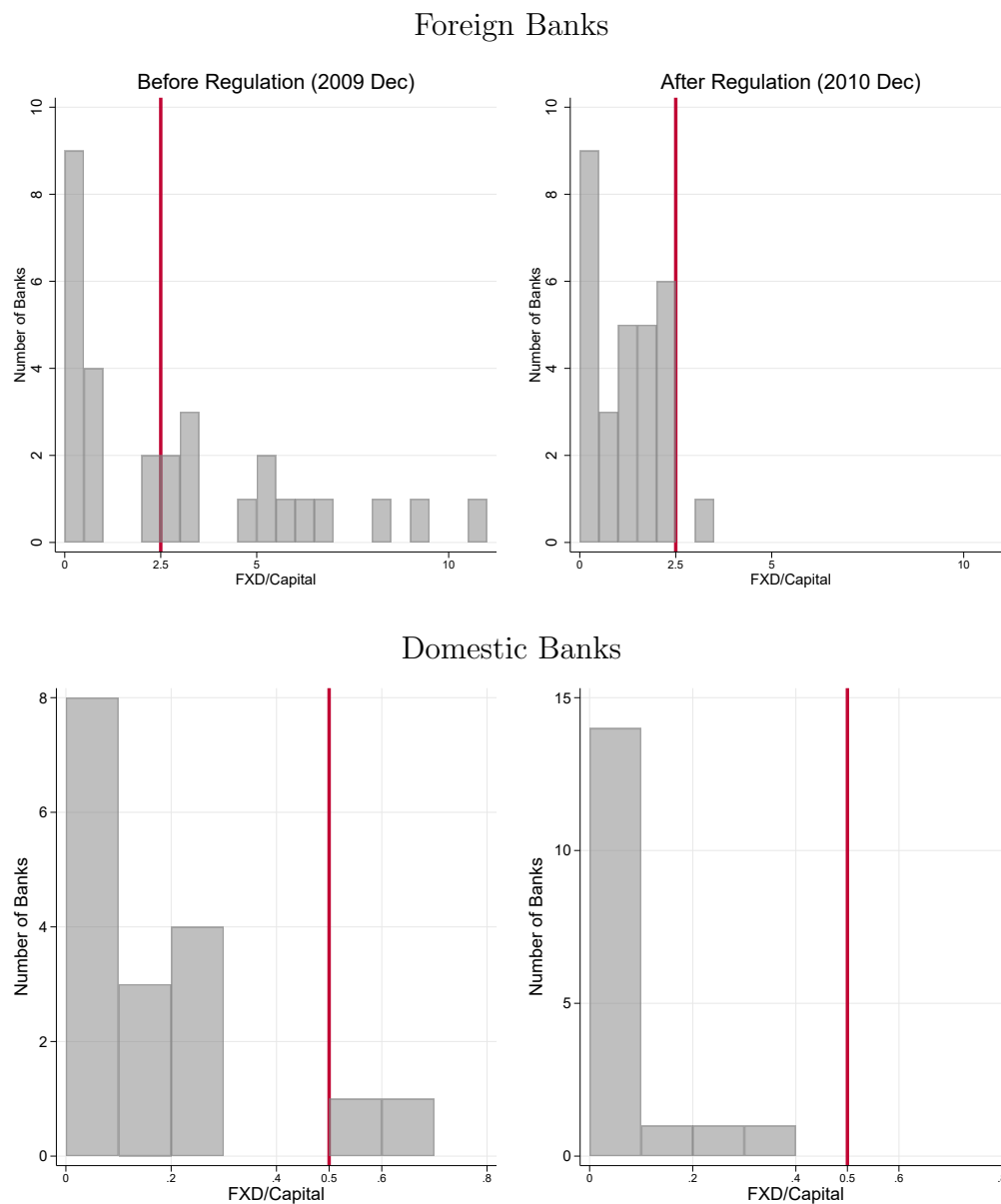
Domestic Banks

Figure 15: Aggregate FX Derivatives Position of Banks

The top panel shows the aggregate gross FXD position of banks, including both foreign banks and domestic banks, with the announcement dates of position limit change (solid) and the effective dates (dotted). The bottom panel shows the historical change in the minimum FXD capital requirement that banks are required to hold. The higher regulation indicates *tighter* regulation.
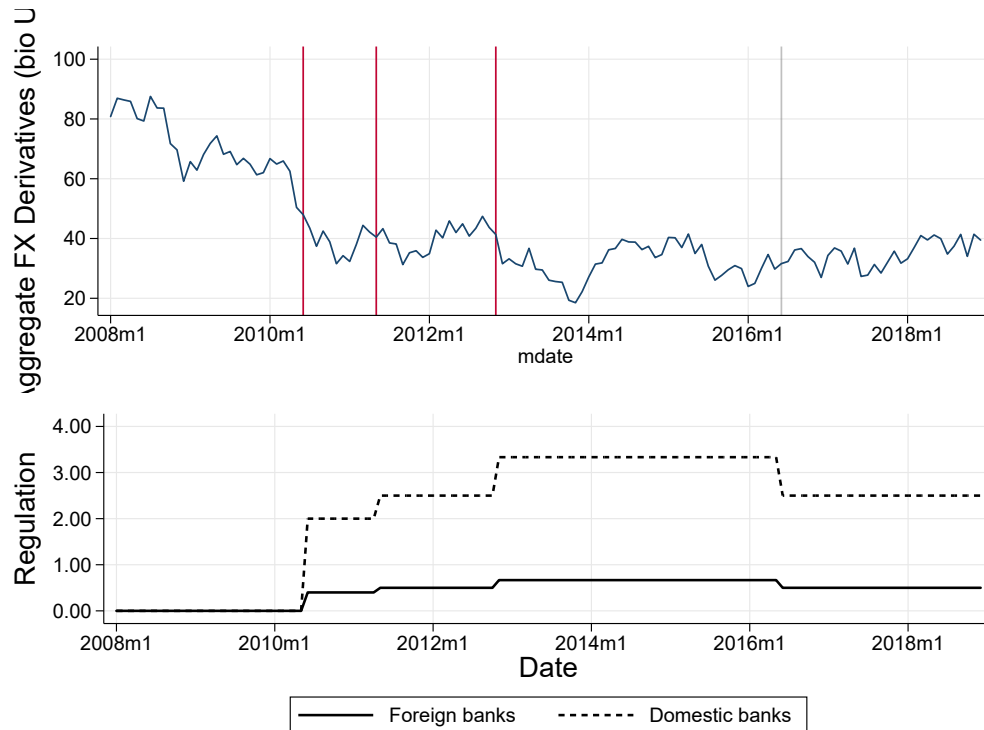
Figure 16: FX Derivatives Position by Treatment

The top panel plots the aggregate FXD position in USD billion of constrained (solid) and unconstrained (dotted) banks. The middle panel plots the average FXD position of constrained (solid) and unconstrained (dotted) banks. The bottom panel plots inverse of regulatory cap on DPTC ratio. The higher value indicates *tighter* regulation. The blue line is simple average of foreign banks' constraint and the domestic banks' constraint. The red solid line is weighted average where the weight is FXD position.
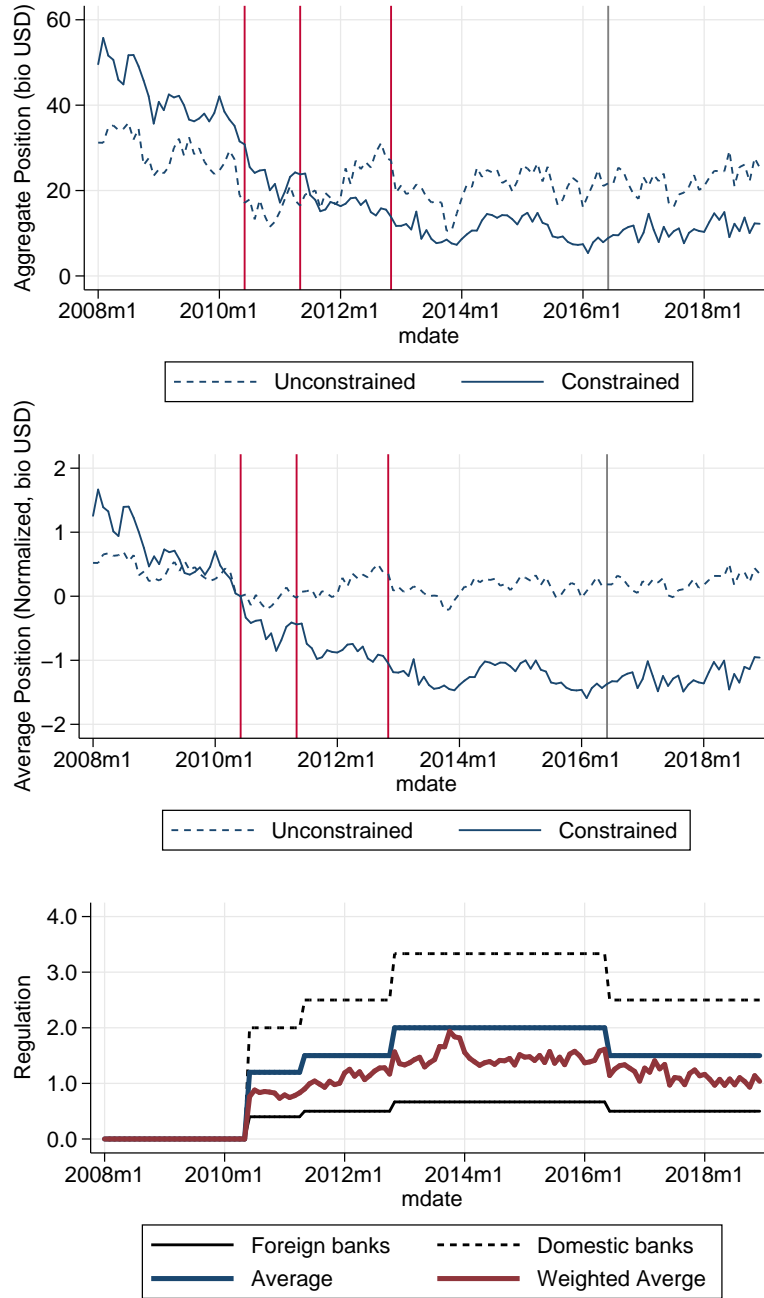
Figure 17: FX Derivatives Position Share

The top panel is FXD position share by constrained banks. The bottom panel is FXD position share by foreign banks.

Figure 18: CIP Deviations: Short-term and long-term

3-year (solid) and 3-month (dotted) USD-KRW CIP deviations where CIP deviation is defined as:

$$x_{t,t+n} = y_{t,t+n}^{\$} - \left(y_{t,t+n}^{W} - \frac{1}{n}(f_{t,t+n} - s_t) \right) = \frac{1}{n}(f_{t,t+n} - s_t) - (y_{t,t+n}^{W} - y_{t,t+n}^{\$})$$

$f_{t,t+n}$ is forward exchange rate, and s_t is spot exchange rate defined as value of 1 USD in terms of KRW. Higher s_t means USD appreciation. I use U.S. treasury yield for USD interest rate $(y^{\$})$ and Korean government bond yield for KRW interest rate (y^{W}).
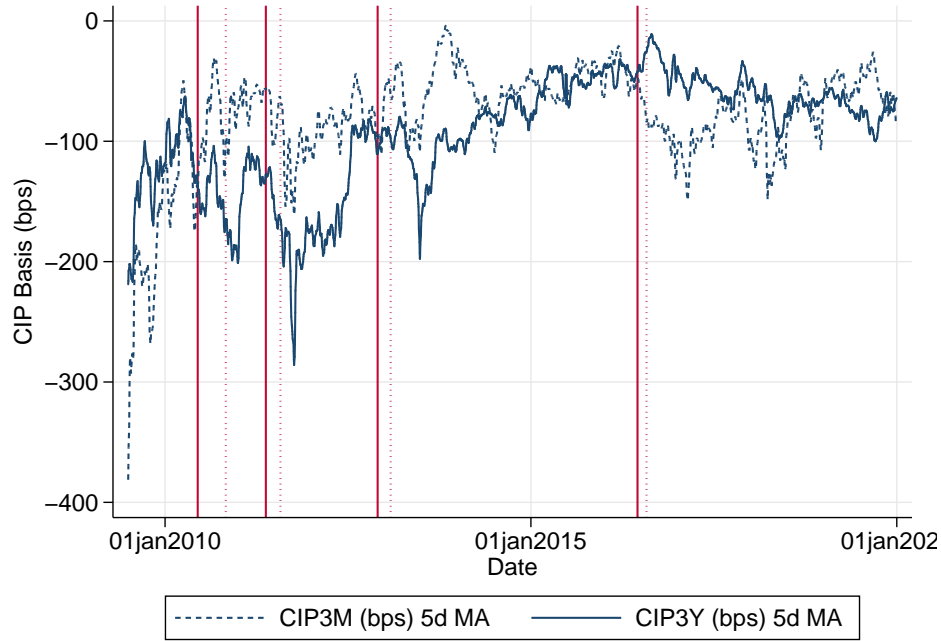
Figure 19: Banks' FX Positions: On-balance sheet vs. FXD

The average on-balance sheet FX position of banks offsets their average FXD positions.
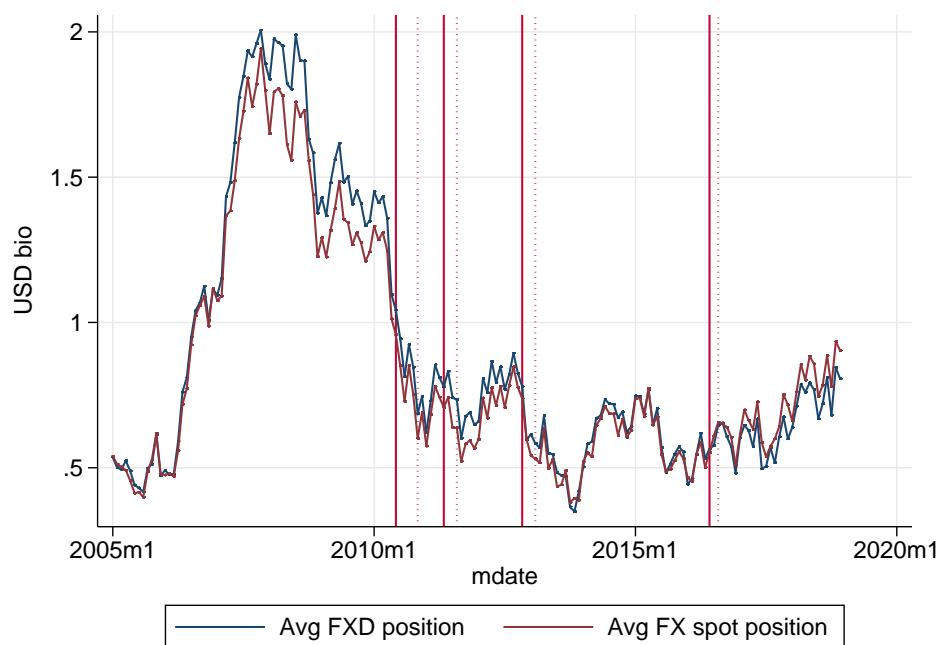
Tables

Table 1: FX Derivatives Position Limits

Foreign Bank Branches	250%	200%	150%	200%	250%
Domestic Banks	50%	40%	30%	40%	50%
Announced on	6/13/2010	5/19/2011	11/27/2012	6/16/2016	3/18/2020
Effective from	10/31/2010	7/31/2011	1/31/2013	7/31/2016	3/19/2020

Table 2: Banks' FXD Positions by Treatment (As of Dec 2009)

Foreign is 1 if the bank is foreign bank branch and 0 if otherwise. Assets, DerivPosition and Capital are in 1,000 USD. DPTCRatio is Derivatives Position to Capital ratio. DerivExceeded is DerivPosition less the size (in 1,000 USD) of derivatives position that the bank is allowed to take. Binding is 1 if the bank needs to reduce its derivatives position and 0 if otherwise. Shock is DerivExceeded/DerivPosition. DPTARatio is Derivatives Position to Assets ratio. CTARatio is Capital to Assets ratio.

Bank	Foreign	Assets	DerivPosition	Capital	DPTCRatio	DerivExceeded	Binding	Shock	DPTARatio	CTARatio	DerivPosShare
UOB	1	1,601,133	1,292,500	122,000	11	987,500	1	0.76	0.81	0.08	0.02
Barclays*	1	11,670,373	2,525,772	277,580	9	1,831,821	1	0.73	0.22	0.02	0.04
StateStreet	1	2,077,924	823,084	102,148	8	567,715	1	0.69	0.4	0.05	0.01
CS	1	5,860,097	4,252,749	610,104	7	2,727,490	1	0.64	0.73	0.1	0.07
BNP	1	12,355,659	4,450,664	709,914	6	2,675,879	1	0.6	0.36	0.06	0.07
DBS	1	3,917,999	1,810,170	304,008	6	1,050,151	1	0.58	0.46	0.08	0.03
ANZ	1	4,190,502	1,185,243	220,920	5	632,943	1	0.53	0.28	0.05	0.02
BOA	1	7,201,784	1,796,047	358,225	5	900,485	1	0.5	0.25	0.05	0.03
MorganStanley	1	5,489,824	1,413,215	309,701	5	638,963	1	0.45	0.26	0.06	0.02
CIG	1	13,270,216	2,485,735	715,450	3	697,110	1	0.28	0.19	0.05	0.04
HSBC	1	20,617,534	5,994,277	1,972,932	3	1,061,948	1	0.18	0.29	0.1	0.1
ABNRBS*	1	7,155,556	1,470,707	489,208	3	247,686	1	0.17	0.21	0.07	0.02
ING	1	13,996,040	2,311,018	836,297	3	220,275	1	0.1	0.17	0.06	0.04
UBS*	1	5,095,065	1,141,340	443,393	3	32,857	1	0.03	0.22	0.09	0.02
Citi	0	44,900,564	2,982,505	4,264,960	1	850,025	1	0.29	0.07	0.09	0.05
StandChar	0	58,232,404	2,220,717	3,792,562	1	324,436	1	0.15	0.04	0.07	0.04
DB	1	9,893,187	1,942,116	821,928	2	−112,705	0	0	0.2	0.08	0.03
SocGen	1	6,284,281	1,211,031	563,549	2	−197,842	0	0	0.19	0.09	0.02
CCBC	1	1,276,478	160,987	168,333	1	−259,846	0	0	0.13	0.13	0
MUFG	1	8,464,476	912,865	986,416	1	−1,553,176	0	0	0.11	0.12	0.01
BNYMellon	1	1,124,330	103,472	142,688	1	−253,248	0	0	0.09	0.13	0
Scotia	1	1,008,951	61,785	113,939	1	−223,063	0	0	0.06	0.11	0
JPM	1	14,655,266	5,150,490	10,387,546	0	−20,818,374	0	0	0.35	0.71	0.08
Yamaguchi	1	117,378	20,306	54,831	0	−116,770	0	0	0.17	0.47	0
KEBHana	0	116,057,552	2,086,478	7,703,450	0	−1,765,247	0	0	0.02	0.07	0.03
KEB*	0	82,483,816	1,651,937	6,241,667	0	−1,468,896	0	0	0.02	0.08	0.03
Busan	0	26,102,380	403,293	1,804,721	0	−499,067	0	0	0.02	0.07	0.01
Woori	0	186,484,800	2,348,102	11,717,465	0	−3,510,631	0	0	0.01	0.06	0.04
KDB	0	104,773,424	2,529,950	12,961,896	0	−3,950,998	0	0	0.02	0.12	0.04
KB	0	219,698,320	2,071,910	15,240,589	0	−5,548,385	0	0	0.01	0.07	0.03
IBK	0	129,253,992	1,125,675	10,421,005	0	−4,084,828	0	0	0.01	0.08	0.02
Shinhan	0	168,008,736	1,098,607	11,709,110	0	−4,755,948	0	0	0.01	0.07	0.02
MitsuiSumitomo	1	4,826,040	79,700	1,045,047	0	−2,532,917	0	0	0.02	0.22	0
NH	0	156,517,472	832,138	11,855,901	0	−5,095,813	0	0	0.01	0.08	0.01
Daegu	0	23,864,670	40,901	645,505	0	−281,852	0	0	0	0.03	0
GS*	1	2,304,765	−5,726	187,500	0	−463,024	0	0	0	0.08	0
Kyongnam	0	17,481,136	32,240	1,238,000	0	−586,760	0	0	0	0.07	0
Kwangjoo	0	13,614,953	9,186	940,000	0	−460,814	0	0	0	0.07	0
SH	0	16,038,712	2,793	704,286	0	−349,350	0	0	0	0.04	0
Mizuho	1	5,995,878	−240	634,977	0	−1,587,202	0	0	0	0.11	0
Jeonbuk	0	6,192,970	0	229,462	0	−114,731	0	0	0	0.04	0
Jeju	0	2,526,683	0	180,000	0	−90,000	0	0	0	0.07	0
Mellat	1	2,615,603	0	82,812	0	−207,030	0	0	0	0.03	0
ICBC	1	2,110,354	0	582,500	0	−1,456,250	0	0	0	0.28	0
BankComm	1	1,763,835	0	253,333	0	−633,333	0	0	0	0.14	0
BOC	1	1,406,988	0	230,390	0	−575,974	0	0	0	0.16	0

* indicates closed banks. Full names and parent bank's country are listed in Appendix Table 28.

Table 3: Bank Summary Statistics (As of Dec 2009)

	FullSample		Treated		Control	
	mean	sd	mean	sd	mean	sd
FXD (mio USD)	1,348	1,467	2,385	1,421	796	1,178
Capital (mio USD)	2,726	4,317	971	1,275	3,662	5,046
Asset (mio USD)	33,708	55,924	13,602	15,845	44,432	66,190
FXD/Assets (%)	14	19	31	21	5	8
Loans/Assets (%)	40	29	18	19	52	27
Deposits/Assets (%)	20	28	10	20	26	30
Leverage (%)	7	4	5	2	7	4
ROA (%)	98	62	90	69	102	60
Observations	46		16		30	

Table 4: FX Derivatives Contracts Summary Statistics

	FullSample		Exposed		Non-Exposed	
	mean	sd	mean	sd	mean	sd
Notional (USDk)	39324.16	68789.76	53904.48	80739.96	29985.14	58292.19
Direction Firm Buys FC	0.49	0.49	0.59	0.48	0.42	0.49
Direction Firm Sells FC	0.51	0.49	0.41	0.48	0.58	0.49
Pair USDKRW	0.86	0.32	0.95	0.17	0.80	0.37
Pair JPYKRW	0.11	0.30	0.02	0.11	0.18	0.36
Pair EURKRW	0.02	0.10	0.02	0.08	0.02	0.11
Type FXFwd	0.53	0.49	0.38	0.47	0.62	0.48
Type FXSwap	0.39	0.48	0.48	0.49	0.33	0.47
Type FXOpt	0.08	0.26	0.13	0.33	0.04	0.20
Type FXFut	0.00	0.06	0.00	0.00	0.01	0.08
Observations	251		98		153	

Table 5: Firm Summary Statistics (Fully disclosed Firms)

	FullSample		Exposed		Non-Exposed	
	mean	sd	mean	sd	mean	sd
Assets (USD mio)	1619.69	5947.10	2277.26	8795.78	1231.49	3287.01
FXDNet/Assets	-0.08	0.22	-0.07	0.22	-0.08	0.22
Number of Banks	2.29	2.21	2.53	2.14	2.14	2.25
Log Size	26.47	1.61	26.62	1.63	26.38	1.60
Leverage	0.47	0.17	0.50	0.16	0.45	0.18
Gross Profit Margin	0.22	0.17	0.21	0.19	0.22	0.16
FC Asset Share	0.10	0.12	0.09	0.12	0.10	0.11
FC Liab Share	0.20	0.20	0.25	0.19	0.17	0.21
FC A-L/Assets	0.01	0.13	-0.02	0.13	0.03	0.12
Export Share	0.46	0.31	0.43	0.32	0.47	0.30
Export HedgeRatio	0.49	1.49	0.57	1.74	0.44	1.32
FCL HedgeRatio	0.29	0.46	0.31	0.45	0.28	0.47
Observations	132		49		83	

Table 6: Firm Summary Statistics (Full Sample)

	FullSample		Exposed		Non-Exposed	
	mean	sd	mean	sd	mean	sd
Assets (USD mio)	2371.13	6422.07	2673.58	8728.05	2202.39	4719.67
FXDNet/Assets	-0.11	0.26	-0.09	0.23	-0.12	0.28
Sales (USD mio)	1936.72	4648.93	1801.01	4534.04	2012.44	4733.92
FXDNet/Sales	-0.15	0.65	-0.07	0.30	-0.20	0.77
Number of Banks	2.39	2.41	2.47	2.08	2.34	2.58
Log Size	26.80	1.83	26.84	1.76	26.79	1.87
Leverage	0.49	0.18	0.51	0.16	0.47	0.19
Gross Profit Margin	0.21	0.17	0.21	0.19	0.21	0.15
FC Asset Share	0.10	0.11	0.09	0.11	0.10	0.11
FC Liab Share	0.20	0.19	0.24	0.19	0.17	0.20
FC A-L/Assets	0.00	0.12	-0.03	0.13	0.02	0.12
Export Share	0.47	0.31	0.42	0.32	0.50	0.30
Export HedgeRatio	0.53	1.43	0.61	1.69	0.48	1.26
FCL HedgeRatio	0.49	2.11	0.80	3.41	0.30	0.50
Observations	148		53		95	

Table 7: Adjustments in FX Derivatives Position and Capital (Full-Sample)

$$Y_{it} = \beta_0 + \beta_1 Constrained_i + \beta_2 Regulation_t + \beta_3 Constrained_i \times Regulation_t + \varepsilon_{it}$$

Y_{it} is either log(FX Derivatives position) or log(Capital). $Constrained_i$ is dummy variable that takes 1 if bank i is constrained and 0 if otherwise. $Regulation_t^{Avg}$ is 0 before the regulation and takes **simple average** of foreign banks' and domestic banks' regulatory cap^{-1}. Higher $Regulation_t^{Avg}$ indicates tighter constraint. Columns (2) and (6) adds bank fixed effects:

$$Y_{it} = \beta_0 + BankFE_i + \beta_2 Regulation_t^{Avg} + \beta_3 Constrained_i \times Regulation_t^{Avg} + \varepsilon_{it}$$

Columns (3),(4),(7) and (8) are weighted least squares models, where the weights are the size of derivatives position as of Dec 2009. The sample period is 2008–2019 on a monthly basis. Standard errors are clustered by bank.

	(1) LogDeriv	(2) LogDeriv	(3) LogDeriv (W)	(4) LogDeriv (W)	(5) LogCapital	(6) LogCapital	(7) LogCapital (W)	(8) LogCapital (W)
Constrained=1	5.330***		0.498*		-0.643		-2.135***	
	(3.96)		(1.95)		(-1.53)		(-5.43)	
Regulation	0.000252	0.0596	-0.416***	-0.420***	0.278***	0.294***	0.251***	0.249***
	(0.00)	(0.22)	(-5.40)	(-5.31)	(6.48)	(7.57)	(4.14)	(4.21)
Constrained=1 x Regulation	-0.913***	-0.967***	-0.476***	-0.473***	0.0242	0.0227	0.0240	0.0287
	(-3.22)	(-3.32)	(-4.32)	(-4.17)	(0.30)	(0.30)	(0.28)	(0.34)
Constant	16.18***	20.18***	21.26***	20.16***	27.57***	26.14***	29.38***	26.19***
	(12.07)	(164.96)	(101.48)	(194.75)	(85.02)	(321.10)	(111.15)	(339.34)
BankFE	N	Y	N	Y	N	Y	N	Y
N	5906	5906	5906	5906	5887	5887	5887	5887
Adj RSqr	0.105	0.799	0.132	0.338	0.0491	0.908	0.477	0.883

t statistics in parentheses
* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

$$Y_{it} = \beta_0 + BankFE_i + \beta_2 Regulation_t^{WAvg} + \beta_3 Constrained_i \times Regulation_t^{Wavg} + \varepsilon_{it}$$

$Regulation_t^{WAvg}$ is the **weighted average** of the inverse of regulatory cap, where the weight is the FXD position in each month.

	(1) LogDeriv	(2) LogDeriv	(3) LogDeriv (W)	(4) LogDeriv (W)	(5) LogCapital	(6) LogCapital	(7) LogCapital (W)	(8) LogCapital (W)
Constrained=1	5.302***		0.518*		-0.627		-2.117***	
	(3.95)		(1.83)		(-1.50)		(-5.48)	
Regulation	-0.0394	0.0525	-0.551***	-0.555***	0.366***	0.391***	0.334***	0.329***
	(-0.11)	(0.14)	(-4.27)	(-4.21)	(6.33)	(7.39)	(3.67)	(3.73)
Constrained=1 x Regulation	-1.207***	-1.292***	-0.665***	-0.660***	0.0162	0.0101	0.0139	0.0221
	(-3.09)	(-3.20)	(-3.77)	(-3.65)	(0.15)	(0.10)	(0.12)	(0.19)
Constant	16.22***	20.19***	21.25***	20.17***	27.58***	26.17***	29.38***	26.21***
	(12.15)	(139.58)	(88.52)	(172.88)	(85.25)	(328.93)	(114.03)	(352.06)
BankFE	N	Y	N	Y	N	Y	N	Y
N	5906	5906	5906	5906	5887	5887	5887	5887
Adj RSqr	0.105	0.799	0.139	0.346	0.0485	0.907	0.476	0.882

t statistics in parentheses
* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 8: Adjustments in Derivatives Position and Capital (**Foreign banks**)

$$Y_{it} = \beta_0 + BankFE_i + \beta_2 Regulation_t^{Avg} + \beta_3 Constrained_i \times Regulation_t^{Avg} + \varepsilon_{it}$$

| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
	LogDeriv	LogDeriv	LogDeriv (W)	LogDeriv (W)	LogCapital	LogCapital	LogCapital (W)	LogCapital (W)
Constrained=1	6.336***		0.274		0.129		-1.685**	
	(3.13)		(0.74)		(0.32)		(-2.22)	
Regulation	1.472	1.719	-1.331***	-1.325***	1.042***	1.069***	1.141***	1.137***
	(1.02)	(1.17)	(-2.87)	(-2.81)	(5.68)	(5.67)	(3.99)	(4.03)
Constrained=1 x Regulation	-4.324***	-4.554***	-1.483***	-1.488***	-0.0614	-0.0386	-0.256	-0.240
	(-2.93)	(-3.03)	(-2.85)	(-2.80)	(-0.21)	(-0.14)	(-0.72)	(-0.68)
Constant	15.17***	20.23***	21.51***	20.22***	26.49***	26.11***	28.65***	26.16***
	(7.51)	(154.23)	(65.19)	(193.89)	(76.83)	(289.70)	(40.95)	(290.96)
BankFE	N	Y	N	Y	N	Y	N	Y
N	3698	3698	3698	3698	3695	3695	3695	3695
Adj RSqr	0.146	0.753	0.149	0.326	0.0394	0.820	0.349	0.795

t statistics in parentheses
* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 9: Adjustments in Derivatives Position and Capital (**Domestic banks**)

$$Y_{it} = \beta_0 + BankFE_i + \beta_2 Regulation_t + \beta_3 Constrained_i \times Regulation_t + \varepsilon_{it}$$

| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
	LogDeriv	LogDeriv	LogDeriv (W)	LogDeriv (W)	LogCapital	LogCapital	LogCapital (W)	LogCapital (W)
Constrained=1	4.405**		0.513**		0.352		-0.897***	
	(2.46)		(2.34)		(0.88)		(-6.32)	
Regulation	-0.285**	-0.266**	-0.240***	-0.243***	0.139***	0.140***	0.102***	0.0955***
	(-2.45)	(-2.27)	(-5.62)	(-5.52)	(5.92)	(5.63)	(12.24)	(11.03)
Constrained=1 x Regulation	-0.105	-0.124	-0.127	-0.124	-0.0577*	-0.0584*	-0.0172	-0.0110
	(-0.64)	(-0.75)	(-1.04)	(-1.00)	(-2.06)	(-2.00)	(-1.01)	(-0.64)
Constant	17.17***	18.99***	21.09***	18.94***	28.61***	28.27***	29.88***	28.37***
	(9.59)	(74.16)	(112.85)	(197.22)	(72.24)	(521.74)	(233.99)	(1502.39)
BankFE	N	Y	N	Y	N	Y	N	Y
N	2208	2208	2208	2208	2192	2192	2192	2192
Adj RSqr	0.0470	0.868	0.100	0.410	0.0174	0.925	0.544	0.932

t statistics in parentheses
* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 10: Impact on Banks' FC Loans and FC Liabilities (**All banks**)

$$Y_{it} = \beta_0 + \beta_1 Constrained_i + \beta_2 Regulation_t + \beta_3 Constrained_i \times Regulation_t + \varepsilon_{it}$$

Columns (2) and (6) adds bank fixed effects:

$$Y_{it} = \beta_0 + BankFE_i + \beta_2 Regulation_t^{Avg} + \beta_3 Constrained_i \times Regulation_t^{Avg} + \varepsilon_{it}$$

Columns (3),(4),(7) and (8) are weighted least squares models, where the weights are the size of derivatives position as of Dec 2009. The sample period is 2008–2019 on a quarterly basis. Standard errors are clustered by bank. The outcome variables are share of foreign currency loans ($FCLoanShr$) and share of foreign currency liabilities ($FCLiabShr$).

	(1) FCLoanShr	(2) FCLoanShr	(3) FCLoanShr	(4) FCLoanShr	(5) FCLiabShr	(6) FCLiabShr	(7) FCLiabShr	(8) FCLiabShr
Constrained=1	0.301**		0.356**		-0.0270		0.0978**	
	(2.27)		(2.49)		(-0.40)		(2.45)	
Regulation	-0.0363	-0.0335	0.0220	0.0332	-0.0761***	-0.0778***	-0.0344***	-0.0341***
	(-1.60)	(-1.56)	(0.56)	(0.84)	(-3.08)	(-3.25)	(-4.88)	(-5.13)
Constrained=1 x Regulation	-0.0496	-0.0519	-0.0984*	-0.110**	-0.0125	-0.0100	-0.0574***	-0.0583***
	(-1.48)	(-1.61)	(-1.94)	(-2.15)	(-0.39)	(-0.32)	(-3.04)	(-3.08)
Constant	0.338***	0.955***	0.202***	0.946***	0.226***	-9.53e-14	0.0976***	4.06e-14
	(5.04)	(41.36)	(3.49)	(30.87)	(4.31)	(-0.96)	(3.65)	(0.97)
BankFE	N	Y	N	Y	N	Y	N	Y
N	1537	1537	1537	1537	1699	1699	1699	1699
Adj RSqr	0.0986	0.851	0.140	0.789	0.0563	0.759	0.167	0.665

t statistics in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 11: Impact on Banks' FC Loans and FC Liabilities (**Foreign banks**)

$$Y_{it} = \beta_0 + BankFE_i + \beta_2 Regulation_t + \beta_3 Constrained_i \times Regulation_t + \varepsilon_{it}$$

The outcome variables are share of foreign currency loans ($FCLoanShr$) and share of foreign currency liabilities ($FCLiabShr$).

	(1) FCLoanShr	(2) FCLoanShr	(3) FCLoanShr	(4) FCLoanShr	(5) FCLiabShr	(6) FCLiabShr	(7) FCLiabShr	(8) FCLiabShr
Constrained=1	0.212* (1.77)		0.403** (2.07)		-0.133 (-1.40)		0.133*** (2.79)	
Regulation	-0.0467 (-0.50)	-0.0852 (-0.92)	0.288*** (3.77)	0.286*** (3.60)	-0.266*** (-2.97)	-0.284*** (-3.25)	-0.106*** (-3.47)	-0.105*** (-3.46)
Constrained=1 x Regulation	-0.170 (-1.52)	-0.126 (-1.13)	-0.476*** (-4.08)	-0.471*** (-3.98)	0.0351 (0.33)	0.0544 (0.52)	-0.130** (-2.42)	-0.133** (-2.46)
Constant	0.572*** (7.05)	0.965*** (35.50)	0.272** (2.27)	0.954*** (24.73)	0.359*** (4.41)	1.80e-13 (0.97)	0.0868** (2.56)	4.98e-14 (0.96)
BankFE	N	Y	N	Y	N	Y	N	Y
N	914	914	914	914	1075	1075	1075	1075
Adj RSqr	0.0511	0.672	0.0942	0.661	0.132	0.745	0.221	0.662

t statistics in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 12: Impact on Banks' FC Loans and FC Liabilities (**Domestic banks**)

$$Y_{it} = \beta_0 + BankFE_i + \beta_2 Regulation_t + \beta_3 Constrained_i \times Regulation_t + \varepsilon_{it}$$

The outcome variables are share of foreign currency loans ($FCLoanShr$) and share of foreign currency liabilities ($FCLiabShr$).

	(1) FCLoanShr	(2) FCLoanShr	(3) FCLoanShr	(4) FCLoanShr	(5) FCLiabShr	(6) FCLiabShr	(7) FCLiabShr	(8) FCLiabShr
Constrained=1	0.0247		-0.0156		0.0284		-0.00712	
	(0.62)		(-0.26)		(1.16)		(-0.18)	
Regulation	-0.0124**	-0.0120**	-0.0199*	-0.0186*	-0.00910**	-0.00891**	-0.0113**	-0.0101**
	(-3.24)	(-3.54)	(-2.25)	(-2.41)	(-4.61)	(-5.35)	(-3.01)	(-3.88)
Constrained=1 x Regulation	-0.00840	-0.00878	-0.00270	-0.00404	-0.00905$^+$	-0.00924$^+$	-0.00765	-0.00888$^+$
	(-0.87)	(-0.91)	(-0.22)	(-0.35)	(-2.03)	(-2.11)	(-1.41)	(-1.87)
Constant	0.0669**	0.0601**	0.114*	0.0745**	0.0717**	0.0678**	0.111**	0.0704**
	(3.05)	(8.00)	(2.23)	(4.38)	(4.19)	(18.42)	(3.06)	(12.28)
BankFE	N	Y	N	Y	N	Y	N	Y
N	623	623	623	623	624	624	624	624
Adj RSqr	0.109	0.850	0.158	0.856	0.0750	0.875	0.118	0.878

t statistics in parentheses

$^+$ $p < 0.10$, * $p < 0.05$, ** $p < 0.01$

Table 13: Impact on Banks' Security Holdings

The outcome variables are KTB holdings and MSB holdings scaled by assets. KTB is long-term Korean government bond with maturities: 3, 5, 10, 20, 30 yr.
MSB is issued by Bank of Korea and the maturities are: 91day, 1yr, 2yr.

$$Y_{it} = \beta_0 + BankFE_i + \beta_2 Regulation_t + \beta_3 Constrained_i \times Regulation_t + \varepsilon_{it}$$

	(1) KTB/Asset	(2) KTB/Asset	(3) KTB/Asset	(4) KTB/Asset	(5) MSB/Asset	(6) MSB/Asset	(7) MSB/Asset	(8) MSB/Asset
Constrained=1	0.0350		0.0496		0.141***		0.0978**	
	(0.97)		(0.94)		(3.00)		(2.33)	
Regulation	-0.00951*	-0.00934*	-0.00529	-0.00492	0.000671	0.00135	-0.0112*	-0.00997
	(-1.89)	(-1.84)	(-0.88)	(-0.77)	(0.23)	(0.47)	(-1.69)	(-1.54)
Constrained=1 x Regulation	0.0103	0.0102	0.00218	0.00114	-0.0598***	-0.0597***	-0.0397***	-0.0412***
	(0.71)	(0.69)	(0.11)	(0.05)	(-2.91)	(-3.06)	(-2.86)	(-3.06)
Constant	0.0411***	-2.62e-14	0.0533***	3.21e-14	0.0177**	5.20e-14	0.0472**	1.05e-13
	(4.70)	(-0.97)	(5.33)	(0.94)	(2.54)	(0.97)	(2.17)	(0.97)
BankFE	N	Y	N	Y	N	Y	N	Y
N	1718	1718	1718	1718	1718	1718	1718	1718
Adj RSqr	0.101	0.723	0.0696	0.754	0.228	0.747	0.133	0.756

t statistics in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 14: FXD Contract level OLS

$$\Delta FXD_{i,j} = \alpha + \beta\, Constrained_i + FirmControls_j + BankControls_i + ContractControls_{i,j} + \varepsilon_{i,j}$$

The dependent variable is change in net FXD notional dealt between firm j and bank i, scaled by assets. $Constrained_i$ is 1 if the contract is dealt with a constrained bank and 0 if otherwise. Firm controls include log size, net FXD notional (scaled by sales) before the shock, foreign-currency liability share, and 7 industry dummies. Bank controls include log size, loans to assets ratio, leverage ratio, and foreign bank indicator variable. Contract controls include bank i's share of firm j's total FXD notional, type, and currency pair. The omitted categories are forwards and USD-KRW pair. Standard errors are clustered at the bank level.

	(1) Full Sample	(2) Full Sample	(3) Sell FCY	(4) Sell FCY	(5) Buy FCY	(6) Buy FCY
Constrained	0.0228**	0.0129*	0.0529***	0.0374**	0.00189	0.00317**
	(2.28)	(1.70)	(3.66)	(2.52)	(1.00)	(2.09)
Type Swaps		0.00511		0.0114		-0.00114
		(1.13)		(0.59)		(-0.15)
Type Options		0.0992***		0.0862***		0
		(6.38)		(4.48)		(.)
Type Futures		0.00293		0.0111		0
		(0.34)		(0.54)		(.)
Pair EURKRW		0.0469		0.0661		0
		(1.45)		(1.20)		(.)
Pair JPYKRW		0.00104		-0.0188		0.00658**
		(0.15)		(-1.29)		(2.17)
Pair XXXKRW		-0.000744		-0.00541		-0.00207
		(-0.13)		(-0.43)		(-0.18)
FirmControls	N	Y	N	Y	N	Y
BankControls	N	Y	N	Y	N	Y
N	251	251	129	129	122	122
RSqr	0.0371	0.315	0.0964	0.353	0.00419	0.125

t statistics in parentheses

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Table 15: FXD Contract level OLS

$$\Delta FXD_{i,j} = \alpha + \beta_{Shock}Shock_i + FirmControls_j + BankControls_i + ContractControls_{i,j} + \varepsilon_{i,j}$$

The dependent variable is change in net FXD notional dealt between firm j and bank i, scaled by assets. $Shock_i$ is the percentage of bank i's FXD position that needed to be reduced at the imposition of the regulation. Firm controls include log size, net FXD notional (scaled by sales) before the shock, foreign-currency liability share, and 7 industry dummies. Bank controls include log size, loans to assets ratio, leverage ratio, and foreign bank indicator variable. Contract controls include bank i's share of firm j's total FXD notional, type, and currency pair. The omitted categories are forwards and USD-KRW pair. Standard errors are clustered at the bank level.

	(1) Full Sample	(2) Full Sample	(3) Sell FCY	(4) Sell FCY	(5) Buy FCY	(6) Buy FCY
Shock	0.00765	0.00451	0.0306***	0.0206**	0.00100*	0.00164*
	(1.46)	(1.48)	(2.95)	(2.41)	(1.73)	(1.98)
Type Swaps		0.00548		0.0135		-0.000995
		(1.23)		(0.73)		(-0.13)
Type Options		0.101***		0.0878***		0
		(6.64)		(4.70)		(.)
Type Futures		0.00127		0.00987		0
		(0.15)		(0.52)		(.)
Pair EURKRW		0.0481		0.0589		0
		(1.49)		(1.12)		(.)
Pair JPYKRW		-0.00308		-0.0198		0.00635*
		(-0.43)		(-1.36)		(1.81)
Pair XXXKRW		0.00274		-0.00735		0.00417
		(0.39)		(-0.68)		(0.40)
FirmControls	N	Y	N	Y	N	Y
BankControls	N	Y	N	Y	N	Y
N	251	251	129	129	122	122
RSqr	0.0174	0.313	0.0820	0.349	0.00650	0.126

t statistics in parentheses

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Table 16: FXD Contract level OLS (Subsample without Options)

$$\Delta FXD_{i,j} = \alpha + \beta Constrained_i + FirmControls_j + BankControls_i + ContractControls_{i,j} + \varepsilon_{j,b}$$

FX Options contracts are excluded. The dependent variable is change in net FXD notional scaled by assets .

	(1) Full Sample	(2) Full Sample	(3) Sell FCY	(4) Sell FCY	(5) Buy FCY	(6) Buy FCY
Constrained	0.0121**	0.00927	0.0259*	0.0296*	0.00192	0.00326*
	(2.12)	(1.28)	(1.96)	(2.06)	(0.99)	(2.00)
Type Swaps		0.00325		-0.000369		-0.00110
		(0.65)		(-0.02)		(-0.14)
Type Options		0		0		0
		(.)		(.)		(.)
Type Futures		0.00604		0.0193		0
		(0.72)		(0.85)		(.)
Pair EURKRW		0.0218*		0.0218		0
		(1.91)		(0.70)		(.)
Pair JPYKRW		-0.000000735		-0.0182		0.00662**
		(-0.00)		(-1.08)		(2.17)
Pair XXXKRW		0.00137		0.000695		-0.00265
		(0.25)		(0.05)		(-0.23)
FirmControls	N	Y	N	Y	N	Y
BankControls	N	Y	N	Y	N	Y
N	233	233	111	111	122	122
RSqr	0.0144	0.0566	0.0270	0.125	0.00415	0.125

t statistics in parentheses

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Table 17: FXD Contract level OLS (Subsample without Options)

$$\Delta FXD_{i,j} = \alpha + \beta_{Shock}Shock_i + FirmControls_j + BankControls_i + ContractControls_{i,j} + \varepsilon_{i,j}$$

FX Options contracts are excluded. The dependent variable is change in net FXD notional scaled by assets.

	(1) Full Sample	(2) Full Sample	(3) Sell FCY	(4) Sell FCY	(5) Buy FCY	(6) Buy FCY
Shock	0.00509**	0.00363	0.0168**	0.0183**	0.00103*	0.00169*
	(2.11)	(1.25)	(2.34)	(2.88)	(1.71)	(2.03)
Type Swaps		0.00391		0.00435		-0.000947
		(0.78)		(0.21)		(-0.12)
Type Options		0		0		0
		(.)		(.)		(.)
Type Futures		0.00602		0.0171		0
		(0.71)		(0.75)		(.)
Pair EURKRW		0.0210*		0.0141		0
		(1.96)		(0.48)		(.)
Pair JPYKRW		-0.00135		-0.0187		0.00687*
		(-0.17)		(-1.07)		(1.91)
Pair XXXKRW		0.00421		-0.00287		0.00427
		(0.58)		(-0.20)		(0.41)
FirmControls	N	Y	N	Y	N	Y
BankControls	N	Y	N	Y	N	Y
N	233	233	111	111	122	122
RSqr	0.0109	0.0551	0.0287	0.124	0.00638	0.127

t statistics in parentheses

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Table 18: Firm level OLS (Full Sample)

$$\Delta Y_j = \beta_E \ Exposed_j + FirmControls_j + \varepsilon_j$$

Independent variable Exposed is 1 if the firm's main counterparty bank is constrained. PosExcFXD is change in firm's foreign currency position (Exports+FCAssets-FCLiabilities) excluding derivatives, NetFXD is change in net FX derivatives position, and PosIncFXD is change in firm's foreign currency position including its derivatives position. (All scaled by total assets.) Firm controls include log size, net FXD notional (scaled by sales) before the shock, foreign-currency liability share, and 7 industry dummies.

	(1) Pos Exc FXD	(2) Pos Exc FXD	(3) NetFXD	(4) NetFXD	(5) Pos Inc FXD	(6) Pos Inc FXD
Exposed	0.0589	0.0800	0.0286	0.0392*	0.0310	0.0440
	(1.18)	(1.31)	(1.24)	(1.69)	(1.20)	(1.60)
Constant	0.00778	-0.499	0.0112	0.0926	0.0108	0.0510
	(0.18)	(-0.92)	(1.01)	(0.57)	(0.81)	(0.24)
FirmControls	N	Y	N	Y	N	Y
N	123	123	148	148	123	123
RSqr	0.00849	0.0829	0.0124	0.165	0.0132	0.168

t statistics in parentheses

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Table 19: FXD Sellers

	(1) Pos Exc FXD	(2) Pos Exc FXD	(3) NetFXD	(4) NetFXD	(5) Pos Inc FXD	(6) Pos Inc FXD
Exposed	0.0657	0.0857	0.0549	0.0716*	0.0566	0.0719*
	(0.93)	(1.14)	(1.47)	(1.78)	(1.44)	(1.70)
Constant	0.00877	-0.428	0.0241	-0.0713	0.0232	-0.200
	(0.14)	(-0.70)	(1.44)	(-0.24)	(1.22)	(-0.63)
FirmControls	N	Y	N	Y	N	Y
N	81	81	92	92	81	81
RSqr	0.00715	0.139	0.0291	0.164	0.0301	0.172

t statistics in parentheses

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Table 20: FXD Buyers

	(1) Pos Exc FXD	(2) Pos Exc FXD	(3) NetFXD	(4) NetFXD	(5) Pos Inc FXD	(6) Pos Inc FXD
Exposed	0.0492	0.0363	0.00184	0.0000396	0.000913	0.00146
	(1.20)	(0.96)	(0.18)	(0.00)	(0.08)	(0.13)
Constant	0.00553	-0.505	-0.0130***	0.136	-0.0172**	0.213
	(0.23)	(-1.26)	(-2.80)	(1.65)	(-2.69)	(1.67)
FirmControls	N	Y	N	Y	N	Y
N	42	42	56	56	42	42
RSqr	0.0362	0.232	0.000730	0.189	0.000178	0.204

t statistics in parentheses

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Table 21: Firm level OLS (Fully disclosed firms)

$$\Delta Y_j = \beta_E \; Exposed_j + FirmControls_j + \varepsilon_j$$

Independent variable Exposed is 1 if the firm's main counterparty bank is constrained. PosExcFXD is change in firm's foreign currency position (Exports+FCAssets-FCLiabilities) excluding derivatives, NetFXD is change in net FX derivatives position, and PosIncFXD is change in firm's foreign currency position including its derivatives position. (All scaled by total assets.) Firm controls include log size, net FXD notional (scaled by sales) before the shock, foreign-currency liability share, and 7 industry dummies.

	(1) Pos Exc FXD	(2) Pos Exc FXD	(3) NetFXD	(4) NetFXD	(5) Pos Inc FXD	(6) Pos Inc FXD
Exposed	0.0592	0.0772	0.0418*	0.0514**	0.0486*	0.0631**
	(1.07)	(1.18)	(1.71)	(2.09)	(1.78)	(2.14)
Constant	0.00874	-0.929	0.00440	0.158	0.000465	0.192
	(0.18)	(-1.28)	(0.38)	(1.10)	(0.03)	(0.97)
FirmControls	N	Y	N	Y	N	Y
N	111	111	132	132	111	111
RSqr	0.00790	0.0989	0.0263	0.173	0.0324	0.173

t statistics in parentheses

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Table 22: FXD Sellers

	(1) Pos Exc FXD	(2) Pos Exc FXD	(3) NetFXD	(4) NetFXD	(5) Pos Inc FXD	(6) Pos Inc FXD
Exposed	0.0654	0.0779	0.0743*	0.0906**	0.0807*	0.0963**
	(0.83)	(0.95)	(1.89)	(2.17)	(1.96)	(2.18)
Constant	0.0125	-1.197	0.0136	0.0206	0.00840	-0.0739
	(0.18)	(-1.48)	(0.78)	(0.07)	(0.44)	(-0.25)
FirmControls	N	Y	N	Y	N	Y
N	73	73	82	82	73	73
RSqr	0.00658	0.163	0.0533	0.186	0.0611	0.188

t statistics in parentheses

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Table 23: FXD Buyers

	(1) Pos Exc FXD	(2) Pos Exc FXD	(3) NetFXD	(4) NetFXD	(5) Pos Inc FXD	(6) Pos Inc FXD
Exposed	0.0514	0.0362	0.00338	0.00123	0.00234	0.00283
	(1.13)	(0.85)	(0.31)	(0.12)	(0.19)	(0.21)
Constant	0.000484	-0.460	-0.0126**	0.121	-0.0169**	0.201
	(0.02)	(-0.95)	(-2.47)	(1.26)	(-2.48)	(1.28)
FirmControls	N	Y	N	Y	N	Y
N	38	38	50	50	38	38
RSqr	0.0362	0.229	0.00229	0.171	0.00110	0.184

t statistics in parentheses

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Table 24: Firm level OLS (Fully disclosed firms)

$$\Delta Y_j = \beta_E \ Exposure_j + FirmControls_j + \varepsilon_j$$

Independent variable Exposure is the weighted average shock of the firm's counterparty banks. PosExcFXD is change in firm's foreign currency position (Exports+FCAssets-FCLiabilities) excluding derivatives, NetFXD is change in net FX derivatives position, and PosIncFXD is change in firm's foreign currency position including its derivatives position. (All scaled by total assets.) Firm controls include log size, net FXD notional (scaled by sales) before the shock, foreign-currency liability share, and 7 industry dummies.

	(1) Pos Exc FXD	(2) Pos Exc FXD	(3) NetFXD	(4) NetFXD	(5) Pos Inc FXD	(6) Pos Inc FXD
Exposure	0.0157	0.0312	0.0211**	0.0277**	0.0280**	0.0354***
	(0.51)	(0.71)	(2.11)	(2.50)	(2.39)	(2.62)
Constant	0.0326	-0.951	0.0205*	0.210	0.0204	0.197
	(1.06)	(-1.33)	(1.89)	(1.46)	(1.63)	(1.01)
FirmControls	N	Y	N	Y	N	Y
N	111	111	132	132	111	111
RSqr	0.00172	0.0926	0.0216	0.167	0.0333	0.169

t statistics in parentheses

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Table 25: FXD Sellers

	(1) Pos Exc FXD	(2) Pos Exc FXD	(3) NetFXD	(4) NetFXD	(5) Pos Inc FXD	(6) Pos Inc FXD
Exposure	0.0160	0.0222	0.0404**	0.0493**	0.0433**	0.0518**
	(0.34)	(0.41)	(2.23)	(2.41)	(2.35)	(2.48)
Constant	0.0375	-1.242	0.0433**	0.0244	0.0404**	-0.0793
	(0.84)	(-1.55)	(2.49)	(0.09)	(2.18)	(-0.27)
FirmControls	N	Y	N	Y	N	Y
N	73	73	82	82	73	73
RSqr	0.00117	0.157	0.0465	0.173	0.0527	0.174

t statistics in parentheses

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Table 26: FXD Buyers

	(1) Pos Exc FXD	(2) Pos Exc FXD	(3) NetFXD	(4) NetFXD	(5) Pos Inc FXD	(6) Pos Inc FXD
Exposure	0.0161	0.00811	0.00520	0.00332	0.00615	0.00677
	(0.72)	(0.32)	(0.96)	(0.52)	(0.84)	(0.78)
Constant	0.0231	-0.496	-0.0117**	0.133	-0.0160***	0.221
	(1.04)	(-1.02)	(-2.42)	(1.25)	(-2.79)	(1.35)
FirmControls	N	Y	N	Y	N	Y
N	38	38	50	50	38	38
RSqr	0.0117	0.216	0.0195	0.177	0.0250	0.204

t statistics in parentheses

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Table 27: Firm level OLS (FXD Sellers)

$$\Delta Y_j = \beta_E \, Exposure_j + \beta_h HighHedge_j + \beta_{Eh} Exposure_j \times HighHedge_j + FirmControls_j + \varepsilon_j$$

Independent variable $HighHedge$ is 1 if FXDSold/ExportSales is greater than 0.1. $Exposure_j$ is the weighted average shock of the firm j's counterparty banks. Outcome variable Y_j is either: share of export sales ($ExpShare$), log export sales ($Exports$), log FC assets (FCA), or net FXD position scaled by assets ($NetFXD$). Firm controls include log size, net FXD notional (scaled by sales) before the shock, foreign-currency liability share, and 7 industry dummies.

	(1) ExpShare	(2) ExpShare	(3) Exports	(4) Exports	(5) FCA	(6) FCA	(7) NetFXD	(8) NetFXD
Exposure	0.0127	0.0216	0.0571	0.0948	0.153	0.173	0.0127	0.00847
	(0.66)	(1.05)	(0.77)	(1.55)	(1.20)	(1.21)	(1.19)	(0.75)
HighHedge=1	0.0135	-0.0113	0.136	0.0438	-0.0900	-0.0502	0.0654**	0.0361
	(0.60)	(-0.58)	(1.30)	(0.46)	(-0.64)	(-0.36)	(2.33)	(1.31)
HighHedge=1 × Exposure	-0.0296	-0.0368	-0.228*	-0.191*	-0.440**	-0.258*	0.0604*	0.0679**
	(-1.24)	(-1.38)	(-1.94)	(-1.84)	(-2.04)	(-1.69)	(1.96)	(2.05)
Constant	0.00437	-0.353	0.212***	-1.669	0.304***	0.625	-0.00700	-0.277
	(0.22)	(-1.08)	(2.66)	(-1.27)	(3.06)	(0.57)	(-0.93)	(-1.12)
FirmControls	N	Y	N	Y	N	Y	N	Y
N	74	74	74	74	81	81	82	82
RSqr	0.0284	0.270	0.0817	0.329	0.104	0.528	0.114	0.339

t statistics in parentheses

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Appendices

A   List of Bank Names

Table 28: Sample Banks

	Bank	Full Name	Parent Country	Note
1	ANZ	Australia and New Zealand Bank	Australia	
2	BankComm	Bank of Communications	China	
3	BNP	BNP Paribas	France	
4	BNYMellon	BNY Mellon	US	
5	BOA	Bank Of America	US	
6	BOC	Bank Of China	China	
7	CCBC	China Construction Bank	China	
8	CIG	Credit Agricole Corporate and Investment Bank	France	
9	CS	Credit Suisse	Swiss	
10	DB	Deutsche Bank	Germany	
11	DBS	DBS	Singapore	
12	HSBC	HSBC	GB	
13	ICBC	Industrial and Commercial Bank of China	China	
14	ING	ING	Netherlands	
15	JPM	JP Morgan Chase	US	
16	Mellat	Mellat Bank	Iran	
17	MitsuiSumitomo	Mitsui Sumitomo	Japan	
18	Mizuho	Mizuho Bank	Japan	
19	MorganStanley	Morgan Stanley	GB	
20	MUFG	Mitsubishi UFJ	Japan	
21	Scotia	Scotia Bank	Canada	
22	SocGen	Societe Generale	France	
23	StateStreet	State Street	US	
24	UOB	United Overseas Bank	Singapore	
25	Yamaguchi	Yamguchi	Japan	
26	ABNRBS*	Royal Bank of Scotland	UK	RBS acquired ABN Amro in 2007 and RBS closed in 2014.
27	Barclays*	Barclays	UK	Closed in 2017.
28	GS*	Goldman Sachs International Bank	UK	Closed in 2017.
29	UBS*	UBS	Switzerland	Closed in 2017.
30	Busan	Busan Bank	Korea	
31	Citi	Citibank Korea	Korea	
32	Daegu	Daegu Bank	Korea	
33	IBK	Industrial Bank of Korea	Korea	
34	Jeju	Jeju Bank	Korea	
35	Jeonbuk	Jeonbuk Bank	Korea	
36	KB	Kookmin Bank	Korea	
37	KDB	Korea Development Bank	Korea	
38	KEBHana	KEB Hana Bank	Korea	Hana bank before acquiring KEB in Feb 2012.
39	Kwangjoo	Kwangjoo Bank	Korea	
40	Kyongnam	Kyongnam Bank	Korea	
41	NH	Nonghyup Bank	Korea	
42	SH	Suhyup Bank	Korea	
43	Shinhan	Shinhan Bank	Korea	
44	StandChar	Standard Chartered Bank Korea	Korea	
45	Woori	Woori Bank	Korea	
46	KEB*	Korea Exchange Bank	Korea	Hana bank (KEBHana) acquired KEB in Feb 2012.

B   Additional Figures

Figure 20: FX Derivatives Position to Capital (DPTC) Ratio

The 10-percentile, mean and 90-percentile of the derivatives to position ratio for each month.
The top panel is across foreign banks and the bottom panel is across domestic banks. The
limit plots the change in the regulatory cap of DPTC ratio.
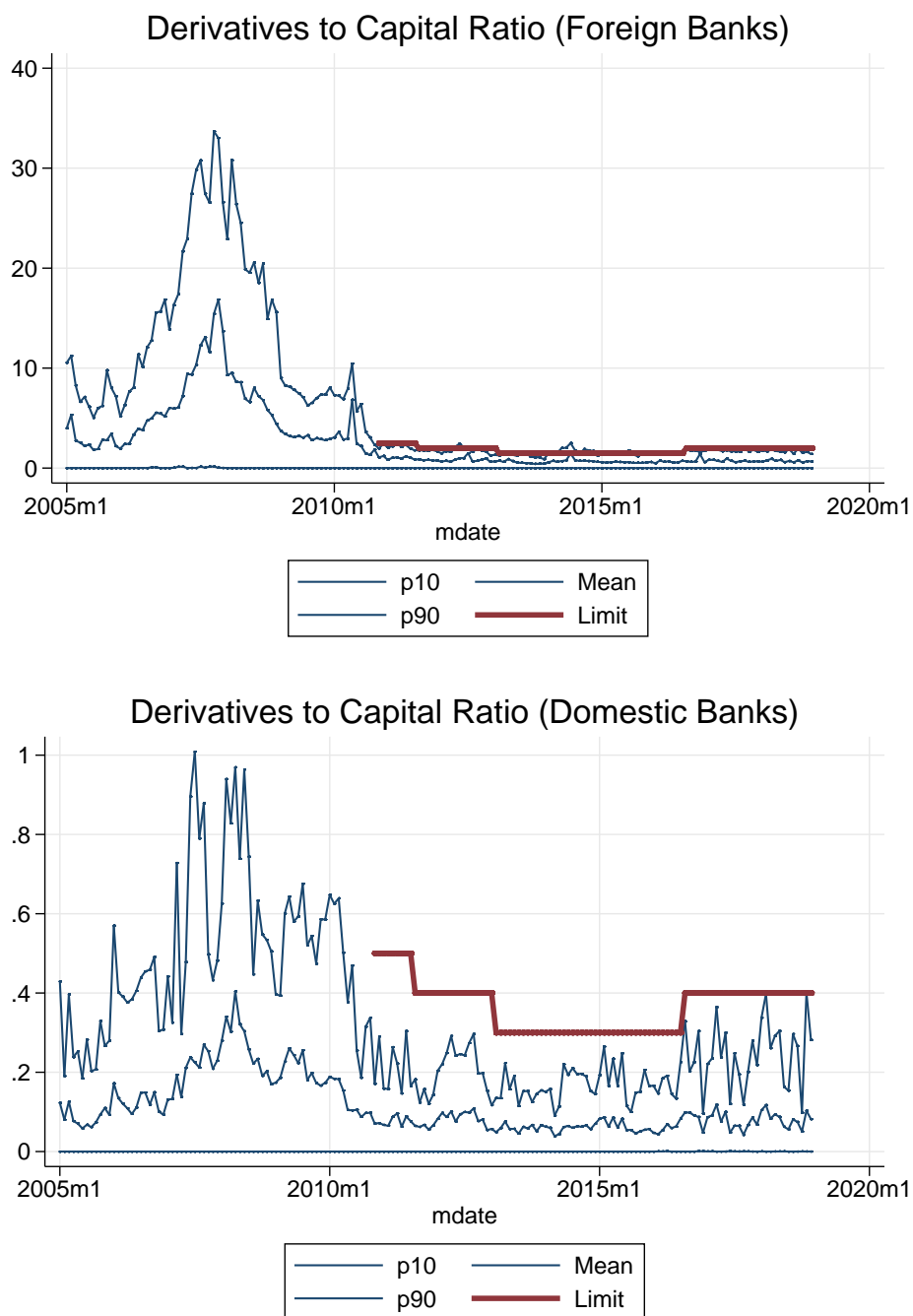
Figure 21: Number of Firms

In 2009: Among 1682 listed firms, 1572 had non-zero FX gains or losses. About 300 firms had non-zero FX derivatives assets or liabilities.
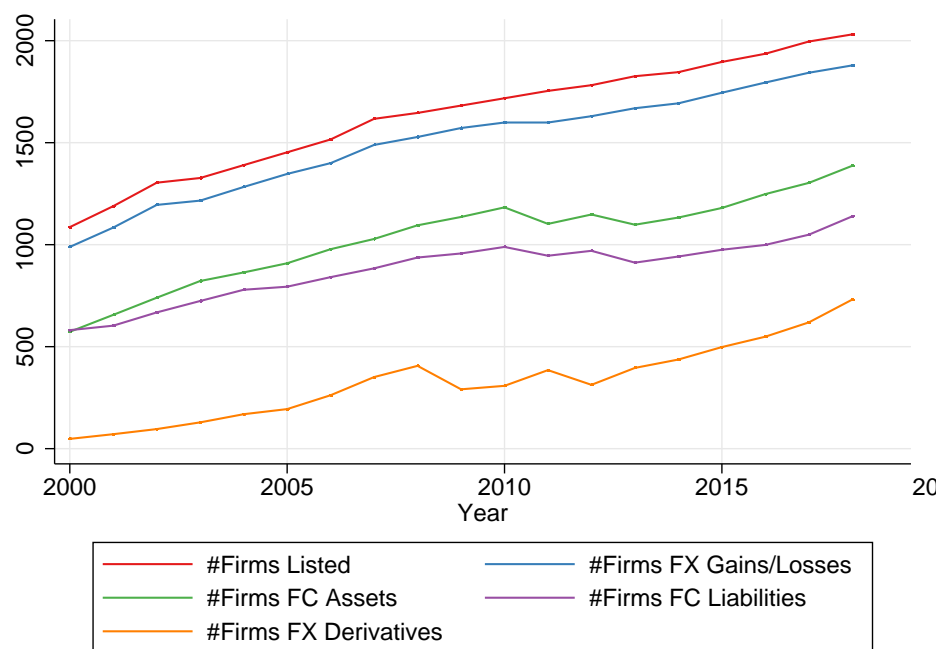
Figure 22: Aggregate FC Assets and FC Liabilities (Listed Firms)
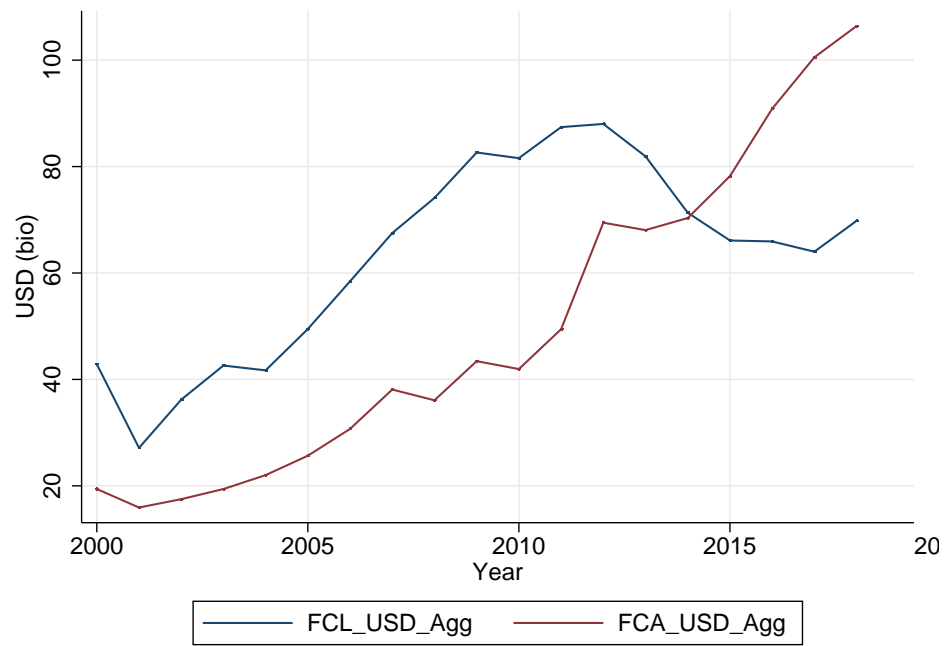
Figure 23: Knock-in Knock-out (KIKO) Option Example

- If the exchange rate (value of 1USD in terms of KRW) never trades above 930 during a window of time, typically a month, the option expires.

- If the exchange rate ever goes above 930 during the window:

  - If FX at maturity is between 930 and 945, option buyer has a right to sell **$0.5** at 945.
  - If FX at maturity is above 945, option buyer has an obligation to sell **$1** at 945.

The range of exchange rate during 2007 was 900–950.
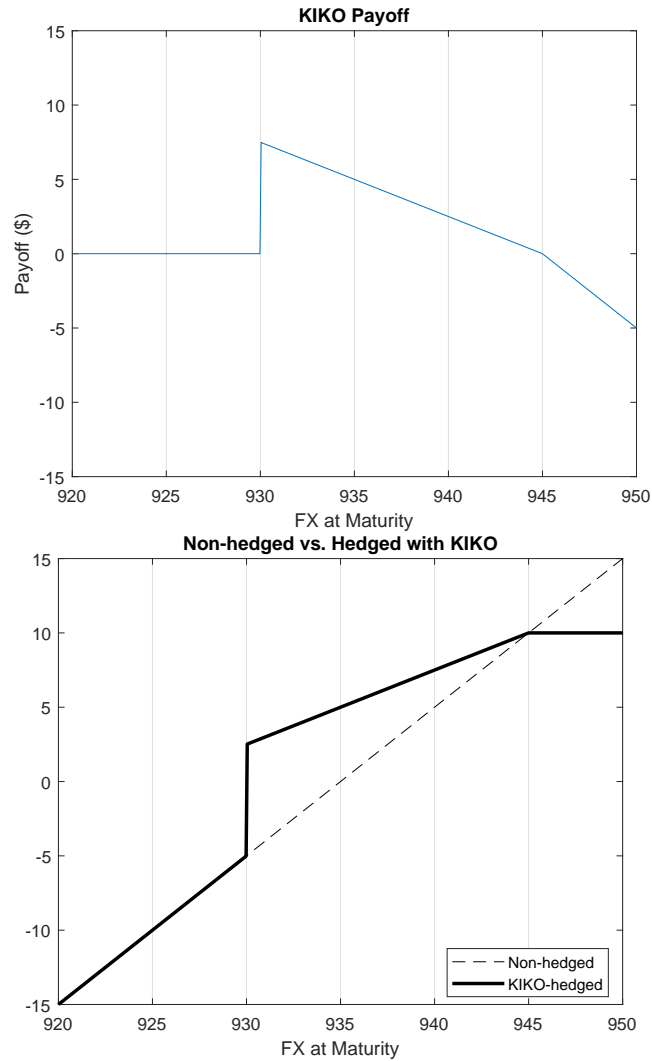
C Additional Tables

Table 29: Net FXD Buyers (As of Dec 2009)

Industry code: 1=Construction/ 5=Agriculture and Fishing/ 6=Retail/ 12=Transportation and Shipping/ 13=Gas and Electricity/ 14=Science and Technology/ 15=IT and Tele-communication/ 16= Manufacturing

No	Stock	Firm	Net	Buy	Sell	DerivType	MainBank	binding	FCAShr	FCLShr	ExpShr	Industry	Size	FCLHedge	ExpHedge	NetPosExcFXD	NetPosIncFXD	FullDisc
1	036460	KoreaGas	2151	2401	250	FXFwd	KEB	0	0.02	0.20		13	30.8	0.81				0
2	030200	KT	1831	1831	0	FXSwap	JPM	0	0.01	0.21		15	30.8	0.74				1
3	096770	SKInnov	1633	1655	22	FXSwap	KDB	0	0.06	0.25	0.59	16	30.7	0.56	0.00	0.88	0.09	0
4	004170	SSG	1619	1619	0	FXSwap	CIG	1	0.00	0.32	0.00	6	30.0	1.00		-0.18	0.18	1
5	015760	Kepco	1051	1051	0	FXSwap	Barclays	1	0.00	0.11	0.00	13	31.9	0.40		-0.04	0.02	1
6	023530	LotteShop	880	880	0	FXSwap	Mizuho	0	0.00	0.23	0.00	6	30.6	0.70	0.00	-0.07	0.06	1
7	004990	LotteHoldings	313	313	0	FXSwap	Mizuho	0	0.00	0.38	0.05	14	28.9	0.92	0.00	-0.09	0.11	1
8	011170	LotteChem	301	301	0	FXSwap	Mizuho	0	0.09	0.41	0.62	16	29.4	0.44	0.00	0.60	0.06	1
9	097950	CJCheil	245	245	0	FXSwap	BNP	1	0.02	0.43	0.06	16	29.0	0.30	0.00	-0.16	0.07	0
10	071320	KoreaHeat	212	212	0	FXSwap	KB	0	0.00	0.12	0.00	13	28.7	1.00				1
11	051910	LGChem	203	208	5	FXSwap	MUFG	0	0.09	0.35	0.74	16	29.8	0.24	0.00	1.18	0.03	0
12	069960	HyundaiDept	201	201	0	FXSwap	DBS	1	0.00	0.26	0.00	6	28.6	1.00		-0.09	0.09	1
13	010950	SOil	200	200	0	FXFwd	DB	0	0.14	0.68	0.60	16	29.8	0.07	0.00	0.92	0.03	1
14	000210	Daelim	193	193	1	FXSwap	Shinhan	0	0.04	0.09	0.31	1	29.8	0.52	0.00	0.22	0.03	1
15	001120	LGIntl	182	202	19	FXFwd	ANZ	1	0.39	0.77	0.84	6	28.2	0.27	0.01	1.88	0.12	1
16	009830	HanhwaSol	115	121	6	FXSwap	Citi	1	0.01	0.12	0.48	16	29.2	0.55	0.00	0.26	0.03	1
17	011780	Kumho	107	107	0	FXSwap	Woori	0	0.04	0.16	0.67	16	28.8	0.29	0.00	0.50	0.04	1
18	003490	KoreanAir	90	90	0	FXSwap	HSBC	1	0.06	0.25	0.87	12	30.5	0.03	0.00	0.34	0.01	1
19	011930	Shinsung	66	66	0	FXFwd	Citi	1	0.04	0.40	0.10	16	26.3	1.03	0.00	-0.22	0.29	1
20	069620	Daewoong	50	50	0	FXSwap	StandChar	1	0.01	0.42	0.02	16	26.9	0.68	0.00	-0.14	0.12	1
21	007070	GSRetail	50	50	0	FXSwap	Shinhan	0	0.00	0.04	0.00	6	28.5	1.00		-0.02	0.02	1
22	006280	GreenCross	50	50	0	FXSwap	Citi	1	0.02	0.31	0.11	16	27.3	0.53	0.00	-0.04	0.08	1
23	003030	SeahSteel	45	55	10	FXSwap	Citi	1	0.04	0.34	0.31	14	27.7	0.43	0.03	0.27	0.05	1
24	001790	DaehanSugar	33	43	10	FXFwd	Citi	1	0.02	0.33	0.20	16	27.5	0.30	0.05	0.08	0.04	1
25	004000	LotteFineChem	31	31	0	FXFwd	Shinhan	0	0.04	0.41	0.45	16	27.7	0.53	0.00	0.43	0.04	1
26	002350	NexenTire	30	30	0	FXSwap	KEB	0	0.09	0.24	0.79	16	27.4	0.38	0.00	0.95	0.04	1
27	000070	Samyang	29	37	8	FXFwd	MUFG	0	0.02	0.37	0.33	14	27.9	0.22	0.02	0.25	0.03	0
28	006120	SKDiscovery	26	50	24	FXFwd	StandChar	1	0.03	0.09	0.38	14	28.3	0.57	0.06	0.22	0.02	0
29	009200	Moorim	22	22	0	FXSwap	StandChar	1	0.03	0.20	0.52	16	27.5	0.23	0.00	0.29	0.03	1
30	010060	OCI	21	30	9	FXSwap	KB	0	0.05	0.09	0.71	16	28.8	0.20	0.01	0.45	0.01	1
31	058650	SeahHoldings	20	20	0	FXSwap	KEB	0	0.00	0.14		16	27.5	1.00				1
32	049770	DongwonFB	20	20	0	FXSwap	KB	0	0.00	0.18	0.06	16	27.0	0.56	0.00	0.02	0.04	1
33	090350	NorooPaint	17	20	3	FXSwap	KB	0	0.02	0.16	0.12	16	26.5	0.92	0.12	0.04	0.06	1
34	001810	MoorimSP	16	16	0	FXSwap	Citi	1	0.01	0.37	0.12	16	26.0	0.72	0.00	-0.04	0.09	1
35	084010	DaehanSteel	15	15	0	FXSwap	StandChar	1	0.03	0.16	0.09	16	27.2	0.36	0.00	0.06	0.03	1
36	006840	AKHoldings	15	15	0	FXSwap	KEB	0	0.12	0.38	0.69	14	26.7	0.25	0.00	1.00	0.04	1
37	004140	Dongbang	11	11	0	FXSwap	KDB	0	0.00	0.10		12	26.8	0.47				1
38	117580	DaesungEnergy	11	11	0	FXSwap	KEBHana	0	0.00	0.04	0.00	13	26.9	1.00		-0.03	0.03	1
39	014190	Wonik	10	10	0	FXFwd	StandChar	1	0.00	0.28		6	25.2	0.77				1
40	002840	Miwon	10	10	0	FXSwap	KDB	0	0.05	0.40	0.59	16	25.5	0.73	0.00	0.77	0.09	1
41	005990	MaeilHoldings	10	10	0	FXSwap	Citi	1	0.01	0.06	0.02	16	26.9	0.80	0.00	0.02	0.02	1
42	067830	Savezone	9	9	0	FXSwap	Shinhan	0	0.00	0.04	0.00	6	26.9	1.00		-0.02	0.02	1
43	000320	Noroo	8	8	0	FXSwap	Woori	0	0.00	0.13	0.67	14	26.3	1.00	0.00	0.20	0.04	1
44	060540	SAT	8	8	0	FXSwap	KEB	0	0.00	0.35	0.00	16	24.6	1.00		-0.17	0.18	1
45	004710	HansolTech	7	22	15	FXFwd	Citi	1	0.14	0.59	0.97	16	26.2	0.42	0.02	4.50	0.04	1
46	155660	DSR	5	5	0	FXFwd	Busan	0	0.05	0.19		16	25.2	1.00				1
47	014160	Daeyoung	5	5	0	FXSwap	IBK	0	0.00	0.12	0.01	16	25.7	1.00	0.00	-0.03	0.04	1
48	010660	Hwacheon	4	4	0	FXFwd	KEB	0	0.00	0.10	0.23	16	25.6	1.00	0.00	0.24	0.04	1
49	166090	HanaMaterials	4	4	0	FXSwap	Citi	1	0.01	0.19		16	24.3	0.69				1
50	059090	MiCo	3	3	0	FXSwap	Citi	1	0.09	0.13		16	25.2	0.64				1
51	003160	DI	3	3	0	FXSwap	IBK	0	0.01	0.10	0.45	16	25.8	0.87	0.00	0.07	0.02	1
52	084870	TBH	3	3	0	FXSwap	HSBC	1	0.01	0.10	0.03	16	26.3	0.34	0.00	-0.01	0.01	1
53	041650	Sangsin	2	2	0	FXSwap	KEB	0	0.07	0.10	0.25	16	25.6	0.41	0.00	0.33	0.02	1
54	033320	JCHyun	2	2	0	FXFwd	KB	0	0.00	0.47	0.01	6	24.8	0.34	0.00	-0.08	0.03	1
55	013520	Hwaseung	1	1	0	FXSwap	KDB	0	0.13	0.05	0.61	16	26.8	0.12	0.00	0.65	0.00	1
56	049480	Openbase	1	1	0	FXFwd	Citi	1	0.00	0.34		15	24.8	0.20				1
Mean			218	225	7				0.04	0.25	0.31		27.6	0.60	0.01	0.35	0.06	
Median			24	30	0				0.02	0.21	0.23		27.3	0.56	0.00	0.14	0.04	

Table 30: Net FXD Sellers (As of Dec 2009)

Industry code: 1=Construction/ 5=Agriculture and Fishing/ 6=Retail/ 12=Transportation and Shipping/ 13=Gas and Electricity/ 14=Science and Technology/ 15=IT and Tele-communication/ 16= Manufacturing

No	Stock	Firm	Net	Buy	Sell	DerivType	MainBank	binding	FCAShr	FCLShr	ExpShr	Industry	Size	FCLHedge	ExpHedge	NetPosExcFXD	NetPosIncFXD	FullDisc
1	9540	HyundaiHeavy	-15313	275	15588	FXFwd	KEB	0	0.05	0.04	0.9	16	30.8	0.49	0.96	0.79	-0.72	0
2	10140	SamsungHeavy	-13576	11606	25182	FXFwd	Barclays	1	0.06	0.03	0.93	16	30.6	24.97	2.42	0.64	-0.79	0
3	42660	DaewooShip	-13152	0	13152	FXFwd	KDB	0	0.09	0.15	0.97	16	30.3	0	1.28	0.78	-1.04	0
4	42670	DoosanInfra	-3052	0	3052	FXFwd	KDB	0	0.11	0.34	0.65	16	29.2	0	2.07	0.23	-0.75	0
5	10620	HyundaiMipo	-2991	0	2991	FXFwd	KEB	0	0.17	0.06	0.99	16	29.4	0	0.95	0.75	-0.58	0
6	34020	DoosanHeavy	-2940	1611	4551	FXFwd	KDB	0	0.09	0.13	0.61	16	29.8	2.42	1.4	0.42	-0.37	0
7	82740	HSDEngine	-2092	4	2097	FXOpt	KDB	0	0.09	0.2		16	28.5	0.01				0
8	6360	GSCons	-1432	564	1996	FXFwd	StandChar	1	0.08	0.09	0.23	1	29.8	1.35	1.36	0.22	-0.19	0
9	77970	STXEngine	-695	18	713	FXFwd	KDB	0	0.1	0.1	0.7	16	28.2	0.19	0.74	0.69	-0.48	0
10	36890	JinSungTEC	-380	0	380	FXFwd	Woori	0	0.07	0	0.68	16	26.3	0	9.95	0.23	-1.66	1
11	97230	HanjinHeavy	-235	0	235	FXFwd	KB	0	0.14	0.2	0.62	1	29.6	0	0.14	0.29	-0.04	0
12	21050	Seowon	-164	0	164	FXOpt	StandChar	1	0.06	0.18	0.41	16	25.9	0	2.01	0.48	-1.04	1
13	660	SKHynix	-161	0	161	FXSwap	KEB	0	0.1	0.43	0.96	16	30.2	0	0.03	0.38	-0.01	1
14	720	HyundaiCons	-156	0	156	FXFwd	StandChar	1	0.05	0	0.47	1	29.7	0	0.04	0.58	-0.02	1
15	83650	BHI	-149	30	179	FXFwd	Citi	1	0.15	0.26	0.45	16	26.3	0.75	1.73	0.43	-0.66	1
16	10120	LS	-136	29	165	FXFwd	Citi	1	0.05	0.02	0.32	16	27.9	2.33	0.42	0.39	-0.12	1
17	10130	KoreaZinc	-131	0	131	FXFwd	DB	0	0.03	0.62	0.75	16	28.6	0	0.08	0.64	-0.06	1
18	5850	SL	-122	0	122	FXFwd	KDB	0	0.14	0.24	0.48	16	26.8	0	0.93	0.38	-0.32	1
19	53660	Hyunjin	-98	5	103	FXOpt	StandChar	1	0.06	0.17	0.46	16	26.7	0.15	0.8	0.35	-0.28	1
20	4060	Segye	-92	0	92	FXFwd	StandChar	1	0.1	0.57	0.68	6	26.4	0	0.49	0.76	-0.38	1
21	12800	Daechang	-85	0	85	FXOpt	StandChar	1	0.12	0.19	0.45	16	26.7	0	0.44	0.58	-0.25	1
22	54950	JVM	-84	0	84	FXOpt	KEB	0	0.04	0.38	0.57	16	26.1	0	2.78	-0.1	-0.48	1
23	13570	DY	-71	0	71	FXFwd	KB	0	0.11	0.11	0.49	14	26.3	0	0.6	0.59	-0.31	1
24	68790	DMS	-56	0	56	FXFwd	KEB	0	0.35	0.06	0.28	16	26.6	0	1.53	0.44	-0.19	1
25	150	Doosan	-51	0	51	FXFwd	KEBHana	0	0.04	0.07	0.42	14	28.6	0	0.12	0.19	-0.02	1
26	91090	SewonCellon	-46	0	46	FXFwd	StandChar	1	0.35	0.07	0.79	16	26.4	0	0.26	1.02	-0.19	1
27	11790	SKC	-41	0	41	FXFwd	KEB	0	0.03	0.03	0.41	16	28.2	0	0.1	0.29	-0.03	1
28	9440	KCGreen	-39	0	39	FXOpt	Citi	1	0.08	0.01	0.23	14	26.1	0	1.4	0.23	-0.21	1
29	65130	TopEngi	-39	0	39	FXFwd	Busan	0	0.21	0.04		16	25.8	0				1
30	79960	DongyangENP	-38	0	38	FXOpt	Citi	1	0.43	0.24	0.91	16	25.7	0	0.16	2.29	-0.31	1
31	23810	Infac	-31	0	31	FXFwd	IBK	0	0.05	0.03	0.41	16	24.8	0	0.94	0.7	-0.61	1
32	5950	IsuChem	-29	1	30	FXFwd	KEB	0	0.08	0.09	0.37	16	27.3	0.06	0.09	0.61	-0.05	1
33	122900	IMarket	-28	1	29	FXFwd	Woori	0	0.07	0	0.13	6	26.6	2.8	0.21	0.52	-0.09	1
34	27580	Sangbo	-28	0	28	FXOpt	Citi	1	0.06	0.29	0.42	16	25.6	0	0.75	0.16	-0.24	1
35	35150	Baiksan	-23	0	23	FXOpt	Citi	1	0.18	0.25	0.93	16	25.7	0	0.28	0.68	-0.19	1
36	95500	MiraeNano	-22	0	22	FXOpt	Citi	1	0.3	0.07	0.7	16	26.3	0	0.13	1.02	-0.1	1
37	34730	SK	-22	36	57	FXFwd	StandChar	1	0	0.03	0.04	14	28.8	0.78	1.29	0	-0.01	1
38	16800	Fursys	-21	0	21	FXFwd	KEB	0	0.01	0	0.08	16	26.6		1.37	0.06	-0.07	1
39	14830	Unid	-20	0	20	FXFwd	Shinhan	0	0.05	0.56	0.51	16	26.9	0	0.1	0.34	-0.05	1
40	37070	Paseco	-20	0	20	FXFwd	Citi	1	0.02	0.25	0.53	16	25.2	0	0.41	0.58	-0.28	1
41	47310	PowerLogics	-18	0	18	FXOpt	Citi	1	0.38	0.56	0.78	16	26.2	0	0.09	1.04	-0.09	1
42	89030	TechWing	-18	0	18	FXFwd	Woori	0	0.31	0.05		16	24.5	0				1
43	11300	Seongan	-18	0	18	FXFwd	Daegu	0	0.02	0	0.97	16	25.6	0	0.29	0.56	-0.16	1
44	11760	HyundaiCorp	-17	2	20	FXFwd	KEB	0	0.47	0.76	0.96	6	27.4	0	0.01	2.91	-0.03	1
45	43150	Vatech	-17	0	17	FXFwd	Woori	0	0.33	0.04	0.53	16	25.4	0	0.4	0.77	-0.18	1
46	44340	Winix	-16	0	16	FXFwd	Citi	1	0.06	0.21	0.28	16	25.2	0	0.67	0.32	-0.22	1
47	53620	Taeyang	-16	0	16	FXFwd	IBK	0	0.17	0.02		16	25.3	0				1
48	9160	Simpac	-16	0	16	FXFwd	KEB	0	0.03	0	0.41	16	25.9	0	0.37	0.31	-0.1	1
49	67310	HanaMicron	-16	0	16	FXFwd	StandChar	1	0.04	0.14	0.82	16	25.9	0	0.13	0.67	-0.1	1
50	78890	KaonMedia	-14	0	14	FXFwd	KB	0	0.2	0.47	0.93	16	25.4	0	0.12	1.25	-0.16	1

Industry code: 1=Construction/ 5=Agriculture and Fishing/ 6=Retail/ 12=Transportation and Shipping/ 13=Gas and Electricity/ 14=Science and Technology/ 15=IT and Tele-communication/ 16= Manufacturing

No	Stock	Firm	Net	Buy	Sell	DerivType	MainBank	binding	FCAShr	FCLShr	ExpShr	Industry	Size	FCLHedge	ExpHedge	NetPosExcFXD	NetPosIncFXD	FullDisc
51	079950	Invenia	-12	0	12	FXFwd	KDB	0	0.01	0.04	0.05	16	25.1	0.00	3.29	0.05	-0.18	1
52	036930	Joosung	-12	0	12	FXFwd	Citi	1	0.30	0.05	0.59	16	26.6	0.00	0.14	0.54	-0.04	1
53	109740	DSK	-12	0	12	FXFwd	IBK	0	0.12	0.00	0.61	16	24.1	0.00	1.19	0.50	-0.46	1
54	029460	KC	-12	0	12	FXFwd	Woori	0	0.05	0.01	0.23	16	25.9	0.00	0.63	0.17	-0.07	1
55	007630	PolusBioPharm	-10	0	10	FXOpt	Shinhan	0	0.14	0.01	0.32	6	25.2	0.00	0.94	0.28	-0.14	1
56	066110	Hanp	-10	0	10	FXOpt	Citi	1	0.34	0.37	0.93	16	24.9	0.00	0.19	1.18	-0.18	1
57	007860	Seoyon	-10	0	10	FXFwd	KEB	0	0.21	0.11	0.55	14	26.7	0.00	0.05	0.77	-0.03	1
58	079980	Huvis	-10	0	10	FXFwd	KEB	0	0.13	0.22		16	27.0	0.00				1
59	086450	DongkookPharm	-10	0	10	FXFwd	KEB	0	0.06	0.05	0.27	16	25.6	0.00	0.32	0.32	-0.09	1
60	049830	Seungil	-10	0	10	FXFwd	IBK	0	0.07	0.01		16	25.3	0.00				1
61	019490	Hitron	-9	0	9	FXFwd	KEB	0	0.44	0.72	0.98	16	25.3	0.00	0.08	1.44	-0.11	1
62	020150	IljinMaterials	-9	0	9	FXFwd	Citi	1	0.10	0.15	0.87	16	26.0	0.00	0.06	0.97	-0.06	1
63	027970	Seha	-9	0	9	FXFwd	KDB	0	0.29	0.04		16	26.1	0.00				1
64	046310	BGTNA	-8	0	8	FXFwd	Woori	0	0.41	0.11	0.96	16	24.6	0.00	0.16	1.57	-0.20	1
65	054540	SamyoungMT	-7	0	7	FXFwd	KEB	0	0.10	0.00	0.37	16	25.2		0.21	0.52	-0.09	1
66	066310	QSI	-7	0	7	FXFwd	Woori	0	0.17	0.19	0.79	16	24.2	0.00	0.49	0.65	-0.24	1
67	033530	Sejong	-6	0	6	FXFwd	Woori	0	0.16	0.00	0.65	16	26.4	0.00	0.03	0.96	-0.02	1
68	008970	DongyangPipe	-6	0	6	FXFwd	StandChar	0	0.01	0.25	0.14	16	25.6	0.00	0.35	0.06	-0.05	1
69	099320	Satrec	-4	0	4	FXFwd	KEB	0	0.11	0.07	0.49	16	24.4	0.00	0.42	0.39	-0.12	1
70	043340	EssenTech	-4	0	4	FXFwd	Citi	1	0.12	0.02	0.29	16	25.0	0.00	0.22	0.42	-0.07	1
71	053450	Sekonix	-4	0	4	FXFwd	KB	0	0.19	0.54	0.64	16	25.2	0.00	0.11	0.45	-0.05	1
72	001250	GSGlobal	-3	0	3	FXFwd	DB	0	0.43	0.87	0.95	6	25.8	0.00	0.00	7.21	-0.03	1
73	005670	Foodwell	-3	0	3	FXFwd	Daegu	0	0.05	0.00	0.32	16	25.0		0.22	0.31	-0.06	1
74	049550	Inktec	-3	0	3	FXFwd	Shinhan	0	0.16	0.01	0.64	16	25.1	0.00	0.12	0.54	-0.05	1
75	031980	PSK	-3	0	3	FXFwd	ING	1	0.09	0.33	0.48	16	25.6	0.00	0.21	0.19	-0.03	1
76	030720	DongwonFish	-2	0	2	FXFwd	StandChar	1	0.03	0.14	0.68	5	24.9	0.00	0.05	0.86	-0.04	1
77	051360	Tovis	-2	0	2	FXFwd	KB	0	0.37	0.20	0.97	16	25.0	0.00	0.01	2.96	-0.04	1
78	000500	GaonCable	-2	0	2	FXFwd	Citi	1	0.02	0.10	0.11	16	26.5	0.00	0.04	0.20	-0.01	1
79	092460	HanlaIMS	-2	0	2	FXFwd	IBK	0	0.03	0.02	0.66	16	24.7	0.00	0.10	0.47	-0.05	1
80	023960	SCEngi	-2	0	2	FXFwd	KB	0	0.10	0.01	0.59	1	24.8	0.00	0.06	0.71	-0.04	1
81	045100	HanyangENG	-2	0	2	FXFwd	Shinhan	0	0.02	0.00	0.04	14	25.5	0.00	0.45	0.06	-0.02	1
82	007980	Pacific	-2	0	2	FXFwd	KEB	0	0.18	0.46	0.90	16	25.7	0.00	0.01	1.24	-0.01	1
83	024800	YoosungTnS	-2	0	2	FXFwd	Woori	0	0.00	0.01		12	26.2	0.00				1
84	041910	Estech	-2	0	2	FXFwd	KEB	0	0.10	0.01	0.57	16	24.8	0.00	0.10	0.41	-0.03	1
85	052710	Amotech	-2	0	2	FXFwd	KEB	0	0.09	0.18	0.83	16	25.8	0.00	0.03	0.40	-0.01	1
86	070590	HansolInticube	-1	0	1	FXFwd	Citi	1	0.01	0.22	0.00	15	24.5	0.00	11.14	-0.09	-0.03	1
87	065950	Welcron	-1	0	1	FXFwd	IBK	0	0.11	0.01	0.74	16	25.1	0.00	0.02	0.88	-0.02	1
88	019540	IljiTech	-1	0	1	FXFwd	KEB	0	0.04	0.00	0.37	16	24.8		0.07	0.30	-0.02	1
89	092600	NCN	-1	0	1	FXFwd	StandChar	1	0.05	0.88	0.75	16	24.6	0.00	0.02	0.54	-0.01	1
90	105740	DKLok	-1	0	1	FXFut	KB	0	0.18	0.01	0.48	16	24.1	0.00	0.04	0.69	-0.02	1
91	059100	Icomponent	-1	0	1	FXFwd	IBK	0	0.02	0.00	0.24	16	24.6	0.00	0.08	0.18	-0.01	1
92	018880	Hanon	0	0	0	FXFwd	KEB	0	0.09	0.03	0.63	16	27.9	0.00	0.00	0.73	0.00	1
Mean			-633	154	787				0.13	0.17	0.56		26.3	0.41	0.77	0.68	-0.20	
Median			-16	0	16				0.10	0.08	0.57		25.9	0.00	0.22	0.52	-0.09	

Table 32: Adjustments in FX Derivatives Position and Capital (**Excluding 3 banks**)

$$Y_{it} = \beta_0 + \beta_1 Constrained_i + \beta_2 Regulation_t + \beta_3 Constrained_i \times Regulation_t + \varepsilon_{it}$$

Y_{it} is either log(FX Derivatives position) or log(Capital). $Bind_i$ is dummy variable that takes 1 if bank i is constrained and 0 if otherwise. $Constraint_t^{Avg}$ is 0 before the regulation and takes **simple average** of foreign banks' and domestic banks' regulatory cap^{-1}. Higher $Constraint_t^{Avg}$ indicates tighter constraint. Columns (2) and (6) adds bank fixed effects:

$$Y_{it} = \beta_0 + BankFE_i + \beta_2 Regulation_t^{Avg} + \beta_3 Constrained_i \times Regulation_t^{Avg} + \varepsilon_{it}$$

Columns (3),(4),(7) and (8) are weighted least squares models, where the weights are the size of derivatives position as of Dec 2009. The sample period is 2008–2019 on a monthly basis. Standard errors are clustered by bank.

	(1) LogDeriv	(2) LogDeriv	(3) LogDeriv (W)	(4) LogDeriv (W)	(5) LogCapital	(6) LogCapital	(7) LogCapital (W)	(8) LogCapital (W)
Constrained=1	5.701***		0.506*		-0.721		-2.278***	
	(3.86)		(1.86)		(-1.63)		(-6.17)	
Regulation	-0.0299	0.0315	-0.408***	-0.412***	0.263***	0.286***	0.270***	0.266***
	(-0.10)	(0.10)	(-4.85)	(-4.77)	(6.11)	(7.43)	(4.48)	(4.42)
Constrained=1 x Regulation	-0.883***	-0.939***	-0.485***	-0.481***	0.0385	0.0312	0.00434	0.0114
	(-2.86)	(-2.98)	(-4.20)	(-4.05)	(0.48)	(0.42)	(0.05)	(0.13)
Constant	15.81***	20.18***	21.25***	20.16***	27.65***	26.14***	29.52***	26.19***
	(10.75)	(164.83)	(92.55)	(194.60)	(78.43)	(320.85)	(129.98)	(339.08)
BankFE	N	Y	N	Y	N	Y	N	Y
N	5531	5531	5531	5531	5513	5513	5513	5513
Adj RSqr	0.124	0.803	0.132	0.342	0.0552	0.934	0.549	0.917

t statistics in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

$$Y_{it} = \beta_0 + BankFE_i + \beta_2 Regulation_t^{WAvg} + \beta_3 Constrained_i \times Regulation_t^{Wavg} + \varepsilon_{it}$$

$Constraint_t^{WAvg}$ is the **weighted average** of the regulatory position limit, where the weight is the FXD position in each month.

	(1) LogDeriv	(2) LogDeriv	(3) LogDeriv (W)	(4) LogDeriv (W)	(5) LogCapital	(6) LogCapital	(7) LogCapital (W)	(8) LogCapital (W)
Constrained=1	5.699***		0.526*		-0.691		-2.241***	
	(3.86)		(1.68)		(-1.57)		(-6.13)	
Regulation	-0.0522	0.0364	-0.495***	-0.500***	0.325***	0.355***	0.344***	0.337***
	(-0.14)	(0.09)	(-3.60)	(-3.56)	(6.15)	(7.51)	(4.21)	(4.16)
Constrained=1 x Regulation	-1.095***	-1.178***	-0.621***	-0.617***	0.0186	0.00594	-0.0300	-0.0200
	(-2.73)	(-2.88)	(-3.53)	(-3.42)	(0.19)	(0.07)	(-0.28)	(-0.18)
Constant	15.83***	20.19***	21.24***	20.17***	27.65***	26.18***	29.51***	26.22***
	(10.76)	(138.68)	(77.49)	(174.60)	(78.65)	(333.39)	(130.82)	(357.96)
BankFE	N	Y	N	Y	N	Y	N	Y
N	5531	5531	5531	5531	5513	5513	5513	5513
Adj RSqr	0.124	0.804	0.143	0.353	0.0552	0.934	0.549	0.917

t statistics in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 33: Impact on Banks' FC Loans and FC Liabilities (**Excluding 3 banks**)

$$Y_{it} = \beta_0 + \beta_1 Constrained_i + \beta_2 Regulation_t + \beta_3 Constrained_i \times Regulation_t + \varepsilon_{it}$$

Columns (2) and (6) adds bank fixed effects:

$$Y_{it} = \beta_0 + BankFE_i + \beta_2 Regulation_t^{Avg} + \beta_3 Constrained_i \times Regulation_t^{Avg} + \varepsilon_{it}$$

Columns (3),(4),(7) and (8) are weighted least squares models, where the weights are the size of derivatives position as of Dec 2009. The sample period is 2008–2019 on a quarterly basis. Standard errors are clustered by bank. The outcome variables are share of foreign currency loans ($FCLoanShr$) and share of foreign currency liabilities ($FCLiabShr$).

	(1) FCLoanShr	(2) FCLoanShr	(3) FCLoanShr	(4) FCLoanShr	(5) FCLiabShr	(6) FCLiabShr	(7) FCLiabShr	(8) FCLiabShr
Constrained=1	0.305**		0.337**		-0.0346		0.0914**	
	(2.25)		(2.29)		(-0.49)		(2.15)	
Regulation	-0.0426*	-0.0398*	0.000801	0.0124	-0.0743***	-0.0750***	-0.0325***	-0.0320***
	(-2.01)	(-1.99)	(0.02)	(0.34)	(-3.01)	(-3.15)	(-4.35)	(-4.62)
Constrained=1 x Regulation	-0.0387	-0.0425	-0.0737	-0.0860*	-0.00579	-0.00460	-0.0508***	-0.0520***
	(-1.20)	(-1.37)	(-1.55)	(-1.81)	(-0.19)	(-0.15)	(-2.90)	(-2.97)
Constant	0.338***	0.959***	0.224***	0.950***	0.232***	6.79e-14	0.103***	-8.55e-15
	(4.78)	(38.45)	(3.56)	(28.82)	(4.08)	(0.97)	(3.41)	(-0.94)
BankFE	N	Y	N	Y	N	Y	N	Y
N	1450	1450	1450	1450	1611	1611	1611	1611
Adj RSqr	0.109	0.858	0.134	0.797	0.0603	0.763	0.161	0.663

t statistics in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 34: Impact on Banks' Security Holdings (**Excluding 3 banks**)

The outcome variables are KTB holdings and MSB holdings scaled by assets. KTB is long-term Korean government bond with maturities: 3, 5, 10, 20, 30 yr.
MSB is issued by Bank of Korea and the maturities are: 91day, 1yr, 2yr.

$$Y_{it} = \beta_0 + BankFE_i + \beta_2 Regulation_t + \beta_3 Constrained_i \times Regulation_t + \varepsilon_{it}$$

	(1) KTB/Asset	(2) KTB/Asset	(3) KTB/Asset	(4) KTB/Asset	(5) MSB/Asset	(6) MSB/Asset	(7) MSB/Asset	(8) MSB/Asset
Constrained=1	0.0317		0.0455		0.145***		0.103**	
	(0.88)		(0.87)		(3.05)		(2.36)	
Regulation	-0.0102**	-0.00983*	-0.00616	-0.00569	-0.000494	0.0000609	-0.0106	-0.00949
	(-2.06)	(-1.98)	(-1.00)	(-0.86)	(-0.21)	(0.03)	(-1.44)	(-1.33)
Constrained=1 x Regulation	0.0115	0.0113	0.00406	0.00305	-0.0537***	-0.0538***	-0.0360**	-0.0374***
	(0.86)	(0.83)	(0.22)	(0.16)	(-2.80)	(-2.92)	(-2.67)	(-2.84)
Constant	0.0438***	2.88e-14	0.0567***	1.62e-14	0.0141**	3.61e-14	0.0420*	-5.13e-14
	(4.71)	(0.97)	(5.87)	(0.97)	(2.11)	(0.97)	(1.70)	(-0.97)
BankFE	N	Y	N	Y	N	Y	N	Y
N	1630	1630	1630	1630	1630	1630	1630	1630
Adj RSqr	0.0962	0.723	0.0615	0.753	0.249	0.752	0.146	0.761

t statistics in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 35: FXD Contract level OLS

$$\Delta FXD_{i,j} = \alpha + \beta\ Constrained_b + FirmControls_j + BankControls_i + ContractControls_{i,j} + \varepsilon_{i,j}$$

The dependent variable is change in net FXD notional dealt between firm j and bank b, **scaled by sales**. $Bind_b$ is 1 if the contract is dealt with a binding bank. Firm controls include log size, net FXD notional (scaled by sales) before the shock, foreign-currency liability share, and 7 industry dummies. Bank controls include log size, loans to assets ratio, leverage ratio, and foreign bank indicator variable. Contract controls include bank b's share of firm j's total FXD notional, type, and currency pair. The omitted categories are forwards and USD-KRW pair. Standard errors are clustered at the bank level.

	(1) Full Sample	(2) Full Sample	(3) Sell FCY	(4) Sell FCY	(5) Buy FCY	(6) Buy FCY
Constrained	0.0291***	0.00807	0.0649***	0.0344**	0.00718	0.00437
	(2.86)	(1.10)	(4.68)	(2.17)	(1.51)	(1.22)
Type Swaps		0.00255		0.0106		-0.000135
		(0.33)		(0.50)		(-0.01)
Type Options		0.150***		0.137***		0
		(4.66)		(3.69)		(.)
Type Futures		0.0208*		0.0253		0
		(2.01)		(1.10)		(.)
Pair EURKRW		0.0276*		0.0511*		0
		(1.76)		(1.96)		(.)
Pair JPYKRW		-0.0123		-0.0505*		0.0104
		(-0.95)		(-2.12)		(1.05)
Pair XXXKRW		0.0111		0.0105		0.0315**
		(1.30)		(0.58)		(2.36)
FirmControls	N	Y	N	Y	N	Y
BankControls	N	Y	N	Y	N	Y
N	251	251	129	129	122	122
RSqr	0.0333	0.435	0.0841	0.461	0.0162	0.449

t statistics in parentheses

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Table 36: FXD Contract level OLS

$$\Delta FXD_{i,j} = \alpha + \beta Constrained_i + FirmControls_j + BankControls_i + ContractControls_{i,j} + \varepsilon_{i,j}$$

FX Options contracts are excluded. The dependent variable is change in net FXD notional **scaled by sales**.

	(1) Full Sample	(2) Full Sample	(3) Sell FCY	(4) Sell FCY	(5) Buy FCY	(6) Buy FCY
Constrained	0.0146***	0.00722	0.0272*	0.0281*	0.00442	0.00329
	(3.12)	(1.05)	(1.94)	(1.76)	(0.97)	(0.88)
Type Swaps		-0.00582		-0.00475		-0.00635
		(-0.73)		(-0.21)		(-0.56)
Type Options		0		0		0
		(.)		(.)		(.)
Type Futures		0.0179**		0.0275		0
		(2.68)		(1.54)		(.)
Pair EURKRW		0.0317***		0.0487		0
		(2.97)		(1.54)		(.)
Pair JPYKRW		-0.00292		-0.0296		0.0152
		(-0.28)		(-1.25)		(1.65)
Pair XXXKRW		0.00329		0.00655		0.0181
		(0.40)		(0.37)		(1.19)
FirmControls	N	Y	N	Y	N	Y
BankControls	N	Y	N	Y	N	Y
N	233	233	111	111	122	122
RSqr	0.0186	0.0714	0.0290	0.109	0.00719	0.322

t statistics in parentheses

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Table 37: FXD Contract level OLS

$$\Delta FXD_{i,j} = \alpha + \beta_{Shock}Shock_i + FirmControls_j + BankControls_i + ContractControls_{i,j} + \varepsilon_{i,j}$$

The dependent variable is change in net FXD notional dealt between firm j and bank b, **scaled by sales**. $Shock_b$ is the percentage of bank b's FXD position that needed to be reduced at the imposition of the regulation. Firm controls include log size, net FXD notional (scaled by sales) before the shock, foreign-currency liability share, and 7 industry dummies. Bank controls include log size, loans to assets ratio, leverage ratio, and foreign bank indicator variable. Contract controls include bank b's share of firm j's total FXD notional, type, and currency pair. The omitted categories are forwards and USD-KRW pair. Standard errors are clustered at the bank level.

	(1) Full Sample	(2) Full Sample	(3) Sell FCY	(4) Sell FCY	(5) Buy FCY	(6) Buy FCY
Shock	0.0408*	0.00307	0.142***	0.0857	0.0144	0.00370
	(1.93)	(0.18)	(3.32)	(1.68)	(1.63)	(0.37)
Type Swaps		-0.00110		0.00326		0.000612
		(-0.14)		(0.16)		(0.05)
Type Options		0.0989***		0.0888**		0
		(3.20)		(2.43)		(.)
Type Futures		0.0201**		0.0251		0
		(2.24)		(1.32)		(.)
Pair EURKRW		0.0200		0.0303		0
		(1.54)		(1.19)		(.)
Pair JPYKRW		-0.0130		-0.0415*		0.00740
		(-1.12)		(-1.78)		(0.77)
Pair XXXKRW		0.0153		0.0143		0.0381**
		(1.56)		(0.85)		(2.63)
FirmControls	N	Y	N	Y	N	Y
BankControls	N	Y	N	Y	N	Y
N	251	251	129	129	122	122
RSqr	0.0122	0.255	0.0464	0.280	0.0111	0.447

t statistics in parentheses

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Table 38: FXD Contract level OLS

$$\Delta FXD_{i,j} = \alpha + \beta_{Shock}Shock_i + FirmControls_j + BankControls_i + ContractControls_{i,j} + \varepsilon_{i,j}$$

FX Options contracts are excluded. The dependent variable is change in net FXD notional dealt between firm j and bank b, **scaled by sales**.

	(1) Full Sample	(2) Full Sample	(3) Sell FCY	(4) Sell FCY	(5) Buy FCY	(6) Buy FCY
Shock	0.0345***	0.0136	0.102**	0.0963*	0.00877	0.00934
	(2.86)	(0.80)	(2.61)	(2.12)	(1.01)	(0.94)
Type Swaps		-0.00537		-0.00176		-0.00443
		(-0.67)		(-0.09)		(-0.37)
Type Options		0		0		0
		(.)		(.)		(.)
Type Futures		0.0179**		0.0261		0
		(2.61)		(1.59)		(.)
Pair EURKRW		0.0293***		0.0421		0
		(2.92)		(1.36)		(.)
Pair JPYKRW		-0.00600		-0.0298		0.0148
		(-0.56)		(-1.23)		(1.67)
Pair XXXKRW		0.00645		0.00340		0.0264*
		(0.71)		(0.18)		(1.75)
FirmControls	N	Y	N	Y	N	Y
BankControls	N	Y	N	Y	N	Y
N	233	233	111	111	122	122
RSqr	0.0141	0.0682	0.0331	0.108	0.00481	0.329

t statistics in parentheses

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$