

Institutional Framework

Financial institutions serve as the intermediary that allocates resources from savers to investors across economic sectors. Due to the close linkage with domestic and external economic sectors, financial institutions are exposed to various risks and volatilities, which would affect other sectors. Therefore, to safeguard financial system stability, maintaining an efficient and stable financial institutions system is a major precondition for stable economic growth. Transparent supervisory practices and promoting sound corporate governance and risk management in financial institutions support this objective, forming part of the Bank of Thailand's broader institutional framework, which can be summarized as follows:

1. Risk-based Supervision

1.1 Capital Adequacy

A default may occur from financial institutions channeling savings into loans or investment. Therefore, a strong financial position, particularly an adequate level of capital to risk, serves as the first line of defense against losses that may later affect depositors.

1.2 Risk Management

Financial institutions continually face challenges from recent financial developments, new financial products, and intensified competition from both banks and non-banks. Consequently, financial institutions must have the capability to appropriately deal with the evolving challenges and effectively cope with the dynamism of progressively complex risks.

In this regard, the BOT places great emphasis on the management's roles and responsibilities in providing a robust risk management system that corresponds to their business operations and strategies and is in line with international standards. Proper risk management must include using the appropriate tools to manage five key risks, namely strategic risk, credit risk, market risk, liquidity risk and operational risk.

1.3 Good Corporate Governance

The stability of the financial institutions system depends largely on the confidence of all stakeholders, which include depositors, investors, market participants, and the general public. As a result, in addition to effective risk management, financial institutions must also manage their reputational risk attentively by setting management systems that take into account social responsibility, good corporate governance and fairness to consumers, as well as refrain from actions that are potentially harmful to society.

2. International Standards

The BOT has steadily enhanced the supervision and examination framework of financial institutions in line with the standards set by the [Basel Committee on Banking Supervision](#) (e.g. Basel Core Principles for Effective Banking Supervision). Consequently, all stakeholders can be assured that every process of banking supervision -- licensing; issuance of prudential regulations; regular risk examination; timely resolution of problem banks; domestic and foreign supervisory coordination -- is conducted with transparency and professionalism.

In addition, to increase the efficiency and effectiveness of financial institutions supervision, the BOT also takes into account other relevant international standards and promotes the development of essential financial institutions infrastructures. This includes appropriate accounting standards and information disclosure that is transparent, adequate, timely, and comparable across industry, which will enable depositors, debtors, analysts, and the general public to make prudent business decisions as well as contribute to the surveillance of financial institutions.

At present, the BOT is in the course of moving from the capital adequacy framework under Basel I to the New Basel Capital Accord (Basel II), applicable to all financial institutions in 2008. The new guideline for regulatory capital will not only cover all the major risks faced by financial institutions, but will also be more responsive to the increasing risks of financial institutions and the more complex financial market conditions. In this regard, the BOT will assess each individual financial institution's capital adequacy and their relevant strategy, to ensure that the proper procedures are being followed.