BANK OF THAILAND

BOT Press Release

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Issuance of BOT notifications on capital adequacy framework under Basel III

The global financial crisis and banking problems in many countries throughout 2008 – 2009 has prompted regulators around the world the need for global financial regulatory reform to prevent subsequent financial crises in the future. Looking back, many characteristics of both banks and regulations did contribute to the occurrence of the recent financial crisis, especially the banking system's liquidity problems resulting from banks' over-reliance on wholesale funding, banks' excessive leverage and regulators' procyclical Basel II capital requirement that further exposed the economy to higher volatility. As a result, the Basel Committee on Banking Supervision (BCBS) has issued the Basel III reform package to enhance banking supervision standards covering the issues as follow;

- Regulatory capital requirements: The new requirements are built on the Basel II framework with more emphasis on the quality of the capital base and the additional level of capital buffers to strengthen resilience during the stressed period.
- Regulatory requirements on liquidity risk: by introducing liquidity ratios to help assist supervisors in monitoring banks' liquidity risk.
- Regulatory requirements on excessive leverage: by introducing a ratio that looks at the volume of banking business relative to capital (a leverage ratio).

The Bank of Thailand (BOT), with approval of the Financial Institutions Policy Committee, sees that, although Thai banks were not much affected by the recent global financial crisis and the nature of risk in Thai banking system is to an extent different from those directly impacted from the financial crisis, the implementation of the Basel III capital framework in Thailand is yet in line with the BOT supervisory principles where:

1. The regulation will enhance the strength, increase the good-quality capital base and improve risk management of Thai banks.
2. The regulation will demonstrate the potential of Thai banks in complying with international standards, in relation to other leading countries and Asian peers.

On this, the BOT has undergone studies on the new Basel III capital framework and the impact analyses, all of which suggested that the new capital standards will enhance the stability of the banking system thereby promoting long-term economic growth and sustainability. Together with the current BIS ratio at around 16% and strong performance this year, especially over the first 3 quarters with system's total profits at around 135,000 million baht, it is evident that Thai banks are ready to immediately comply with the Basel III capital framework.

In this regard, the BOT has issued 7 notifications regarding to the Basel III capital framework to require Thai banks to maintain a minimum Common equity ratio of 4.5%, Tier 1 ratio of 6% and Total capital ratio of 8.5%, the latter of which remains unchanged from the Basel II ratio. Under the new Basel III capital framework, foreign bank branches will now be required to maintain a minimum Total capital ratio of 8.5%, in line with Thai banks. The new requirement will be effective from 1 January 2013 onwards.

As for the Leverage ratio and Liquidity risk framework, the BOT will continuously keep abreast with BCBS' developments and conduct impact studies on an ongoing basis to ensure that the framework to be adopted in Thailand reflects risk characteristics and developments in the Thai financial system.

Bank of Thailand
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