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Press Release

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Loan-Loss Provisioning to Be Adjusted for Credit Card Companies

The FSC/FSS plans to adopt regulatory changes that will raise provisioning for certain classes of assets of credit card companies and incorporate a higher proportion of asset-backed securities in the computation of adjusted capital ratio. The new fine-tuning measures are intended to level uneven provisioning rules currently in place for banks and credit card companies and to ensure adequate provisioning as a cushion against losses.

Provisioning rules for bank credit card assets have been reinforced in anticipation of the implementation of Basel II. In December, 2005, provisioning rules previously applicable only to the undrawn cash advance amount—total cash advances available to a credit card customer less the amount drawn or used—were extended to cover the total undrawn line of credit. In December, 2006, provisioning rate was raised from 1% to 1.5% for credit card assets classified as normal and from 12% to 15% for assets classified as precautionary. But these rule changes have not been extended to credit card companies.

New provisioning rates for normal and precautionary assets

Under the proposed changes, the provisioning rates applicable to credit card companies are to be raised from 1% to 1.5% for assets classified as normal and from 12% to 15% for assets classified as precautionary. The rates for the three other classes of assets—those classified as substandard, doubtful, and presumed loss—to remain unchanged at 20%, 60%, and 100%, respectively. These adjustments will mean that both banks and credit card companies will be subject to the same provisioning rates for their credit card assets.

Provisioning for total undrawn line of credit

Provisioning against undrawn cash advances is to be extended to cover the total undrawn line of credit given to credit card customers (same as bank credit card customers). The 0.5% provisioning rate currently in effect is also to be changed to the new provisioning rates to be applied to each of the five asset categories.

Higher proportion of ABS in the computation of adjusted capital ratio

The proportion of asset-backed securities reflected in the adjusted assets for the purpose of determining the adjusted capital ratios is to be raised from 30% to 50%.



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Effective date

The proposed changes are expected to take effect in February except for provisioning for undrawn line of credit, which will be extended to the end of 2008 for full compliance by the credit card companies.

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