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Press Release

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New Basel Capital Accord to be Implemented by Year-End 2007

The FSC/FSS announced on December 21 that it had set year-end 2007 as the target date for the full implementation of the New Basel Capital Accord (Basel II). All domestic and foreign banks operating in Korea are to come under the new capital adequacy framework. The selection of the methodologies to be used for calculating the capital requirement is to be left to each individual bank.

Implementation timetable for the new accord

The year-end 2007 implementation timetable was made in consideration of the progress of domestic banks with preparations for the new accord. Because the use of internal ratings broadly in line with the minimum requirements must be satisfied for at least two years—three years for advanced IRB approaches—before the new accord takes effect, and domestic banks are expected to complete their credit risk rating systems for the new accord by the end of 2004 or early 2005, it was decided that year-end 2007 implementation timetable was appropriate.

A number of other considerations also weighed on the decision to set year-end 2007 as the target date for the new accord. They include the ongoing efforts to improve domestic banks' risk assessment and management capabilities, the transition to risk-based supervision, and the desire to strengthen market discipline through more specific and stricter risk- and capital-related disclosures.

Likely impact of the new accord on domestic banks

With capital increases, higher proportion of earnings retained and portfolio adjustments, domestic banks are expected to see only slight changes in their capital ratios initially when the new accord takes effect in late 2007. With respect to bank lending to small- and medium-sized enterprises (SMEs), the impact of the new accord is expected to be limited with preferential treatments that the new accord provides to banks with credit exposures to SMEs in determining the risk-weighted assets. Likewise, the impact of the new accord on the domestic asset-backed securities market is expected to be minimal or even advantageous to domestic banks that are exposed to asset-backed securities with an above investment grade (BBB or higher). Overall, the year-end 2007 target is expected to give domestic banks sufficient time to cope with these and other issues and prepare for the full implementation of the new accord.

Please forward questions or comments regarding this press release to the New Basel Accord Team I (Tel: +82-2-3786-8201), Financial Supervisory Service.