Financial Services Commission
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Press Release

September 27, 2012

PLAN FOR REVISION TO REGULATIONS ON SUPERVISION OF BANKING BUSINESS

BACKGROUND

The FSC/FSS started to revise the Regulations and Detailed Regulations on Supervision of Banking Business for domestic implementation of the Basel III rules, which will take effect in 2013.

KEY REVISIONS

1. Revision of minimum capital requirement

Minimum capital requirement for banks will be subdivided from the current 8% of the total capital into three criteria: 4.5% of common equity Tier 1, 6% of Tier 1 capital, and 8% of the total capital.

2. Introduction of capital buffer[1]

Banks will be required to reserve an extra capital buffer of 2.5%p in addition to the minimum capital requirement. Unlike minimum capital ratios, capital buffer is not a mandatory requirement; however, if banks fail to meet capital buffer requirement, they will be limited in dividend payment or share repurchase.

3. Revision of conditions for corrective measures to be taken and evaluation of management status

(1) Conditions for corrective measures to be taken

Currently, banks are ordered to take corrective measures depending on their equity capital ratios: management improvement recommendation for less than 8%, management improvement requirement for less than 6%, and management improvement order for less than 2% of equity capital.

[1] The amount of capital required for banks to absorb loss or continue to provide credit, while maintaining capital to a certain ratio beyond the minimum requirement

With the implementation of Basel III rules, such conditions will be further subdivided into three criteria: total capital ratio, Tier 1 capital ratio, and common Tier 1 capital ratio.[2]

Corrective measures	Current	Proposed revision
Management improvement recommendation	Less than 8% of BIS ratio	1. less than 8% of the total capital
		2. less than 6% of Tier 1 capital
		3. less than 4.5% of common Tier 1
Management improvement requirement	Less than 6% of BIS ratio	1. less than 6% of the total capital
		2. less than 4.5% of Tier 1 capital
		3. less than 3.5% of common Tier 1
Management improvement order	Less than 2% of BIS ratio	1. less than 2% of the total capital
		2. less than 1.5% of Tier 1 capital
		3. less than 1.2% of common Tier 1

(2) Evaluation of management status

Under the current evaluation system, banks' capital adequacy is measured by total capital ratio, Tier 1 capital ratio, and equity-to-assets-ratio. Under the Basel III regime, common Tier 1 capital will be added to evaluation criteria.

Net interest margin (NIM) will be no longer an evaluation criterion.

4. Implementation timetable

	2013	2014	2015	2016	2017	2018	2019
Minimum common Tier 1 ratio (A)	3.5	4.0	4.5	4.5	4.5	4.5	4.5
Tier 1 capital ratio	4.5	5.5	6.0	6.0	6.0	6.0	6.0
Minimum total capital ratio (C)	8.0	8.0	8.0	8.0	8.0	8.0	8.0
Capital buffer (B)				0.625	1.25	1.875	2.50
Required total capital ratio (B+C)	8.0	8.0	8.0	8.625	9.25	9.875	10.5

2 The proposed revision will be implemented in 2015 when new requirement of minimum capital ratio take effect. During the transition period between 2013 and 2015, whether to order banks to take corrective measures will be decided depending on the current criteria of the total capital ratios.

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5. Revision schedule (tentative)
- Revision notice: September 27~November 6, 2012
- Review by the Regulatory Reform Committee: November 2012
- Approval by the Financial Services Commission: December 2012

FUTURE PLAN

Given that global discussions on countercyclical capital, D-SIBs[3], regulations on liquidity and leverage ratios are still underway, such regulations, which will be introduced as early as 2015, are not included into the proposed revision at this time.

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[3] Domestic systemically important banks (D-SIBs)