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Press Release

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CAPITAL REGULATIONS UNDER BASEL III TO BE IMPLEMENTED TO DOMESTIC BANKS FROM DECEMBER 2013

Basel III capital regulations will be phased in to domestic banks from December 1, 2013, as part of strengthened prudential regulations for banking sector which have been under discussion since the global financial crisis.

KEY CONTENTS

1. Minimum capital requirements

The current capital adequacy ratio for banks is a minimum 8% of their risk-weighted assets (RWAs). Under the Basel III, banks will be required to meet detailed adequacy ratios for each category of capital.

From December 2013, banks need to hold at least 3.5% of their risk-weighted assets as common equity capital¹, 4.5% as Tier capital, which make their overall minimum capital requirement to 8%.²

Changes in Minimum Capital Regulations upon Implementation of Basel III

	Dec. '13	'14	'15	'16	'17	'18	'19
Minimum Equity Ratio (Total Equity Ratio + Capital Conservation Buffer Ratio)	8.0	8.0	8.0	8.625	9.25	9.875	10.5
Total Equity Ratio	8.0	8.0	8.0	8.0	8.0	8.0	8.0
Tier 1 Capital Ratio	4.5	5.5	6.0	6.0	6.0	6.0	6.0
Common Equity Tier 1 Capital Ratio	3.5	4.0	4.5	4.5	4.5	4.5	4.5
Minimum Capital Conservation Buffer Ratio	-	-	-	0.625	1.25	1.875	2.5

¹ The capital adequacy ratio of common equity capital will increase to 4.0% of RWAs from January 2014 and to 4.5% from January 2015.

² The capital adequacy ratio of Tier 1 capital will increase to 5.5% of RWAs from January 2014 and to 6.0% from January 2015.

2. Qualifying conditions for regulatory capital under Basel III

Under the Basel III, banks' total capital, currently composed of Tier 1 and Tier 2, will be divided into common equity capital, additional Tier 1, and Tier 2 capital. Qualifying conditions for each capital class will be modified to enhance quality of banks' capital.

From December 1, 2013, up to 90% of non-qualifying instruments as contingent capital³ already issued will be recognized as regulatory capital under the Basel III. The percentage will be gradually reduced by 10% points per year.⁴

Types of Capital after Revision of Basel III Capital Regulations

Common Equity Capital (A)	Equity with priority to be conserved from bank's loss and last to be redeemed from bank's liquidation. Equity which is subject to redemption only in case of bank's liquidation. (e.g. capital, capital surplus accrued from issuance of common equity, retained earnings)
Additional Tier 1 Capital (B)	Capital, capital surplus and etc. accrued from issuance of capital securities with similar characteristics of perpetual bond. (e.g.: hybrid capital securities in characteristics of perpetual bonds which are contingent capital securities in kind and free from requirements to raise interest rates)
Tier 1 Capital (C)	A + B
Tier 2 Capital (D)	Unpreferred bonds and etc. which can be conserved from bank's loss. (e.g.: unpreferred bonds with maturity of 5 years or longer which are contingent capital securities in kind and free from requirements to raise interest rates)
Total Capital	C + D

3. Detailed conditions for corrective actions to be implemented from January 2015

Issuance of Prompt Corrective Action Before and After Revision of Capital Regulations

	Improvement Recommendation	Improvement Request	Improvement Order
Before Revision	Total Capital Ratio below 8%	Total Capital Ratio below 6%	Total Capital Ratio below 2%
After Revision	Total Capital Ratio below 8%, or Tier 1 Capital Ratio below 6%, or Common Equity Capital Ratio below 4.5%	Total Capital Ratio below 6%, or Tier 1 Capital Ratio below 4.5%, or Common Equity Capital Ratio below 3.5%	Total Capital Ratio below 2%, or Tier 1 Capital Ratio below 1.5%, or Common Equity Capital Ratio below 1.2%

4. 'Capital conservation buffer' to be introduced from January 2016

From January 2016, banks will be required to hold 'capital conservation buffer,' more than a 0.625%p plus the minimum capital adequacy ratio.⁵ If banks failed to meet the minimum requirement of capital conservation buffer, their pay-outs of dividends or purchases of their own shares would be gradually limited.

³ e.g. hybrid bonds or subordinate bonds

⁴ From January 2014, up to 80% of non-qualifying capital will be recognized as regulatory capital under the Basel III.

⁵ 1.25%p(Jan. 2017) → 1.875%p(Jan. 2018) → 2.5%p(Jan. 2019)

**Maximum Amount of Earnings Permitted to Withdraw Outside the Company
If Failed to Meet Capital Conservation Buffer Ratio**

Common Equity Capital Ratio, or	Below 5.125%	Below 5.75%	Below 6.375%	Below 7%	7% or above
Tier 1 Capital Ratio, or	Below 6.625%	Below 7.25%	Below 7.875%	Below 8.5%	8.5% or above
Total Capital Ratio	Below 8.625%	Below 9.25%	Below 9.875%	Below 10.5%	10.5% or above
Percentage of earnings permitted to withdraw	0%	20%	40%	60%	100%

REMAINING TASKS FOR BASEL III IMPLEMENTATION

The FSC plans to revise relevant regulations to implement the remaining requirements under the Basel III, scheduled to be phase in from 2015 to 2016.

Liquidity Coverage Ratio (LCR)⁶ will be introduced from 2015 to ensure that banks will be able to withstand liquidity crunch in the event of a systemic risk.

From 2016, ‘countercyclical capital buffer’ will be introduced to make banks less vulnerable to economic cycles by requiring banks to build additional capital buffer during credit boom and spend it during economic downturn. Domestic systemically important banks (D-SIBs) will be listed and required to hold capital surcharges from 2016.

IMPACT OF BASEL III IMPLEMENTATION

As of end-June 2013, domestic banks’ capital adequacy ratio of 14% and LCR of 115% are above the requirements under the Basel III. Therefore, Basel III implementation is not likely to significantly affect banks’ business operations.

The FSC will continue to monitor progress in implementation in order to ensure that the Basel III will not affect banks to reduce their lending to SMEs and low-income households, while strengthening banks’ soundness.

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⁶ Highly liquid assets (eg. cash, reserves)/net cash outflows over the next 30 days $\geq 100\%$