

## BASEL III CREDIT RISK FRAMEWORK TO BE ADOPTED IN Q2 2020

The FSC and the FSS announced the early adoption of the credit risk framework of Basel III beginning in late June this year, more than one year and a half prior to the Basel Committee on Banking Supervision's recommendation of adoption by 2022.

With the early adoption of Basel III rules, the government expects that the banks with high proportions of business lending will see their BIS capital adequacy ratios increase, thus enabling banks to boost capital reserves to provide more funding to businesses.

### **EARLY ADOPTION OF BASEL III**

Basel III contains measures to lower credit risk weights for SME loans<sup>1</sup> and loss given default (LGD) rates for business loans.<sup>2</sup>

The early adoption of the revised credit risk framework will begin gradually with domestic banks and bank holding companies with the calculation of their BIS ratios at the end of June this year.

The changes to the calculation of operational risk capital (ORC) will be implemented as scheduled in January 2022.

### **FURTHER PLANS**

The government will finish up revising the relevant rules and regulations in April, while providing assistance to financial companies to ensure that their system setup and verification are done smoothly.

The government will continue to work on ways to ensure that the government's prudential regulations on financial institutions are not constraining their ability to respond flexibly in times of crisis.

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<sup>1</sup> From 100% to 85%

<sup>2</sup> LGD rates on unsecured loans (45% → 40%), LGD rates on real estate collateral loans (35% → 20%)