



BANGKO SENTRAL NG PILIPINAS

OFFICE OF THE DEPUTY GOVERNOR SUPERVISION AND EXAMINATION SECTOR

MEMORANDUM NO. M - 2012 - 002

**To : All Universal and Commercial Banks and their Subsidiary
Banks and Quasi-Banks**

**Subject : Implementation Plans for Basel III Standards on Minimum
Capital Requirements**

The Monetary Board, in its Resolution No. 33 dated 5 January 2012, approved the BSP's implementation plans for the capital standards in the Basel Committee on Banking Supervision (BCBS) document "Basel III: A global regulatory framework for more resilient banks and banking systems"¹, as follows:

The Basel III standards shall be incorporated in the risk-based capital adequacy framework for universal and commercial banks (U/KBs) and their subsidiary banks and quasi-banks (QBs) under Circular No. 538 dated 04 August 2006. Broadly, these consist of the following:

- The BSP shall adopt the new categorization of the capital base under Basel III. As such, Tier 1 shall be composed of Common Equity Tier 1 (CET1) Capital and Additional Going Concern Capital, while the subcategories of Tier 2 capital shall be eliminated.
- The eligibility criteria for each category of capital that is not yet included in Circular No. 709 dated 10 January 2010 shall likewise be adopted.
- The existing limits on eligible Hybrid Tier 1, Lower Tier 1 and total Tier 2² capital will be removed.
- The BSP shall adopt the regulatory deductions in Basel III, as applicable. Such deductions will be taken out of CET1 capital in full, as against the current practice of deducting the same from Tier 1 and Tier 2 capital on a 50:50 basis.
- The minimum capital adequacy ratio (CAR) shall remain at 10.0%. However, the BSP will adopt a minimum CET1 ratio of 6.0%, a minimum Tier 1 ratio of 7.5%, and the capital conservation buffer of 2.5%. The table below compares these

¹ Can be accessed at www.bis.org

² Eligible Hybrid Tier 1 capital is limited to 15% of total T1 capital (net of deductions). Eligible Lower Tier 2 and Tier 2 capital (sum of Upper Tier 2 and Lower Tier 2) is capped at 50% and 100% of total Tier 1 capital (net of deductions), respectively.

requirements with Basel recommendations as well as the existing guidelines of the BSP:

Capital requirements	Under Basel III		BSP guidelines		
	Minimum ratios	With conservation buffer	Existing minimum ratios	Proposed minimum ratios	Proposed minimum with conservation buffer
a. CET1 ratio	4.5%	7.0%	None	6.0%	8.5%
b. Tier 1 ratio	6.0%	8.5%	5.0% (6.0% as trigger for PCA)	7.5%	10.0%
c. CAR	8.0%	10.5%	10.0%	10.0%	12.5%

- The BSP envisions the full adoption of the new minimum ratios, including the capital conservation buffer, beginning 1 January 2014. The regulatory deductions shall likewise be deducted in full from CET1 on this date. Regulatory capital instruments that will be rendered ineligible under the minimum conditions of Basel III shall be allowed to qualify as regulatory capital only until the end of 2013. In sum, the new capital requirements for U/KBs and their subsidiary banks and QBs shall come into force at a single date, in contrast to the Basel Committee's recommended staggered implementation timeline and gradual phase-out of ineligible capital instruments.
- Covered banks and QBs shall likewise be subject to the enhanced disclosure requirements pertaining to regulatory capital.

In addition, the risk-based capital adequacy framework will incorporate provisions of the Basel Committee's enhancements on risk measurement related to securitizations and market risk, which were released in July 2009, and provisions in Basel III pertaining to the use of third party credit assessment agencies. These shall likewise be effective on 1 January 2014.

The draft of the implementing guidelines covering the foregoing changes will be exposed by the first quarter of 2012. Covered banks and QBs shall be given three months (i.e., the second quarter of 2012) within which to submit comments. Moreover, such entities will be required to participate in a quantitative impact study during the exposure period. The final guidelines are intended to be issued by the third quarter of 2012. This will allow one full year for a parallel run of the old and new guidelines before the new standards come into force on 1 January 2014. The parallel run period will enable the BSP to address any issues or make adjustments as warranted pertaining to the implementing guidelines.

The BSP will release further implementation plans and guidelines later in 2012 covering other aspects of Basel III. This will include the adoption of provisions pertaining to counterparty credit risk, as well as the implementation of the leverage ratio for monitoring purposes. At this point, the BSP does not yet envision adopting the countercyclical capital buffer; this shall be the subject of further study.

Covered banks and QBs are enjoined to consider the forthcoming regulatory changes in capital planning exercises and conduct preliminary assessments of the likely impact of the changes.

For information and guidance.



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Deputy Governor

10 January 2012