

## 125 BASEL III RISK-BASED CAPITAL

The guidelines implementing the revised risk-based capital adequacy framework for the Philippine banking system to conform to Basel III recommendations is provided in *Appendix 59*.

These guidelines apply to all UBs and KBs as well as their subsidiary banks and QBs. The risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, shall not be less than ten percent (10%) for both solo basis (head office plus branches) and consolidated basis (parent bank plus subsidiary financial allied undertakings, but excluding insurance companies). Other minimum capital ratios include Common Equity Tier (CET) 1 ratio and Tier 1 capital ratios of six percent (6.0%) and seven and a half percent (7.5%), respectively. With respect to the CET1 requirement, in addition to the minimum, the following capital buffers shall likewise be imposed:

- a. A capital conservation buffer (CCB) of two and a half percent (2.5%); and
- b. Countercyclical capital buffer (CCyB) of zero percent (0%) subject to upward adjustment to a rate determined by the Monetary Board when systematic conditions warrant but not to exceed two and a half percent (2.5%). Any increase in the CCyB rate shall be effective twelve (12) months after its announcement. Decreases shall be effective immediately.

The prescribed ratios shall be maintained at all times.

(The Bangko Sentral's implementation plans for the New International Capital Standards or Basel 2 contained in the Basel Committee on Banking Supervision (BCBS) document "International Convergence of Capital Measurement and Capital Standards: A Revised Framework", are shown in *Appendix 63*)

**Market risk capital requirement.** UBs/KBs shall also measure and apply capital charges for market risk, in addition to the credit risk capital requirement in this Section, in accordance with the Guidelines to Incorporate Market Risk in the Risk-Basel Capital Adequacy Framework in *Appendix 42*.

The capital treatment of market risk exposures arising from the holdings of Dollar-Linked Peso Notes (DLPNs) is indicated in *Appendix 43*.

The instructions for accomplishing the report on computation of the Adjusted Risk- Based Capital Adequacy Ratio covering combined credit risk and market risk are shown in *Appendices 44* (for UBs and KBs with expanded derivatives authority), *45* (for UBs and KBs with expanded derivatives authority but without options transactions) and *46* (for UBs and KBs without expanded derivatives authority).

**Capital treatment of exposures/investments in certain products.** The guidelines on the capital treatment of bank's exposures/ investments in the following products are in Part VI:

- a. Credit-linked notes in Sec. 624-A.
- b. Structured products in Sec. 625-A (*Capital treatment of banks' exposures to structured products*).
- c. EFCDU investments in Sec. 626-A (*Capital treatment of structured products*).
- d. Investment in securities overlying securitization structures in Sec. 627-A (*Capital treatment of investments in securities overlying securitization structures*).

**Required reports.** Banks shall submit a report of their risk-based capital adequacy ratio on a solo basis (head office plus branches) and on a consolidated basis (parent bank plus subsidiary financial allied undertakings, but excluding insurance companies) quarterly to the appropriate supervising department of the Bangko Sentral in the prescribed forms within the deadlines, i.e., fifteen (15) banking days and thirty (30) banking days after the end of reference quarter, respectively. Only banks with subsidiary financial allied undertakings (excluding insurance companies) which under existing regulations are required to prepare consolidated statements of condition on a line-by-line basis shall be required to submit report on a consolidated basis. The abovementioned reports shall be classified as *Category A-1* reports.

All UBs and KBs as well as their subsidiary banks shall be subject to all other reporting requirements (i.e., Basel III Capital Adequacy Summary Report) under the Basel III risk-based capital as may be prescribed by the Bangko Sentral.

Erroneous/Delayed/Erroneous and Delayed/Unsubmitted reports relative to the Basel III requirements shall be subject to penalties provided under Sec. 171 (*Non-compliance with the Bangko Sentral standards*).

### **Sanctions**

- a. *For non-reporting of CAR breaches.* It is the responsibility of the bank CEO to cause the immediate reporting of CAR breaches both to its Board and to the Bangko Sentral. It is likewise the CEO's responsibility to ensure the accuracy of CAR calculations and the integrity of the associated monitoring and reporting system. Any willful violation of the above will be considered as a serious offense for purposes of determining the appropriate monetary penalty that will be imposed on the CEO. In addition, the CEO shall be subject to the following non-monetary sanctions:

- (1) First offense – warning;
- (2) Second offense – reprimand;

- (3) Third offense - one (1) month suspension without pay; and
  - (4) Further offense - disqualification.
- b. *For non-compliance with required disclosures.* Willful non-disclosure or erroneous disclosure of any item required to be disclosed under this framework in the Published Statement of Condition shall be considered as a serious offense for purposes of determining the appropriate penalty that will be imposed on the bank. In addition, the CEO and the board shall be subject to the following non-monetary sanctions:
- (1) First offense - warning on CEO and the Board;
  - (2) Second offense - reprimand on CEO and the Board;
  - (3) Third offense - one (1) month suspension of CEO without pay; and
  - (4) Further offense - possible disqualification of the CEO and/or the Board.

*(Circular Nos. 1024 dated 06 December 2018, 988 dated 20 December 2017, 956 dated 17 April 2017, and M-2014-019 dated 10 April 2014)*