# TABLE OF CONTENTS

| Foreword | iii |
| Executive Summary | xviii |

## Chapter 1
**BASEL III IMPLEMENTATION: CHALLENGES AND OPPORTUNITIES INTEGRATIVE REPORT**  
By J P R Karunaratne

1. Introduction  
   1.1 Currency Volatility in 1970s  
   1.2 Basel I Capital Accord  
   1.3 Evolution of Basel II Framework  
   1.4 Global Financial Crisis and Evolution of Basel III Framework  
   1.5 Issues and Implications in the Implementation of Basel III in Global Banks  
   1.6 Objectives, Scope of the Study and General Outline of the Paper  
   1.7 Limitations of the Study  
   1.8 Structure of the Paper  

2. The Overview of Financial System and Risk Assessment  
   2.1 General Overview of the Financial System  
   2.2 Risk Oversight Assessment and Vulnerabilities  

3. Assessment of the Impact of Basel Standards  
   3.1 Current Status of Application of Basel Capital Adequacy Framework  
   3.2 Assessment of Impact on Current Capital Ratios  
   3.3 Assessment of Current Level of Leverage  
   3.4 Assessment of Liquidity in Terms of New Liquidity Ratios  

vi
Chapter 3
BASEL III IMPLEMENTATION: CHALLENGES AND OPPORTUNITIES IN CAMBODIA
By Ban Lim

1. Introduction
1.1 Objective and Scope of Study
1.2 General Outline of Paper

2. Overview of Financial System and Risk Assessment
2.1 General Overview of Financial System of Cambodia
2.2 Risk Oversight Assessment and Vulnerabilities
2.3 Status of the Application of Basel Capital Adequacy Framework

3. Assessment of Impact of Basel Standards
3.1 Current Level and Adequacy of Capital of Individual Banks or Banking Groups in Terms of Key Performance Indicators for Capital
3.2 Assessment of Capital Level in Terms of Enhanced Capital Requirements of Basel under Different Capital Components
3.3 Current Level and Adequacy of Liquidity of Individual Banks or Banking Group in Terms of Key Performance Indicators for Liquidity

4. Issues and Challenges of Implementing Basel Standards
4.1 Regulatory Constraints
4.2 Level of Coverage
4.3 Attract New Capital and Challenges for Enhancing Capital Level
4.4 Adaptation with New Liquidity Requirement
4.7 Impact on Cross Border Supervision 131
4.8 Issues in Implementation of Countercyclical Capital Buffer 131

5. The Way Forward and Strategic Options 132
5.1 Strengthening the Regulatory Framework 132
5.2 Development of Capital Markets and Instruments 133
5.3 Balancing Between Conservativeness and Competitiveness of Indonesian Banking Industry 133
5.4 Roadmap for Implementation of Basel III 134

6. Conclusion 134

References 136

Chapter 5
THE EFFECTS AND POLICY IMPLICATIONS OF BASEL III IN KOREA
By Jinshik Son

1. Introduction 137

2. Overview of Korean Financial Systems and Risk Assessment 138
   2.1 Financial Institutions 138
   2.2 Financial Markets 140
   2.3 Risk Oversight Assessment and Vulnerabilities 144

   3.1 Contents of Global Financial Regulations 151
   3.2 Current Status of Compliance by Korean Banks 156

4. Effects of Basel III Capital Regulations 158
   4.1 Effects on Banks’ Behaviour 158
   4.2 Effects on Financial Markets 160
   4.3 Effects on Economic Growth 161
   4.4 Banks’ Risk Management Behaviour and Effects of Countercyclical Capital Buffer 165
5. Effects of Basel III Liquidity Standards
   5.1 Effects on Banks' Behaviour
   5.2 Effects on Financial Markets

6. Policy Implications and Conclusions

References

Chapter 6
BASEL III IMPLEMENTATION: CHALLENGES AND OPPORTUNITIES IN MALAYSIA
By Muhammad Syukri bin Shamsuddin

1. Introduction

2. The Overview of Financial System and Risk Assessment
   2.1 General Overview of the Malaysian Financial System
   2.2 The Application of Basel Capital Adequacy Framework in Malaysian Banks

3. Assessment of the Impact of Basel III
   3.1 Current Level and Adequacy of Capital of Individual Banks or Banking Groups in Terms of Key Performance Indicators for Capital
   3.2 Assessment of Capital Levels in Terms of Enhanced Capital Requirements of Basel under Different Capital Components

4. Issues and Challenges of Implementing Basel III Standard on Malaysian Banks

5. The Way Forward and Strategic Options

6. Conclusion

References
Chapter 7
BASEL III IMPLEMENTATION: CHALLENGES AND OPPORTUNITIES IN MYANMAR
By Cho Cho Lwin

1. Introduction 207
   1.1 Objectives and Scope of Study 207
   1.2 Outline of Paper 208

2. Overview of Financial System and Risk Assessment 210
   2.1 General Overview of the Financial System 210
   2.2 Risk Oversight Assessment and Vulnerabilities 212
   2.3 Status of Application of Basel Capital Adequacy Framework 215

3. Assessment of Impact of the Basel Standards 216
   3.1 Assessment of Impact on Current Capital Ratios 216
   3.2 Assessment of Current Level of Leverage 221
   3.3 Assessment of Liquidity in Terms of New Liquidity Ratios 222
   3.4 Impact on Different Peer Groups and the Banking System 225

4. Issues and Challenges in Implementing the Basel Standards 225
   4.1 Regulatory Constraints 225
   4.2 Capital Augmentation and Related Issues 227
   4.3 Review of Assets and Liability Management Strategies 227
   4.4 Implications on Cost and Profitability 229
   4.5 Implications for the Financial Markets/Economy 231
   4.6 Infrastructure Issues 231
   4.7 Human Resource Constraints 231
   4.8 Impact on Cross-border Supervision 232

5. The Way Forward and Strategic Options 232
   5.1 Strengthening the Regulatory Framework 232
   5.2 Capital and Liquidity Management Strategies of Banks 233
   5.3 Development of Capital Market Instruments 236
   5.4 Development of Infrastructure and Addressing of Related Issues 238
   5.5 Capacity Building for Staff of Regulator and Banks 239
   5.6 Road Map for Implementation of Basel III 239
Chapter 8
BASEL III IMPLEMENTATION: CHALLENGES AND OPPORTUNITIES IN NEPAL
By Chet Prasad Uprety

1. Introduction
1.1 Objectives and Scope of Study
1.2 General Outline of the Paper

2. Overview of Financial System and Risk Assessment in Nepalese Financial System
2.1 General Overview of Nepalese Financial System
2.2 Risk Oversight Assessment and Vulnerabilities in Nepal Banking System
2.3 Status of Application of Basel Capital Adequacy Framework in Nepal

3. Assessment of the Impact of Basel III
3.1 Assessment of Impact on Current Capital Ratio
3.2 Assessment of Current level of Leverage
3.3 Assessment of Liquidity in Terms of New Liquidity Ratios
3.4 Impact on Different Peer Groups and Banking System

4. Issues Challenges and Implications of Implementing Basel III
4.1 Regulatory Constraints
4.2 Capital Augmentation and Related Issue
2.3 Status of Application of Basel Capital Adequacy Framework

3. Assessment of the Impact of Basel III
   3.1 Current Level and Adequacy of Capital of Individual Banks or Banking Groups
   3.2 Assessment of Capital Levels in Terms of Enhanced Capital Requirements of Basel III under Different Capital Components
   3.3 Assessment of Future Capital Requirements in Terms of Business Models of Banks and Identification of Gaps
   3.4 Current Level and Adequacy of Liquidity of Individual Banks or Banking Groups in Terms of Key Indicators for Liquidity
   3.5 Assessment of Current Liquidity in Terms of New Liquidity Requirements of Basel and Identification of Additional Requirements

4. Issues and Challenges in Implementing Basel Standards
   4.1 Regulatory Constraints
   4.2 Level of Coverage
   4.3 Attract New Capital and Challenges for Enhancing Capital Level
   4.4 Adaption of New Liquidity Requirements
   4.5 Enforcement Capabilities Assessment
   4.6 Macroeconomic Impact

5. The Way Forward and Strategic Options
   5.1 Introduction of Legislative Reforms and Preparation of Necessary Guidelines/Directions
   5.2 Discussions with Banks on Impact Assessment and Examination of Possible Strategies
   5.3 Improved Risk Management Framework
   5.4 Development of Capital Markets and Instruments
   5.5 Addressing Resource Constraints and Challenges (Capacity Building and Modifications to the IT Infrastructure)

6. Some Final Thoughts

References
Chapter 10
BASEL III IMPLEMENTATION: CHALLENGES AND OPPORTUNITIES
IN SRI LANKA
By R R S De Silva Jayatillake

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Introduction</td>
<td>319</td>
</tr>
<tr>
<td>1.1 Objective and Scope of Study</td>
<td>319</td>
</tr>
<tr>
<td>1.2 General Outline of Paper</td>
<td>320</td>
</tr>
<tr>
<td>2. Overview of Financial System and Risk Assessment</td>
<td>322</td>
</tr>
<tr>
<td>2.1 General Overview of Financial System of Sri Lanka</td>
<td>322</td>
</tr>
<tr>
<td>2.2 Risk Oversight Assessment and Vulnerabilities</td>
<td>328</td>
</tr>
<tr>
<td>2.3 Status of Application of Basel Capital Adequacy Framework</td>
<td>338</td>
</tr>
<tr>
<td>3. Assessment of Impact of Basel Standards</td>
<td>340</td>
</tr>
<tr>
<td>3.1 Assessment of Impact on Current Capital Rules</td>
<td>340</td>
</tr>
<tr>
<td>3.2 Impact of Different Peer Groups and the Banking System</td>
<td>347</td>
</tr>
<tr>
<td>4. Issues and Challenges of Implementing Basel Standards</td>
<td>348</td>
</tr>
<tr>
<td>4.1 Regulatory Empowerment</td>
<td>348</td>
</tr>
<tr>
<td>4.2 Capital Augmentation and Related Issues</td>
<td>349</td>
</tr>
<tr>
<td>4.3 Review of Asset and Liability Management Strategies</td>
<td>349</td>
</tr>
<tr>
<td>4.4 Human Resource Constraints</td>
<td>350</td>
</tr>
<tr>
<td>4.5 Infrastructure Issues</td>
<td>350</td>
</tr>
<tr>
<td>4.6 Impact on Cross-border Supervision</td>
<td>351</td>
</tr>
<tr>
<td>4.7 Issues in Implementation of Countercyclical Buffer</td>
<td>351</td>
</tr>
<tr>
<td>5. The Way Forward and Strategic Options</td>
<td>352</td>
</tr>
<tr>
<td>5.1 Strengthening Regulatory Framework</td>
<td>352</td>
</tr>
<tr>
<td>5.2 Capital and Liquidity Management Strategies by Banks</td>
<td>353</td>
</tr>
<tr>
<td>5.3 Development of Capital Markets and Instruments</td>
<td>355</td>
</tr>
<tr>
<td>5.4 Development of Infrastructure and Related Issues</td>
<td>355</td>
</tr>
<tr>
<td>5.5 Capacity Building for Staff of Regulators and Banks</td>
<td>355</td>
</tr>
<tr>
<td>5.6 Road Map for Implementation of Basel II and III</td>
<td>356</td>
</tr>
<tr>
<td>6. Conclusion</td>
<td>356</td>
</tr>
</tbody>
</table>

References                                                               | 357  |
Chapter 11
PECKING ORDER MACRO-PRUDENTIAL TOOLS: BOT'S EXPERIENCE FROM TAILORED POLICY MEASURES TO BASEL III'S COUNTERCYCLICAL BUFFER
By Maetinee Hemrit

1. Introduction 359
   1.1 Objective and Scope of the Study 359
   1.2 General Outline of the Paper 360

2. Overview of Financial System and Risk Assessment 360
   2.1 General Overview of the Financial System of the Country 360
   2.2 Risk Oversight Assessment and Vulnerabilities 362

3. Why Macro-prudential? 364

4. Basel III’s Countercyclical Buffer 366

5. Macro-prudential Policy Choices: BOT’s Experience 369
   5.1 Tightened Restrictions on Credit Card and Personal Loan: Addressing Sectoral Imbalance 370
   5.2 Loan-to-value (LTV) Ratios on Mortgage Loans: A Flexible Preemptive Tool 372
   5.3 Tightened Loan-loss Provisioning: Leaning against the Wind 374

6. BOT’s Reflection on Use of Countercyclical Buffer 375

References 377