"CAPITAL ADEQUACY REQUIREMENT"
"RISK-WEIGHTED CAPITAL RATIO"

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BY:
MOHD RASHID BIN MAHIDDIN
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INTRODUCTION

Introduction

A new capital framework, formulated along the lines of the Basle Capital Accord was tabled for discussion during the 1988 annual conferences with each of the three groups of licenced financial institutions. The framework was unanimously accepted by the banking industry.

With the coming into of the Banking and Financial Institutions Act 1989 on October 1,1989, the new capital framework was specified in November 1989 as the capital adequacy requirement for all licensed financial institutions in Malaysia, pursuant to section 37 of the Act.

A different methodology was used prior to this in calculating the different capital adequacy requirement of the various banking institutions. The approach taken to derive the measure of capital adequacy under the new framework involved assigning different weights to different classes of assets held by the institutions.

The significant improvement in profitability and the implementation of the **risk-weighted capital adequacy ratio (RWCR)** framework in September 1989 (which takes into account both on and off balance-sheet items and their perceived risk levels) had resulted in the restructuring and strengthening of the banks balance-sheet.

The introduction of a new capital adequacy requirement will ensure that the capital position of the banking system would continue to remain strong.

The Basle Committee was in forefront of endeavours to promote convergence of international capital standards. The Basle Capital Accord which is based on concept of weighting assets according to their perceived level of risk categorised into five risk weights of **0%, 10%, 20%, 50%, 100%** and assessing the adequacy of capital on the risk adjusted assets.

In view also of the need to have international comparability in capital standard, Bank Negara Malaysia had formulated a uniform capital framework along the lines of the Basle Capital framework for all financial institutions in Malaysia. The risk weighted approach to capital adequacy measurement is more equitable as it requires those institutions with a higher risk profile to maintain