Taiwan Banking Brief Says IRB Capital Approach Will Test Lender Discipline

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This report does not constitute a rating action.

The adoption of new capital rules offers more flexibility for some of Taiwan's major banks. The change will allow more granular/detailed credit risk measurement, which could improve transparency. However, using freed up capital to pursue aggressive growth or pay out earnings could weaken capitalization and, ultimately, credit profiles.

That's according to an article published today, titled "**Taiwan Banking Brief: IRB Capital Approach Will Test Lender Discipline.**"

Under the new internal ratings-based (IRB) approach, approved banks can now use their own internal models to assess how risky their loans and other credit exposures are.

Taiwan Ratings believes that while banks' capital efficiency will improve under the new methodology, the adoption of the IRB approach won't affect our assessment of a bank's capitalization. Moreover, the switch to the IRB model could improve risk transparency and strengthen how the Taiwan banking sector develops and validates risk models.

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