

**PRAKAS**  
**ON**  
**STANDARDIZED PROCEDURE FOR PROMPT CORRECTIVE ACTIONS**  
**FOR BANKING AND FINANCIAL INSTITUTIONS**

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*As amended by Prakas B 7-05-212 dated November 29, 2005 on Amendment of Prakas Standardized Procedure for Prompt Corrective Action for Banking and Financial Institutions, and by Prakas B7-07-133, dated August 27, 2007 on Microfinance Institution's Solvency Ratio.*

**Article 1**

To issue formal procedure for prompt corrective action (PCA) of the banking and financial institutions licensed by the National Bank of Cambodia, hereafter referred to as financial institutions by pre-establishing practice formalities of financial institutions and to implement oversights with uniformity and fairness.

**Article 2**

1. "Prompt corrective action" is a prescribed set of disciplinary sanctions and limitations applicable to financial institutions in accordance to the Law on Banking and Financial Institutions.

2. *[As amended by Prakas B 7-07-133 dated August 27, 2007 On Microfinance Institution's Solvency Ratio]*

"Solvency ratio" refers to the calculation of capital adequacy stipulated in Prakas B7.00-46 relating to the Banks' Solvency ratio and Prakas B7-07-133 on Microfinance Institution's Solvency Ratio.

3. "Capital Restoration Plan" is a formal plan signed by a financial institution's Board of Directors and submitted to the National Bank of Cambodia. Such a plan details the actions, strategies and commitments the Board will undertake to attain capital adequacy as defined by the solvency ratio. Such a plan includes numerical financial goals and stipulates timetables and deadlines for attaining said benchmarks.

4. "Provisional Administrator" is a person appointed by the National Bank of Cambodia following art. 57 of the law on banking and financial institutions (LBFI) to manage direct and represent the financial institution. His duty (art. 59 of LBFI) is to assess the financial situation and administer the current activities in order to preserve as far as possible the covered entity's solvency and maintain the rights of depositors and creditors.

5. "Capital Call Meeting" is a formal meeting called by NBC, where financial institution directors are notified of a material capital deficiency at their financial institution and given a specified time period to provide a specific capital Injection amount.

**Article 3** *[as amended by Prakas B 7-05-212 dated November 29, 2005]*

Under the prompt corrective action procedures, the financial institutions will be

categorized based on their solvency ratio, as previously defined in Prakas on Solvency ratio of Banks. A financial institution is classified as:

- a. Well-Capitalized when its solvency ratio equals or exceeds 20 per cent.
- b. Adequately Capitalized when its solvency ratio equals or exceeds 15 percent, but is less than 20 per cent
- c. Undercapitalized when its solvency ratio equals or exceeds 10 per cent, but is less than 15 percent
- d. Significantly Undercapitalized when its solvency ratio equals or exceeds 5 per cent., but is less than 10 per cent.
- e. Critically Undercapitalized when its solvency ratio is less than 5 per cent.

#### **Article 4**

When a financial institution becomes undercapitalized, it must prepare and submit a Capital Restoration Plan (CRP) to the NBC within 30 days after it became undercapitalized. The NBC will notify the financial institution in writing of the CRP's acceptability within 30 days of receipt or any delay and the reason for the delay.

#### **Article 5**

An acceptable CRP must indicate the possibility of capital restoration and must include the following:

- a. Current balance sheets and budgets, long-term budgets, a strategic plan, market analysis based on realistic assumptions, and any other relevant information.
- b. Means to raise capital that must address:
  - The steps the financial institution will take to become adequately capitalized.
  - The levels of capital to be attained during each quarter of each year of the plan.
  - The types and levels of activities in which the financial institution will engage.
  - Any other information the NBC may require.

#### **Article 6**

In addition to the preparation and submission of the CRP to the NBC, the influential shareholders must submit a written guarantee that the financial institution will comply with the CRP. The guarantee must include the financial commitment of the influential shareholders in the implementation of the CRP. In addition, the guarantee must include the assurances that the owner will:

- a. Take actions required by the CRP.
- b. Ensure the selection of new competent management.
- c. Restrict transactions between the financial institution and the owner.
- d. Discontinue any risky or inappropriate activities.

Depending on the company involved, the guarantee may also include a promissory note, a pledge of assets, appropriate assurances from company counsel, a company board of directors' resolution, and other supervisory actions deemed necessary to ensure performance.

## **Article 7**

Undercapitalized financial institutions that fail to submit or implement an acceptable CRP and significantly undercapitalized financial institutions shall face the following sanctions:

- a. NBC approval before paying any bonus or increasing compensation to a senior executive officer.
- b. Injunction to recapitalize
- c. Restrictions on transactions with affiliates.
- d. Restrictions on interest rates on deposits.

Other discretionary measures may also be decided, at NBC's sole decision:

- a. Restrictions on asset growth or reduction of assets.
- b. Restriction on activities.
- c. Resignation of one or more executives
- d. Injunction to hire new qualified senior executive officers
- e. Injunction to stop taking deposits from correspondent financial institutions.
- f. Injunction of divesting subsidiaries that may cause a significant risk to the financial institution
- g. Appointment of a provisional administrator

## **Article 8**

As soon as a financial institution is known to have become critically undercapitalized, a capital call meeting shall be called. The financial institution shall be ordered not to:

- a. Sell significant assets or waiver customers guarantees
- b. Extend new credits to customers
- c. Change accounting methods, unless existing ones break the law
- d. Pay compensation or bonuses.
- e. Pay interest on liabilities above prevailing market rates.

A provisional administrator shall be appointed within 180 days of notifying capital call meeting.

## **Article 9**

The General Direction, the General Secretariat, the General Cashier, the General Inspection, all Departments of the National Bank of Cambodia, and all Banking and Financial Institutions under the NBC's supervisory authority shall implement this Prakas.

## **Article 10**

This Prakas shall have effect from the signing date.

Phnom Penh, 17 October 2002

**The Governor**

Signed and Sealed: **Chea Chanto**