

Chair's Summary of Meeting of the Board of Directors

27 June 2008

REVIEW OF THE ASIAN DEVELOPMENT BANK'S CAPITAL ADEQUACY FRAMEWORK

1. Directors unanimously endorsed the proposed Capital Adequacy Framework for the ADB. Directors supported the proposed dynamic methodology that is in line with best practices in other multilateral institutions and the industry in general. Directors noted that the Framework will replace the existing static measure of capital adequacy based on a fixed minimum target for the equity to loan ratio (ELR) of 35%. Under the proposed Framework, ADB will instead assess its capital adequacy annually using an income-based stress test methodology. The proposed Framework provides ADB with the ability to assess its capital adequacy based on changing portfolio risk profiles. Directors emphasized the importance of setting up the long-term capital adequacy framework, and welcomed the forthcoming informal seminar and information paper on the framework.

2. Several Directors highlighted the potential impact of the expanded private sector operations under Strategy 2020 on ADB's risk management approach in general and on the proposed Framework in particular, and that this impact should be addressed proactively. The importance of enhancing the Framework on a periodic basis was also emphasized, as well as the need for providing the Board with more frequent updates on ADB's capital adequacy assessment. One Director stressed that while this Framework would provide a good tool to assess the pressures on Bank's risk capital and triple-A rating, its greater efficacy would be in providing an opportunity to analyze and re-evaluate the causes of these pressures and garner support measures to prevent such pressures. Several Directors highlighted the current lending headroom constraint and stressed the need for ADB to initiate general capital increase negotiation as soon as possible. Some Directors stressed the importance of further strengthening ADB's risk management function.

3. In responding to the issue of ADB's risk management function, the Chair agreed that this function should be further strengthened and indicated that ADB will set up a Risk Committee, chaired by the Managing Director General and reporting to the President.