Implementing the New Basel Accord in Developing Countries

2006 KDI Conference

Adopting the New Basel Accord

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Outline

- **The Basel II Framework**
- Basel II implementation – the current phase
- Supervisory cooperation – even more required
- Post Basel II - the Committee's focus

Basel II is a reality

- Framework released in June 2004
  - Followed by completion of some outstanding work
- Basic aim is to
  - Improve banks' risk management systems
  - Deliver a prudent amount of capital in relation to risk
  - Maintain a reasonable level playing field for all banks
- Reaching consensus was a huge challenge
- Basel II is meant to be a global framework

Basel II – A Global Framework

- Committee involved non-member countries to a great extent
- Expected to be implemented by many countries
  - It is likely that Basel II will become the new yardstick for assessing banks' financial soundness (as Basel I)
  - Timing of implementation will (and should) vary

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Time schedule for implementation (Basel II text)

26 June 2004	• Release of Basel II Framework
2004 – 2006	• National processes – Impact studies – Legislation and national rule making
End 2006	• Committee member implementation of simpler approaches
End 2007	• Committee member implementation of advanced approaches
2008 - ?	• Extended transition period for other countries

When should countries implement Basel II?

- Only national authorities can answer this question
- Timing should be determined by a country's own circumstances
- Basel II may be a lesser priority compared to other efforts (e.g. Core Principles, sound corporate governance)
- Basel II has significant benefits, but poses significant challenges as well

Relationship with Core Principles

- Do (revised) Core Principles require implementation of Basel II?
- Basel II not precondition for compliance with Core Principles
- But high degree of compliance precondition for successful implementation of Basel II
- Basel I banks should also be compliant.

Implementation – some issues to be considered

- Implementation is a major undertaking
- Several issues to deal with, e.g.
  - Transforming the framework into enforceable rules
  - All three pillars need to be implemented
  - Determining scope of application
  - Range of approaches – credit and operational risk
  - National discretion areas – higher requirements?
  - Cross-border implementation
- Assistance provided for supervisors (e.g. through AIG)

Accord Implementation Group

- Mandate: share information, discuss home-host issues, promote consistency in implementation of Basel II
- Guidance provided through (e.g.)
  - High-level principles for the cross-border implementation of Basel II
  - Home-host information sharing for effective Basel II implementation
- Cross-border case studies
- Various other documents
- Discussions at various events

Are there specific issues for developing countries?

- Different implementation plans across jurisdictions
- Step-by-step approach may be appropriate
- Pillars 2 and 3 should not be ignored
- Advanced approaches may be challenging
  - Data requirements
  - Resources and training requirements
  - AIRB not necessarily means lower capital charges
- Supervision of internationally active bank

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Supervisory cooperation

- Not a new issue
  - From its inception, Committee's focus was on supervisory cooperation
  - Several documents released (starting in 1975 with Concordat)
- However, cooperation has become even more important under Basel II
  - Different approaches
  - Validation
  - Systemically important subsidiaries

Home-host information sharing

- Paper released in June 2006
- Developed jointly with CPLG
- Focus on Basel II, but may be beneficial as regards other issues
- Reiterates importance of communication between home and host supervisor while stating that banks have the primary role in implementing Basel II
- Addresses “significant” subsidiaries
  - Significant for the home jurisdiction
  - Significant for the host jurisdiction

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Basel II is more a journey than a destination

What are the main themes for the future?

- Concerning capital requirements, focus is on implementation
- Avoiding regulatory overload
- Enhanced coordination with global supervisory community
- More focus on other supervisory areas

Conclusion

- Publication of June 2004 Framework was only the beginning of a new phase: implementation
- Supervisors should have a strategy for implementing Basel II
  - It is their decision whether and how to implement Basel II
- Cross-border implementation requires a high degree of cooperation and coordination between home and host country supervisors
- Beyond principles and collaborative arrangements, at the end of the day what matters is a good relationship and trust