

Basel II: Preconditions, Options & Implementation Issues in non G-10 Countries

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The World Bank

*4th Annual Seminar on Policy Challenges for the
Financial Sector*

June 1 – 3, 2004, Washington, DC

Benefits of the New Accord

- Opportunities for bank supervisors
- Capital more closely aligned to risk
- Improved risk management



Challenges of the New Accord

- Wider range of technical, regulatory issues for supervisors to interpret
- Transition of the regulatory system, and incentives to industry to improve risk management framework
- Range of options & choices in approaches to risk management



Implementation Challenges

- Emerging economies are at different stages of development, and each needs a realistic transition path
- Preconditions for effective supervision
- Strain on universally scarce supervisory resources
- Assessment of readiness vis a vis Basel II – addressing gaps



Implementation Challenges – con't.

- Credit risk management
 - Loan loss classification
 - Loan loss provisioning and adequate reserves
 - Risk management culture
- Operational risk management
- Bank corporate governance
- IT – hardware and software



Enhancing Financial Sector Infrastructure

- Legal & regulatory framework
 - Preconditions for effective supervision
 - Supervisory authority to determine capital at the bank level
 - Framework to enforce financial contracts
 - Effective bank resolution framework
- Accounting & Auditing standards
- Credit Information
 - Historical data; bank level, external sources
 - Credit registries/bureaus

Basel II – Implications for World Bank Work

- Joint Bank/Fund FSAP assessments
 - Countries to be assessed on the effective implementation of the capital regime they choose
- Technical & financial support to lay the foundation for Basel II
- Over medium term, assist in development of FS infrastructure to support improved risk management.



Thank you.

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