Implementation Issues for Basel II

World Bank/IMF/Federal Reserve Seminar for Senior Bank Supervisors from Emerging Economies
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Elizabeth Roberts, Director
Financial Stability Institute
Implementation of Basel II

- What is the Basel Committee doing?
- What are supervisors around the world doing?
- What is the Financial Stability Institute doing?
What is the Basel Committee doing?

- Finalized the revisions but the revisions will continue
- Ongoing consultations outside the Committee
- Discussions with international financial institutions
- Preparation of a transition document
- Accord Implementation Group (AIG)
- Core Principles Liaison Group’s Working Group on Capital
Transition document

- Drafted by a sub-group of the Basel Committee in order to provide practical guidance on implementation of Basel II
- Several non-G10 countries participated in the sub-group
- Available on BIS website (www.bis.org)
Transition document

- Covers several key areas:
  - Assessing national supervisory priorities
  - Determining the population and options for Basel II
  - Practical steps for implementation of the three pillars
  - Review and possible adjustment of the legal and regulatory framework
  - Assessing supervisory resources and training needs
  - Areas of national discretion (annex)
Accord Implementation Group (AIG)

- Home-host issues receiving attention
- Guidance on information-sharing protocols
- Work to minimize duplication of validation/supervision efforts
- High level principles for cross-border implementation (issued in August 2003)
- About 20 case studies currently being conducted
CPLG Working Group on Capital

- Will continue to discuss issues of interest to the non-G10 such as:
  - Home/host issues
  - Impact of Basel II on emerging markets
- Several members will participate in the case studies being conducted by the AIG
- An important vehicle for providing information to the Basel Committee on implementation of Basel II in the non-G10
What are supervisors around the world doing?

- Learning about Basel II
- Reviewing their options
- Forming Basel II teams
- Talking to their banks
- Talking to their neighbors
- Making announcements
- Pursuing legislation, if necessary
- Doing nothing
Learning about Basel II

- Very complex document
  - Several choices for calculating capital charge for credit risk
  - Two new pillars
  - Addition of explicit charge for operational risk
- Wide range of options under national discretion
Reviewing their options

- Stay with Basel I
- Implement parts of Basel II and if so,
  - Which parts?
  - Under what time frame?
- Implement all options under Basel II and if so,
  - Under what time frame?
Forming Basel II teams

- Complexity of Basel II makes it very difficult for one person to be an expert on every aspect
- Consequently, many supervisory authorities are forming Basel II teams
  - Everyone has a general awareness of the various components
  - Individuals or groups of individuals specialize in certain aspects of Basel II

**Divide and Conquer!**
Talking to their banks

- Industry consultations
  - Domestic banks
  - Local subs of foreign banks
- Considering impact on local branches of foreign banks
Talking to their supervisory neighbors

- Regional groups playing a key role in this regard
- On the agendas of many regional group meetings
- Some regions are even coming up with a plan for implementation on a regional basis
Making announcements

- For example:
  - United States
  - European Union
  - China
  - India
Pursuing legislation

- In many jurisdictions, capital requirements are built into banking legislation
- In some jurisdictions, supervisors do not have the necessary legal authority to implement certain aspects of Basel II, especially as it relates to Pillar II
- Getting legislation passed can be very time consuming!
Doing nothing

- It was an option but:
  - It is becoming harder to do now that the revisions have been finalized
  - Will delay important activities such as data collection
  - In the long run, domestic banks operating internationally will be penalized
  - Foreign banks operating locally will not know what is expected of them by the national supervisor
Future schedule for Basel member countries

2004-2006      National processes, including:
                – Further testing/impact studies to guide national
discretion choices
                – Legislation and national rule-making
                – Banks plan for implementation
End 2006       Implementation of simpler methodologies
End 2007       Implementation of advanced methodologies
What is happening in your country?
The Work of the Financial Stability Institute
FSI questionnaire on Basel II implementation

- **Purpose:**
  - to determine the implementation plans of selected non-Basel Committee countries
  - to identify areas where supervisory authorities may require FSI assistance in implementing Basel II
- Responses received from 107 countries
- Close to 10,000 supervisors globally will need training on Basel II
- A summary of the results available on the BIS website (www.bis.org)
## FSI questionnaire on Basel II implementation

<table>
<thead>
<tr>
<th>Region</th>
<th># of Respondents</th>
<th># intending to adopt Basel II</th>
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<tr>
<td>Asia</td>
<td>18</td>
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<tr>
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<td>Middle East</td>
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<td>7</td>
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<tr>
<td>Non-BCBS Europe</td>
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<td>34</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>107</strong></td>
<td><strong>88</strong></td>
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FSI approach to implementation assistance

- Multi-level approach:
  - meetings on the practical application of Basel II
  - seminars on Basel II-related issues
  - FSI Connect tutorials on Basel II
Meetings on the practical application of Basel II

- FSI will be conducting a series of regional meetings on practical application issues
- Objective of meetings is to share information, practices and experiences regarding specific challenges
- Targeted audience is senior supervisors responsible for implementing Basel II in their country
- Experts from BCBS and the AIG will also participate
Seminars on Basel II-related issues

- Continuation of seminars offered for the past several years
- Emphasis will move from more general overview to very specific issues (operational risk, Pillar 2, etc.)
- Will target senior supervisors and technical experts on Basel II issues
FSI Connect tutorials on Basel II

- Of the 85 hours of course material to be available by year-end 2004, approximately 40 will be related to Basel II
- Intended to supplement and reinforce the seminars offered on Basel II
Practical considerations

- Basel II should not take precedence over other supervisory priorities such as full implementation of the Basel Core Principles.
- There are a large number of areas of national discretion so, for those supervisors applying Basel II to some or all banks, decisions need to be made.
- Basel II has been designed as an evolutionary framework so changes will be made going forward.
Questions?

Elizabeth Roberts
Director
Financial Stability Institute
Bank for International Settlements

elizabeth.roberts@bis.org