

Consensus achieved on Basel II proposals

11 May 2004

The Basel Committee on Banking Supervision is pleased to announce that it has achieved consensus on the remaining issues regarding the proposals for a new international capital standard. The group of central bankers and banking regulators who make up the Committee met today at the Bank for International Settlements in Basel, Switzerland, and will publish the text of the new framework, widely known as Basel II, at the end of June 2004. This text will serve as the basis for national rule-making and approval processes to continue and for banking organisations to complete their preparations for Basel II's implementation.

The Committee confirmed that the standardised and foundation approaches will be implemented from year-end 2006. The Committee feels that one further year of impact analysis/parallel running will be needed for the most advanced approaches, and these therefore will be implemented at year-end 2007. This will also provide additional time for supervisors and the industry to develop a consistent approach for implementation.

"Basel II introduces a far more comprehensive framework for regulatory capital and risk management than we have ever known," said Jaime Caruana, Chairman of the Basel Committee and Governor of the Bank of Spain. "The Committee owes this accomplishment to the tremendous commitment and technical support that banks, central banks, supervisory authorities and academics from around the world offered us. Now that level of collaboration will be invaluable to the prudent implementation of the new framework."

Basel II represents a major revision of the international standard on bank capital adequacy that was introduced in 1988. It aligns the capital measurement framework with sound contemporary practices in banking, promotes improvements in risk management, and is intended to enhance financial stability.

"The publication of the text opens a new phase for Basel II," agreed Nick Le Pan, Vice Chairman of the Committee and the Canadian Superintendent of Financial Institutions. "Regulators and bankers gain an opportunity to enhance banking supervision and risk management, although non-member countries must proceed at their own pace based on their own priorities."

Technical issues resolved

At its meeting, the Committee reached agreement on the outstanding issues. These included specifying a treatment for revolving retail exposures and resolving the measurements required for "loss-given-default" (LGD) parameters for banks that adopt one of the internal ratings-based (IRB) approaches to credit risk. Members also discussed the calibration of the framework and ways to uphold the Committee's objectives to maintain broadly the aggregate level of the minimum capital requirements, while providing incentives to adopt the more advanced risk-sensitive approaches of the new framework. Appendix I outlines the mechanics of the treatments to which the Committee has agreed.

Principles on cross-border implementation elaborated

Following up on its statements issued in January 2004 related to the application of Basel II across borders, the Committee furthermore elaborated certain principles and issues regarding the need for home and host country supervisors to coordinate and cooperate to reduce burdens on the industry and to employ supervisory resources efficiently and effectively. The Committee has detailed practical implications of these principles in Appendices II and III.

The publication of the framework

The Committee's decisions will be reflected in the text that details the new capital adequacy framework. The text will be released by the end of June on the Committee's home page on the website of the Bank for International Settlements.