

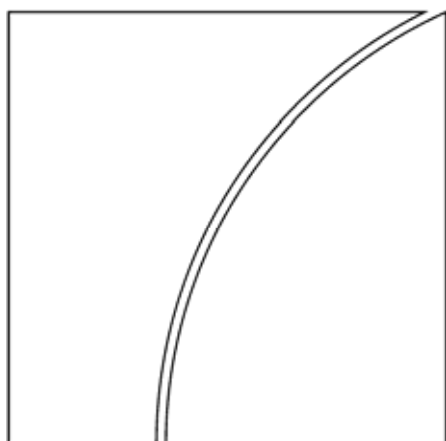
Basel Committee on Banking Supervision

Report No 15

Report on International Developments in Banking Supervision

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This report is prepared for the benefit of supervisory authorities and interested international agencies.



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Contents

Chapter I	Preface	1
Chapter II	Review of current international supervisory developments	2
Chapter III	Overview of results of the fifth quantitative impact study (QIS 5)	7
Chapter IV	Basel Committee publications and website	14
Chapter V	The Financial Stability Institute.....	17
Chapter VI	Work of other international groups of supervisors	27
	Association of Financial Supervisors of Pacific Countries (AFSPC)	27
	The Association of Supervisors of Banks of the Americas	30
	The Banking Supervision Committee of the ESCB	36
	Caribbean Group of Banking Supervisors	40
	Committee of Banking Supervisors of West and Central Africa	46
	Committee of European Banking Supervisors.....	50
	EMEAP Working Group on Banking Supervision	52
	Group of French-Speaking Banking Supervisors	55
	The Islamic Financial Services Board	58
	Offshore Group of Banking Supervisors (OGBS)	61
	Regional Group on Banking Supervision of Transcaucasia, Central Asia and the Russian Federation	65
	SADC Subcommittee of Bank Supervisors (SSBS)	68
	SEANZA Forum of Banking Supervisors.....	72
Appendix:	Contact information for Chairmen and Secretariats of International Groups of Supervisors	73

Chapter I

Preface

This is the fifteenth in a series of biennial reports on international developments in banking supervision prepared and distributed by the Basel Committee on Banking Supervision in cooperation with other international groups of supervisors. The report aims to brief bank supervisors of international supervisory developments in advance of the biennial International Conference of Banking Supervisors (ICBS). The fourteenth conference is to be held in Mérida, Mexico on 4 and 5 October 2006.

The report is mainly devoted to providing an overview of the work of the Basel Committee and other international groups of banking supervisors since the thirteenth ICBS in Madrid in September 2004. Commentary on the work of the Basel Committee over the past two years is provided in Chapter II. Chapter III presents a summary of the results of a recent Quantitative Impact Study (QIS 5) which was designed to evaluate the effects of the Basel II Framework in comparison with the current capital standards established in 1988. Chapter IV contains details of the Basel Committee's publications and website. The work of the FSI is discussed in Chapter V, while Chapter VI describes the work of the regional supervisory groups. Contact information for the International Groups of Supervisors can be found in the Appendix.

For the first time, this report is being made available to a wider public through its posting on the BIS website (<http://www.bis.org/bcbs/publ.htm>). Some major changes have been made to this site over the recent past so as to make this site easier for users to navigate by grouping the Committee's documents into subject folders. All the Basel Committee's published papers are available on this site and up to date information is also posted for the regional supervisory groups.

Chapter II

Review of current international supervisory developments

The Revised Capital Framework

The Committee's recent efforts have focused on issues related to the implementation of the Basel II Framework, such as better coordination between home and host supervisory authorities. The fifth Quantitative Impact Study conducted by the Committee also marks a major milestone in the implementation of the Framework. The Committee has also extended the Framework to better address risks arising from trading activities, for example, in the rapidly growing credit derivatives market.

Implementation Issues

With the completion of the Basel II Framework, the Basel Committee has turned its attention to effective implementation of the Framework. Implementation is taking place through national legislative and/or regulatory processes, which may give rise to differences across jurisdictions that result from local market conditions and supervisory practices. The Committee is therefore working to encourage as much consistency as possible in the implementation of the Framework in order to reduce burden on supervisors and banks and minimise duplication of effort. The primary way in which this is achieved is through the Committee's Accord Implementation Group (AIG), which serves as a forum for sharing of information among supervisors. For example, members of the AIG regularly share their experiences as home supervisors for some of the largest internationally active banks in the world. Members are engaged in practical outreach to host supervisors and to the banks themselves to establish clear lines of communication and cooperation in a pragmatic and effective manner.

To assist in these efforts, the AIG worked with supervisors from several non-Committee member countries to develop a paper on *Home-host information sharing for effective Basel II implementation*, which was published for comment in November 2005 and finalised in June 2006. This is part of a broader effort to ensure that implementation issues are discussed not only within the Committee, but also with supervisors outside of the Committee.

Finally, the AIG is working to promote greater consistency through sharing information in several key technical areas. For example, the AIG is exploring a range of issues related to the validation of banks' Basel II systems and processes. In that regard, the AIG has published several high-level, principles-based papers providing guidance on such topics as validation of portfolios that lack sufficient default data and the use of vendor products within banks' internal-ratings based systems. More detailed studies are being made available to bank supervisors on a global basis. The AIG is also actively sharing views on banks' assessment of operational risk, and last year published a paper on the treatment of expected losses in an advanced measurement approach.

Fifth Quantitative Impact Study

To evaluate the effects of the Basel II Framework on overall capital levels, the fifth Quantitative Impact Study (QIS 5) was undertaken in all Basel Committee member countries except the United States (which contributed with its QIS 4 data), and in 19 non-G10

countries, from October to December 2005. The primary objective of the study was to allow the Committee to review the calibration of the Basel II Framework. The QIS 5 workbooks reflected all recent changes to the Basel II Framework.

The QIS results for the Basel Committee member countries showed that minimum required capital under the Basel II Framework would decrease relative to the current Accord. For large, internationally active banks, minimum required capital would decrease by 6.8%, based on the results for the approach that participating banks will likely adopt after implementation. Taking into account the benign economic conditions prevailing at the time of QIS 4 and 5 and the remaining uncertainties in the data, in May 2006 the Committee agreed that no adjustment of the 1.06 scaling factor to credit risk-weighted assets would be necessary at this stage.

Please see Chapter III for more information on QIS 5.

Application to Trading Activities

In completing the Basel II Framework in 2004, the Committee determined that it was still necessary to establish capital requirements for certain exposures arising from trading activities, and for exposures to "double default" scenarios, where the risk of both a borrower and a guarantor defaulting on the same obligation may be substantially lower than the risk of only one of the parties defaulting. The Committee worked jointly with the International Organisation of Securities Commissions to consult with industry representatives and other supervisors to produce proposals on these matters. In July 2005, the Committee published *The Application of Basel II to Trading Activities and the Treatment of Double Default Effects*. These rules will result in more risk-sensitive regulatory capital requirements for trading book exposures, including credit risk for over-the-counter derivatives, securities financing transactions and failed trades, as well as for double-default effects in both the banking and trading book. The Committee also recognises that in some cases national authorities may additionally decide to apply these rules to investment firms and to combined groups of banks and investment firms that are subject to prudential banking or securities regulation.

Basel Core Principles for Effective Banking Supervision

On 23 June 2006, the Committee closed an eleven-week public comment period on updated versions of the 1997 Basel Core Principles and the 1999 Methodology. The process for updating the documents is slated for completion at the October 2006 International Conference of Banking Supervisors, with endorsement by senior supervisors from around the world.

The Basel Core Principles and its Methodology represent a global standard for effective banking regulation and supervision that has been widely used by many countries as an overarching guideline for their supervisory frameworks. They have contributed to the overall strengthening of banking systems and, thus, have fostered financial stability. However, since 1997 major changes have occurred in financial systems and supervisory frameworks have also evolved significantly; in addition, the experience gathered in over one hundred Financial Sector Assessments conducted by the IMF and the World Bank, as well as self-assessments made by countries, have shown the need to update some aspects of the framework.

The review does not call into question the work carried out on the basis of the 1997 Principles, or indeed the planning of reforms on that basis. The number of changes incorporated has been limited to the minimum necessary to ensure its continued relevance

as a flexible, globally applicable standard. The update has been achieved in association with the Core Principles Liaison Group, a consultative group that includes high-level banking supervisors from sixteen non-Committee supervisory authorities, the European Commission, IMF, World Bank, and the FSI. In addition, prior to the public consultation period, the Committee had gone through a consultation process with Regional Groups of Supervisors as well as with the standard setting bodies from other financial sectors.

Corporate Governance

In the light of revised principles for corporate governance issued by the Organisation for Economic Co-operation and Development (OECD) in 2004, as well as a series of high-profile corporate governance breakdowns in recent years, some involving banks, the Committee decided to review its existing supervisory guidance on enhancing corporate governance for banking organisations, which had originally been published in 1999. While largely consistent with the earlier version, the revised document highlights the roles of boards of directors (especially independent directors) and senior management, discusses in greater detail the importance of effective management of conflicts of interest, and introduces a discussion of the importance of governing in a transparent manner, especially where a bank operates in jurisdictions, or through structures, that may impede transparency.

Accounting and Auditing

The Committee's Accounting Task Force continues to promote efforts that support the Committee's strong interest in promoting sound and high quality accounting, disclosure, and auditing standards for the financial industry. Over the past year, the Accounting Task Force has focused on developing prudential reporting guidance and taking an active role in the development of international accounting and auditing standards through discussions with standard setters and comment letters. The Task Force continues to benefit from high-level dialogues with accounting and auditing standard setters and industry leaders. These discussions have assisted the Committee in heightening the standard setters' sensitivity toward supervisory concerns over accounting and auditing issues early in the standard development process.

Over the past year and a half, the Accounting Task Force developed guidance addressing prudential concerns for banks electing to adopt the recently issued International Accounting Standards Board (IASB) fair value option for valuing financial instruments. Additionally, a consultative paper was issued at the end of 2005 that provided draft guidance on sound credit risk assessment and valuation for loans, which addressed how common data and processes could be used for credit risk assessment, accounting, and capital adequacy purposes. Both of these documents were well received within the industry and were issued in final form during June 2006.

Joint Forum

The Joint Forum operates under the aegis of the Basel Committee, the International Organisation of Securities Commissions and the International Association of Insurance Supervisors. It focuses on issues common to the banking, securities and insurance sectors, including the regulation of financial conglomerates.

The Joint Forum marked the completion of two initiatives in 2005 with the publication of papers on outsourcing and credit risk transfer. *Outsourcing in financial services*, published in February 2005, identifies the key issues and risks in outsourcing and provides guidance in the form of high-level principles that apply to firms and regulators across the banking, securities and insurance sectors. *Credit risk transfer*, published in March 2005, focuses on the key issues and risks in the transfer of credit risk and includes a number of recommendations for market participants and supervisors in the areas of risk management, disclosure, and supervisory approaches.

The Joint Forum's work in three other areas resulted in the publication of papers in 2006. *The management of liquidity risk in financial groups* was published in May 2006. This paper summarises the findings of a review of liquidity risk management practices among 40 large, complex financial groups with operations spanning national borders, financial sectors, and currencies. Also published in May 2006, *Regulatory and market differences: issues and observations* presents the results of a review of differences in regulatory approaches to the same type of risk across the banking, securities and insurance sectors. More recently, the paper entitled *High-level principles for business continuity* was published in August 2006. Its purpose is to provide a framework for the development by international standard setters and national authorities of business continuity arrangements that are broadly consistent but tailored to unique sectoral and local circumstances.

The current work of the Joint Forum is focused in two areas: how financial institutions manage risk concentrations on a firm-wide basis, and how they manage customer suitability risk, particularly as it relates to the sale of retail financial products and services. Both workstreams are expected to be completed by the end of 2007. A third workstream currently under consideration would review the extent to which various national supervisors have implemented the Joint Forum's 1999 principles for the supervision of financial conglomerates.

Basel Committee Transparency and Outreach

The Committee has taken a number of steps aimed at promoting openness with non-member central banks and supervisory authorities. On the most senior level, the Committee has organised the biennial International Conference of Banking Supervisors (ICBS) for over 25 years. Senior supervisors from over 130 countries participated in the 2004 ICBS in Madrid, and the next conference will be held in October 2006 in Mexico. In addition, the Committee meets annually with the heads of regional supervisory groups: the most recent meeting was held in January 2006 and the next one is scheduled for October 2006. Also, the Committee's representatives attend and speak at most of the regional group meetings.

The Committee's Core Principles Liaison Group (CPLG) provides a forum for more frequent and direct non-G10 involvement in Committee work. The CPLG comprises supervisors from eight G10 and sixteen non-G10 jurisdictions as well as representatives of the IMF and the World Bank, and meets regularly to review key issues on the Committee's agenda. Most recently, the CPLG worked closely with Committee members in the development of a consultative document on *Home-host information sharing for effective Basel II implementation*. The Committee's Chairman has chaired part of some CPLG meetings, while the Committee held its first full joint meeting with the CPLG in July 2005 in Krakow, and plans to repeat this practice in the future.

In addition to involvement in the CPLG, representatives of a number of non-member jurisdictions participate in expert sub-groups of the Committee. Additionally, a drafting team

consisting of an equal number of G10 and non-G10 representatives updated the *Core Principles for Effective Banking Supervision* and its accompanying Methodology.

Other fora exist for non-member jurisdictions to exchange information with the Committee and provide feedback on the Committee's work. For example, the Chair of the Committee's Accord Implementation Group meets with the CPLG's Working Group on Capital on a semi-annual basis. Furthermore, Committee members and the Secretariat often speak at events hosted by the Financial Stability Institute (FSI), which was founded jointly by the Committee and the BIS in 1999 to assist financial sector supervisors around the world in improving and strengthening their financial systems. FSI events provide additional opportunities for focused dialogue between Committee members and their high-level counterparts in non-member jurisdictions.

During the past year, the Basel Committee conducted a review of its transparency and outreach practices vis-à-vis both non-member supervisors and the industry. Based on the results of this review, the Committee has recently introduced a number of enhancements to its practices. Following its May 2006 meeting, the Committee began the practice of sharing meeting documents with the chairs of the regional supervisory groups as well as with non-G10 members of the Committee's Core Principles Liaison Group. The Committee is also constantly enhancing the quantity and quality of information available on its web site regarding its publications and the activities of its main working groups. Going forward, the Committee will also post comment letters received on most of its consultative papers. Lastly, beginning with this report, the Committee will publicly release its biennial Report on International Developments in Banking Supervision. Previously this report had been confined to the supervisory community.

International Conference of Banking Supervisors

The next in the series of biennial world conferences for banking supervisors will take place in Mérida, Mexico on 4-5 October 2006. The Mexican Banking and Securities Commission (CNBV) and the Basel Committee are jointly sponsoring the conference. Supervisory authorities from around the world have been invited to attend the conference, and approximately 300 delegates from well over 100 countries and international financial institutions are expected to attend. The main topics to be discussed are Core Principles and governance issues, and international banks in domestic markets.

The conference will open with formal addresses from Mr Nout Wellink, President of the Netherlands Bank and Chairman of the Basel Committee and by Mr Jonathan Davis, Chairman of the CNBV. Mr Guillermo Ortiz, Governor of the Bank of Mexico, and Mr Malcolm Knight, General Manager of the Bank for International Settlements, will also deliver keynote speeches. Mr Angel Gurría, Secretary General of the OECD, will deliver the traditional William Taylor Memorial lecture.

Chapter III

Overview of results of the fifth quantitative impact study (QIS 5)¹

To evaluate the effects of the Basel II Framework on capital levels, the Basel Committee undertook a global fifth Quantitative Impact Study (QIS 5) in 31 countries. All G10 countries (except the United States) and 19 non-G10 countries participated in the exercise. The Secretariat of the Basel Committee received data from 56 Group 1² banks located in the G10 countries, 146 G10 Group 2 banks (including some German banks on the basis of their QIS 4 returns), and 154 banks from other countries. Limited data from the United States QIS 4 exercise – an additional 26 institutions – were also included where possible.

The primary objective of the study was to allow the Committee to evaluate the potential changes in minimum required capital levels under Pillar 1 of the Basel II Framework as the industry progresses toward implementation. In contrast to previous exercises, the QIS 5 workbooks reflect all recent changes to the Basel II Framework, in particular the move to a UL-only framework for computing risk-weighted assets, the change in the treatment of reserves, the 1.06 scaling factor applied to credit risk-weighted assets, the recognition of double default, and the revised trading book rules. A comparison of the results from QIS 5 and QIS 3 is difficult for various reasons besides the different rules. Although national supervisors reported that data survey quality has significantly improved since the previous exercise, the implementation of economic downturn loss-given-default estimates and issues relating to the Committee's trading book paper need further improvement. Macroeconomic and credit conditions prevailing in most G10 countries at the time of QIS 4 and 5 were more benign than during QIS 3.

In QIS 5, the Committee considers the country groupings G10, which includes the 13 Basel Committee member countries, the CEBS group³, and all other non-G10 countries⁴. The sample of other non-G10 countries is considerably smaller compared to QIS 3, in part caused by the fact that several former other non-G10 countries are now part of the CEBS group.

¹ See Basel Committee on Banking Supervision, *Results of the fifth quantitative impact study (QIS 5)*, June 2006, for more detailed information.

² Group 1 banks are banks which have Tier 1 capital in excess of €3 billion, are diversified and internationally active.

³ European countries which are either EU member states, EU accession candidates or members of the European Economic Area (EEA). In total this group comprises the Committee of European Banking Supervisors (CEBS), which includes 30 countries (both G10 and non-G10), 20 of which provided data for QIS 5. Since they are all CEBS member or observer countries this group is referred to as the "CEBS group". Non-G10 members of this group are Bulgaria, Cyprus, the Czech Republic, Finland, Greece, Hungary, Ireland, Malta, Norway, Poland, and Portugal. The average results for this country grouping have been provided by CEBS.

⁴ Other non-G10 countries participating in QIS 5 are Australia, Bahrain, Brazil, Chile, India, Indonesia, Peru and Singapore.

Overall results

Table 1 reports the overall change in minimum required capital⁵ relative to the current Accord. The table shows that total minimum required capital under Basel II would on average decrease relative to the current Accord for all groupings except G10 Group 1 banks and banks in other non-G10 countries under the standardised approach, and other non-G10 Group 2 banks using the foundation IRB approach.

Table 1
Average change in minimum required capital relative to current Accord
(in per cent)

	Standardised approach	FIRB approach	AIRB approach	Most likely approach
G10 Group 1	1.7	-1.3	-7.1	-6.8
G10 Group 2	-1.3	-12.3	-26.7	-11.3
CEBS Group 1	-0.9	-3.2	-8.3	-7.7
CEBS Group 2	-3.0	-16.6	-26.6	-15.4
Other non-G10 Group 1	1.8	-16.2	-29.0	-20.7
Other non-G10 Group 2	38.2	11.4	-1.0	19.5

Due to a different sample of banks for the various approaches, the incentive structure should be evaluated only according to Table 2. Moreover, the figures do not take account of the transitional floors.

For Group 1 banks in **G10 countries**, minimum required capital under the most likely approach, ie the approach which a bank is expected to adopt after implementation (typically, the more sophisticated approach), would decrease by 6.8%. Among the two IRB approaches, the advanced approach shows more reduction in minimum required capital (-7.1%) than the foundation approach (-1.3%). Minimum required capital under the standardised approach would increase by 1.7%, however, very few G10 Group 1 banks are expected to adopt this approach. For G10 Group 2 banks, the reduction in minimum required capital is bigger. Minimum required capital under the most likely approach would decrease by 11.3%, while reductions under the standardised, the foundation IRB and the advanced IRB approaches are 1.3%, 12.3% and 26.7% respectively. Some of the main factors which were pointed out by G10 countries as reasons for the reduction in minimum required capital are a favourable macroeconomic environment in which banks operate and the contribution of the mortgage portfolio.

The results for **CEBS countries** are similar to the G10 results. CEBS Group 1 banks show an average decrease in minimum required capital of 0.9%, 3.2% and 8.3% for the standardised, foundation and advanced IRB approaches respectively. CEBS Group 2 banks show decreases of 3.0%, 16.6% and 26.6%. Focussing on the most likely approach, the results show an average decrease of 7.7% for CEBS Group 1 banks and 15.4% for CEBS Group 2 banks.

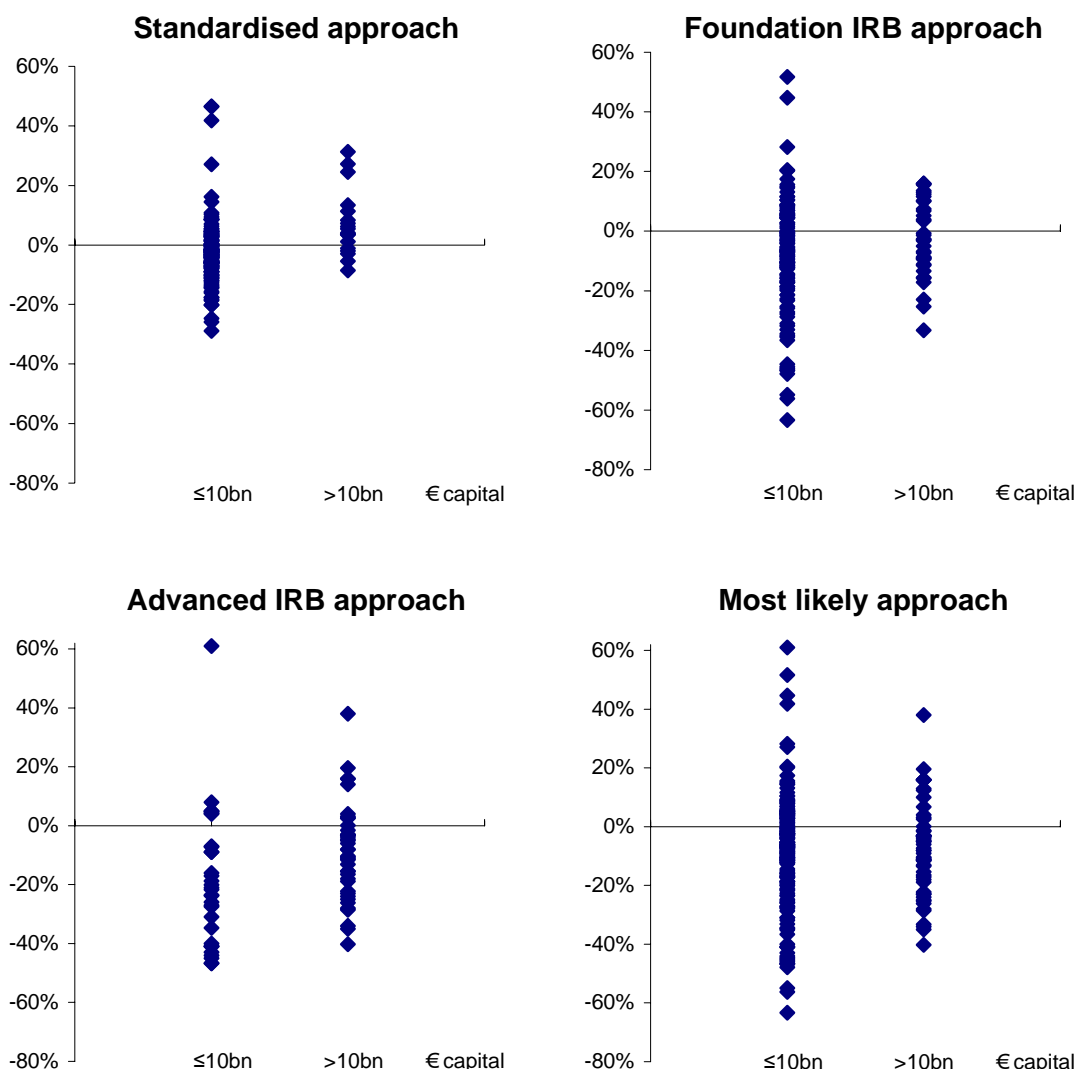
⁵ In practice, minimum required capital measures the capital required to cover (i) 8% times risk-weighted assets; (ii) a potential difference between the total expected loss amount and total eligible provisions (ie the regulatory calculation difference) under the IRB approaches; and (iii) deductions other than the regulatory calculation difference.

The average results for the Group 1 banks in **other non-G10 countries** show a decrease of 16.2% and 29.0% under the foundation and advanced IRB approaches respectively. Under the standardised approach there is an increase of 1.8%, and under the most likely approach a decrease of 20.7%. Group 2 banks show an increase of 38.2% under the standardised approach, an increase of 11.4% under the foundation IRB approach and a slight decrease of 1.0% under the advanced IRB approach. Under the most likely approach, other non-G10 Group 2 banks expect an increase in minimum required capital of 19.5%.

There is some dispersion in the change in minimum required capital relative to the current Accord among participating banks. The dispersion within **G10** (see Charts 1) and **CEBS** countries seems to be caused by a combination of differences in portfolio characteristics and disparity and uncertainties in estimation methodologies.

Charts 1

Change in banks' total minimum required capital versus current Accord, G10 banks by size

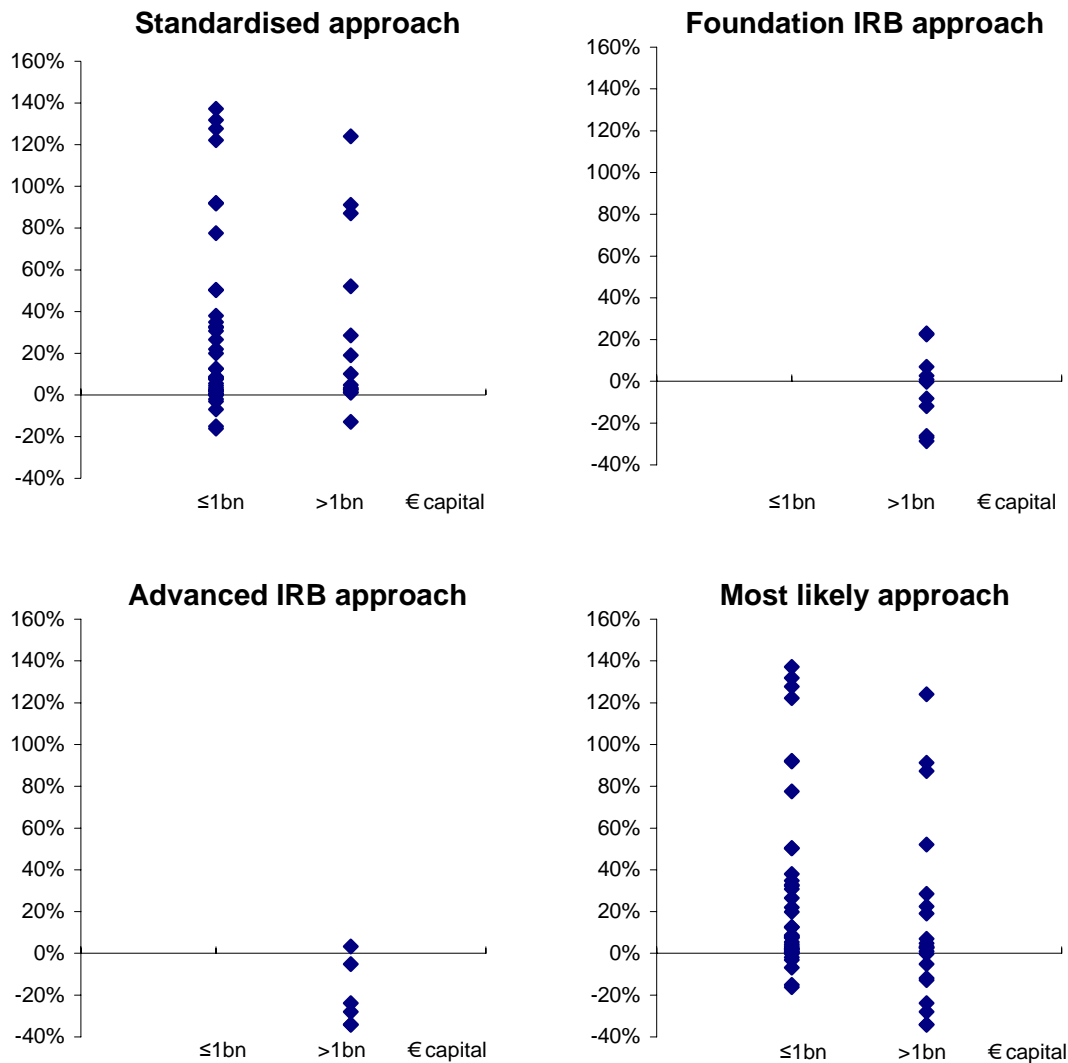


The **other non-G10** results show substantial dispersion both within and between countries (see Charts 2), mostly due to the specialised risk profile of some participating banks and country-specific circumstances that are reflected in national implementation. The results are

therefore not representative for all non-G10 countries. Capital ratios are on average higher than in the G10 countries; they suggest that judgement by bank management, market pressures or Pillar 2-type supervisory discretions may be acting to maintain higher levels of capital than are explicitly required under the current Accord. These elements will likely continue to have significant impact for these countries under the Basel II Framework. Although data quality is an issue for some banks, the results appear to be broadly in line with results for G10 banks to the extent that the risk profiles are similar.

Charts 2

Change in banks' total minimum required capital versus current Accord, other non-G10 banks by size



Incentive structure

In order to analyse the incentives for banks to move to the more advanced approaches, the following analysis includes only those banks which provided data for at least two approaches.⁶ On the aggregated level and in general also on the level of individual countries, for both Group 1 and Group 2 banks within and outside the G10, there is an incentive to move to the more advanced approaches (see Table 2). The capital requirements for the foundation IRB approach are lower than those for the standardised approach for 65% of the G10 banks in the sample, and the capital requirements for the advanced IRB approach are lower than those for the foundation IRB approach for 79% of the G10 banks in the sample.

Table 2

Incentive structure Minimum required capital for foundation IRB relative to standardised, and minimum required capital for advanced IRB relative to foundation IRB, in per cent

	Foundation IRB/standardised	Advanced IRB/foundation IRB
G10 Group 1	-13.3	-5.1
G10 Group 2	-8.1	-6.6
CEBS Group 1	-13.5	-6.8
CEBS Group 2	-12.4	-6.7
Other non-G10 Group 1	-20.6	-7.3
Other non-G10 Group 2	-19.9	-11.0

For "Foundation IRB/standardised" columns, only those banks which provided data for both the standardised and the foundation IRB approaches are included. For "Advanced IRB/foundation IRB" columns, only those banks which provided data for both the foundation and the advanced IRB approaches are included. The figures do not take account of the transitional floors set by the Committee.

Contribution⁷ of the different portfolios

Standardised approach

For both Group 1 and Group 2 banks, retail portfolios drive the reduction in minimum required capital in **G10 countries** under the standardised approach relative to the current Accord, while operational risk is the main driver for increasing minimum required capital. Other portfolios' contributions are much lower. The retail residential mortgage portfolio contributes the most to the reduction in minimum required capital (-6.3% for Group 1 and -6.2% for Group 2). Operational risk, of course, produces a positive contribution. It is the

⁶ 39 out of 82 Group 1 banks and 98 out of 146 Group 2 banks in G10 countries provided data for more than one approach. In the CEBS countries, 38 out of 50 Group 1 and 81 out of 205 Group 2 banks provided data for more than one approach. The same holds true for all six Group 1 banks in other non-G10 countries, but only three out of 54 Group 2 banks. Not all national supervisors had asked banks to provide data for approaches which are not most likely.

⁷ The contribution can in general be calculated by multiplying the portfolio size by the change in minimum required capital under Basel II relative to minimum required capital under the current Accord on the portfolio level.

biggest positive contributor to the increase in minimum required capital (5.6% for Group 1 banks and 8.3% for Group 2 banks).

The results for the **CEBS group** are similar. The main contributor to the overall results is the mortgage portfolio (-7.8% contribution to minimum required capital change for Group 1, -7.2% for Group 2).

The results for Group 1 banks in **other non-G10 countries** are also broadly similar. The main contributor to the overall results is the mortgage portfolio (-4.1%). For Group 2 banks, the sovereign portfolio and related entities are the main drivers for the increase in minimum required capital. Some of the Group 2 banks have substantial sovereign exposures on account of country-specific circumstances. The results for the related entities portfolio are driven by the bank-specific circumstances of some of the Group 2 banks. Operational risk makes positive contributions to the minimum required capital (3.5% for Group 1 and 13.0% for Group 2).

IRB approaches

Minimum required capital under the most likely IRB approach for Group 1 banks in **G10 countries** declined by 4.5%, while G10 Group 2 banks show a decline in minimum required capital of 14.1%.⁸ Group 1 banks in the G10 countries are by definition diversified and internationally active banks and therefore involved in wholesale activities, while Group 2 banks are typically more focused on retail business, which explains the larger decline in minimum required capital for the Group 2 banks.

As noted in the standardised section, the largest capital driver for both groups is residential mortgages (7.6% decrease for Group 1 banks). For G10 Group 1 banks, the other main drivers are corporate portfolios (5.0% decrease) and operational risk (6.1% increase). G10 Group 2 banks have larger shares of mortgage lending, thus their contribution of residential mortgages to the overall change is larger at -12.6%. Other contributing factors for G10 Group 2 banks include operational risk (7.5% increase), other retail (4.5% decrease), and SME retail (3.3% decrease). Both the corporate and SME corporate portfolios show decreases in minimum required capital.

Relative to the neutral impact under the standardised approach, the equity portfolio has contributed as a factor to increase the minimum required capital by 2.6% (Group 1 banks) and 3.6% (Group 2 banks) under the most likely IRB approach. In QIS 5, data on the PD/LGD and market-based approaches for equities are relatively limited since most banks were permitted to use the treatment for immaterial exposures and/or grandfathering based on national implementation in each jurisdiction.

The results for **CEBS countries** are similar to those observed in G10 countries.

For Group 1 banks in **other non-G10 countries** there is a 20.7% decline in minimum required capital in aggregate under the most likely IRB approach. The largest capital driver for other non-G10 banks is the residential mortgages portfolio which accounts for a decline in minimum required capital of around 13.7%. Similar to the G10 countries, the other main contributing portfolios are corporate (-4.3%) and SME corporate (-3.3%).

⁸ The figures in this section differ from the results presented previously since the Group 1 figures exclude the US data, and Group 2 results exclude those banks for which the standardised approach is the most likely approach.

The operational risk charge partly offsets the large falls in credit risk capital requirements, contributing on average 4.5% for the other non-G10 Group 1 banks. Equity exposures are relatively insignificant for the other non-G10 countries, comprising less than 0.5% of minimum required capital reported under the current Accord. Most banks either reported zero exposures or excluded the portfolio from QIS 5 on the basis of immateriality.

The Group 2 banks in other non-G10 countries show a different result for the retail portfolio, where they experience a positive contribution of 6.5%. This is due to the significantly higher average PDs and higher share of defaulted exposures in their portfolios. Similar to the Group 1 banks, other non-G10 Group 2 banks show a decrease in the corporate portfolio (-4.1%) and a contribution of 6.8% from operational risk. Market risk makes a negative contribution of 7.6%. This is mainly due to some of the Group 2 banks moving from the standardised models to internal models for the calculation of the market risk requirements.

Calibration

In the Basel II Framework published in June 2004, the Committee said that it intended to introduce a scaling factor of 1.06 on IRB credit risk-weighted assets in particular in order to offset the decrease in minimum required capital which resulted from the changes in the Framework between the third Consultative Paper and the final text, primarily the UL-only calibration and the EL-provisions calculation instead of the recognition of provisions in Tier 2 capital. The size of the scaling factor, 1.06, is based on the analysis of QIS 3 results, adjusted for the above-mentioned changes.

It is important to note that macroeconomic conditions prevailing in most countries at the time of QIS 4 and 5 were more benign than during QIS 3. The Committee concluded in May 2006 that this influenced the results, but currently available information does not allow the impact to be quantified with precision. Also taking into account the remaining uncertainties in the data, the Committee agreed that no adjustment of the scaling factor of 1.06 to credit risk-weighted assets under the IRB approaches would be warranted at this stage. The Committee expects that in the course of implementing the Basel II Framework, supervisors will ensure that banks maintain a solid capital base throughout the economic cycle. The Committee believes that mechanisms are in place to achieve this goal. National authorities will continue to monitor capital requirements during the implementation period of the Basel II Framework. Moreover, the Committee will monitor national experiences with the Basel II Framework.

Chapter IV

Basel Committee publications and website

The Basel Committee is committed to encouraging the improvement of banking supervision techniques through public dissemination of its papers, primarily via its Internet site (www.bis.org/bcbs).

The main publications and working papers issued since the beginning of 2004 are listed below.

Publications

- *Modifications to the capital treatment for expected and unexpected credit losses*, January 2004
- *Changes to the securitisation framework*, January 2004
- *Principles for the home-host recognition of AMA operational risk capital*, January 2004
- *International Convergence of Capital Measurement and Capital Standards: a Revised Framework*, June 2004
- *Principles for the management and supervision of interest rate risk*, July 2004
- *Implementation of Basel II: Practical Considerations*, July 2004
- *Consolidated KYC Risk Management*, October 2004
- *The Application of Basel II to Trading Activities and the Treatment of Double Default Effects – consultative document*, April 2005
- *Compliance and the compliance function in banks*, April 2005
- *Trading Book Survey: A summary of responses*, April 2005
- *Report for the G7 Summit in Gleneagles*, May 2005
- *Enhancing corporate governance for banking organisations - consultative document*, July 2005
- *The Application of Basel II to trading activities and the treatment of double default effects*, July 2005
- *Supervisory guidance on the use of the fair value option by banks under International Financial Reporting Standards -consultative document*, July 2005
- *Guidance on the estimation of loss given default (Paragraph 468 of the Framework Document)*, July 2005
- *Sound credit risk assessment and valuation for loans - consultative document*, November 2005
- *Home-host information sharing for effective Basel II implementation - consultative document*, November 2005

- *Basel II: International Convergence of Capital Measurement and Capital Standards: a Revised Framework*, November 2005
- *Amendment to the capital accord to incorporate market risks*, November 2005
- *Enhancing corporate governance for banking organisations*, February 2006
- *Core Principles for Effective Banking Supervision - consultative document*, April 2006
- *Core Principles Methodology - consultative document*, April 2006
- *Home-host information sharing for effective Basel II implementation*, June 2006
- *Report for the G7 Summit on the activities of the Basel Committee*, June 2006
- *Sound credit risk assessment and valuation for loans*, June 2006
- *Supervisory guidance on the use of the fair value option for financial instruments by banks*, June 2006
- *Results of the fifth quantitative impact study*, June 2006
- *Basel II: International Convergence of Capital Measurement and Capital Standards: a Revised Framework - Comprehensive Version*, June 2006

Working papers

- *Bank Failures in Mature Economies*, April 2004
- *Studies on the Validation of Internal Rating Systems (revised)*, May 2005

Newsletters

- *New work on counterparty credit risk and trading book-related issues*, June 2004
- *Update on work of the Accord Implementation Group related to validation under the Basel II Framework*, January 2005
- *Schedule for the fifth Quantitative Impact Study (QIS 5)*, March 2005
- *Validation of low-default portfolios in the Basel II Framework*, September 2005
- *The treatment of expected losses by banks using the AMA under the Basel II Framework*, November 2005
- *Use of vendor products in the Basel II IRB framework*, March 2006

Joint Forum publications

- *Financial Disclosure in the Banking, Insurance and Securities Sectors: Issues and Analysis*, May 2004
- *Outsourcing in Financial Services - consultative paper*, August 2004
- *Credit Risk Transfer - consultative paper*, October 2004
- *Outsourcing in Financial Services*, February 2005

- *Credit Risk Transfer*, March 2005
- *High-level principles for business continuity - consultative paper*, December 2005
- *The management of liquidity risk in financial groups*, May 2006
- *Regulatory and market differences: issues and observations*, May 2006
- *High-level principles for business continuity*, August 2006

Chapter V

The Financial Stability Institute

The mandate of the Financial Stability Institute (FSI) is to assist financial sector supervisors in implementing sound supervisory standards. The FSI strives to provide senior supervisors with a better understanding of supervisory techniques and an opportunity to learn about the latest supervisory developments, as well as encouraging an ongoing exchange of views within the global supervisory community. The FSI fulfils its mandate through a two-pronged approach – a programme of high-level meetings, conferences and seminars, and FSI Connect, an online learning and resource tool for financial sector supervisors.

High-level Meetings, Conferences and Seminars

The FSI continues its programme of high-level meetings, conferences and seminars for banking and insurance sector supervisors globally. These gatherings, held in Basel and in the various regions of the world, serve the important purpose of fostering cross-border supervisory contacts and cooperation. The FSI organises and delivers meetings and seminars on a wide range of topics of interest to senior supervisors. Such programmes allow supervisors from different countries to share experiences and exchange ideas for improved practices. Over the past several years, the FSI has had a particular focus on assisting supervisors in understanding the many components of the revised capital adequacy framework (Basel II) and analysing the options for implementation.

Information on the FSI programme of meetings and seminars is available on the BIS website (www.bis.org). An overview of the 2005 and 2006 programmes is provided below.

FSI Connect

Since the Financial Stability Institute launched FSI Connect in June 2004, more than 125 supervisory authorities and central banks have subscribed to this web-based information and learning resource for banking supervisors. FSI Connect is now available to more than 8,000 supervisors from around the world. The main component of FSI Connect is a comprehensive set of online courses on banking supervision, including Basel II; banking risks and risk management; and financial instruments and techniques.

Uses of FSI Connect

FSI Connect has been designed for all staff in supervisory agencies and central banks having a supervision, examination or policy role. It is appropriate for all levels of expertise and experience, such as:

- staff who have recently joined the supervision function and need to learn the fundamentals of banking and banking supervision

- experienced supervisors who need to refresh their knowledge of certain topics or further their understanding of specialised topics
- all supervisors who need to access specific information on a banking supervisory topic.

FSI Connect content

There are more than 110 tutorials available on FSI Connect and new ones are being added on a continuous basis. The tutorials cover important risk management topics, such as credit, market and operational risk, as well as courses on capital adequacy (including Basel II), financial instruments, and general banking and banking supervision topics. The courses cover fundamental, intermediate and advanced levels. A list of FSI Connect tutorials is provided at the end of this note.

The structure of FSI Connect

The tutorials are organised in modules offering a learning progression – from the fundamental level through intermediate and advanced levels. Tutorials have a duration ranging from 30 minutes to three hours but learners can study the tutorials at their own pace. Learners are not required to complete tutorials within a fixed period or in a specific sequence and tutorials can be reviewed as often as necessary. They were developed using a proven learning methodology that ensures a maximum retention of information. A key element of FSI Connect is to keep learners motivated through an appropriate blend of content, graphical elements and interactive components, such as exercises and case studies. FSI Connect also offers learners the possibility to test their knowledge through self-evaluations.

Language options

Through its programme of events and FSI Connect, the FSI seeks to extend its services to as many supervisors as possible. All FSI Connect tutorials are available in English and, since May 2006, FSI Connect now offers a selection of capital adequacy and Basel II tutorials in French and Spanish. With the assistance of the French Commission Bancaire and the Banco de España the FSI expects to complete this translation project in 2007. In addition, the FSI is exploring the possibility of translating FSI Connect tutorials into other languages to allow us to meet the needs of as many supervisors as possible.

FSI Connect's development process

FSI Connect tutorials are developed by a team of subject matter experts at the FSI. The team works with a network of experts in national supervisory authorities and international organisations. The FSI has also partnered with Intuition Publishing, one of the leading firms in the area of online learning for the financial sector. The firm helps the FSI develop course material and operates FSI Connect's technical platform.

Technical aspects

FSI Connect is available through the Internet. To access FSI Connect, users must have an Internet connection and a PC with an up-to-date browser version. A CD ROM version of FSI Connect is also available if the technical environment is not suitable to support FSI Connect via the Internet.

Other FSI Initiatives

The FSI provides information on an ongoing basis to financial sector supervisors on supervisory developments and key issues affecting supervision. This is done primarily through its quarterly newsletter - *FSI World* - and the publication of occasional papers.

In 2002, the FSI initiated a biennial award for research on a topic of interest to financial sector supervisors. The winner is announced at each International Conference of Banking Supervisors (ICBS), so the next FSI Award will be presented at the October 2006 ICBS in Merida, Mexico.

Overview - FSI 2005 Programme

Date	Event
18–20 January	Seminar on Market & Liquidity Risk Basel
08–10 February	Seminar on the Internal Ratings-Based Approaches and Credit Risk Modelling Basel
28 February – 03 March	SEACEN: Seminar on Basel II and the Internal Ratings-Based (IRB) Systems Kuala Lumpur
28 February – 04 March	Seminar on Advanced Risk Management Practices in the Insurance Industry Lucerne
08–10 March	Seminar on Capital Adequacy and Risk Management French speaking Africa Dakar
09–11 March	French-Speaking Banking Supervisors Group: Seminar on Implementation of Basel II Rabat
15–17 March	ASBA: Seminar on Building an Internal Ratings-Based System Sao Paolo
15-18 March	Seminar on International Accounting and Auditing for Banks Basel
21–23 March	AMF: Seminar on Basel II: Pillars 1 and 2 Abu Dhabi
10–12 April	GCC: Seminar on Credit Risk in Basel II Bahrain
13-14 April	High Level Meeting on Practical Application of Basel II for the Middle East and North Africa Region Bahrain
19–21 April	Seminar on Supervision of Financial Conglomerates Basel
21 April	Heads of Banking Supervision Meeting Basel
26–28 April	BSWCA: Seminar on e-Banking and Corporate Governance Banjul
26-28 April	CBSG: Seminar on International Accounting and Auditing for Banks Kingston
03–04 May	Seminar on What Banking Supervisors Need to Know About the Securities Industry and Securities Regulation Hong Kong, SAR

Date	Event
10–12 May	BSCEE: Seminar on Credit Risk in Basel II Budapest
24–26 May	SEANZA: Seminar on Financial Mathematics in Risk Modelling and Basel II Manila
25–27 May	EMEAP: Seminar on The Supervisory Review Process of Basel II Sydney
31 May – 02 June	Seminar on Problem Banking Resolution jointly with the Toronto Centre Basel
06–10 June	JVI: Seminar on Selected Insurance Core Principles Vienna
13–17 June	JVI: Seminar on Core Supervisory Topics Vienna
24 June – 01 July	21st International Banking Supervision Seminar Basel / Beatenberg
29 Jun	Implementation of Basel II and AML Issues Cayman Islands
04–08 July	Seminar on Fundamentals of Reserve Management jointly with the BIS Banking Department Lucerne
05–07 July	SADC: Seminar on Credit Risk in Basel II Victoria Falls
26-27 July	QIS 5 Workshop Basel
08–12 August	Seminar on Advanced Risk Management for Reserve Managers jointly with the BIS Banking Department and Risk Control Department Lucerne
08–12 August	1st International Insurance Supervision Seminar Beatenberg
29 August – 02 September	Seminar on Advanced Risk Management Beatenberg
12–14 September	Market Risk Analysis jointly with the FED Lucerne
13–15 September	Seminar on Change in Control and Market Conduct Beirut
20–22 September	Seminar on Reinsurance Basel
23–30 September	22nd International Banking Supervision Seminar Basel / Beatenberg
27–29 September	ASBA: Seminar on Credit Risk under Basel II Mexico City
03–07 October	Seminar on Risk Management Practices in the Insurance Industry Beatenberg
05 October	High-Level Meeting on Practical Applications of Basel II in Europe Basel
11–13 October	ESAF: Seminar on Problem Banking Resolution Maputo, Mozambique
11–14 October	Seminar on Advanced International Accounting and Auditing for Banks Basel
18–20 October	Seminar on Practical Techniques for the Management and Measurement of Operational Risk Basel

Date	Event
01-02 November	CEBS: Seminar on Credit Risk in the Capital Requirements Directive (CRD) London
08–10 November	Seminar on Asset Liability Management for Insurance Companies and Banks Basel
08–10 November	BSWCA: Seminar on Credit Risk and Pillar 2 Abuja
15–16 November	Annual Conference on Credit Risk Transfer Basel
21–22 November	High-Level Meeting on Practical Applications of Basel II in Asia Singapore
21–24 November	Seminar on Cross-Border Supervision and Market Conduct Cape Town
22–24 November	CEMLA 1: Seminar on Basel II: Pillar 2 Buenos Aires
05–16 December	FSI-IMF Institute: Seminar on Financial System Fragility and Banking Crisis Singapore
06–08 December	Seminar on On-site and Off-site Supervision, with Special Focus on Pillar 2 Basel
13–15 December	Seminar on Stress Testing Basel
12–14 December	SEACEN: Seminar on Operational Risk Colombo

Overview - FSI 2006 Programme

DATE	EVENT (venue)
17–19 Jan	Liquidity and Market Risk (Basel)
06–08 Feb	FSVC: Risk Management and Governance in a Basel II Context (Cairo)
21–23 Feb	ASBA: Validating an Internal Ratings-Based Approach (Trujillo)
28 Feb–02 Mar	AMF: Credit Risk in Basel II (Abu Dhabi)
28 Feb–02 Mar	International Accounting and Auditing for Banks (Basel)
07–09 Mar	SEACEN: Pillar 2 and its Implementation (Bangkok)
08–10 Mar	French-Speaking Banking Supervisors Group: Pillar 2 and its Implementation (Paris)
27–28 Mar	High-Level Meetings on the Practical Application of Basel II (Abu Dhabi)
27–29 Mar	Regional Seminar on Reporting, Review and Redress (Manama)
09–11 Apr	GCC: Validating an Internal Ratings-Based Approach (Abu Dhabi)
19–21 Apr	CEBS: Securitisation (Basel)
24–28 Apr	Advanced Risk Management Practices in the Insurance Industry (Hergiswil)
25–26 Apr	High-Level Meeting on the Practical Application of Basel II (Miami)
16–18 May	Problem Bank Situations jointly with the Toronto Centre (Basel)
18–19 May	Senior Round Table on Risk-Based Capital of Internationally Active Insurance Groups (Basel)
17–18 May	EMEAP: Validating an Internal Ratings-Based Approach (Tokyo)
23–25 May	African Banking Supervisors: Basel II and its Implementation (Pretoria)
29 May–02 June	Advanced Risk Management (Beatenberg)
12–16 Jun	Fundamentals of Risk Management (Hergiswil)
14-15 Jun	IIF: Public/Private Sector Roundtable on Basel II & other Regional Risk Management Priorities(Hong Kong)
19-20 Jun	OECD: Seminar on Corporate Governance for Banks in Asia (Hong Kong)
03–07 Jul	JVI: Selected Insurance Core Principles (Vienna)
04-06 Jul	CEBS: Practical Application of the Standardised and Internal Ratings-Based Approaches (London)
10–14 Jul	JVI: Capital and Basel II (Vienna)
10–14 Jul	Fundamentals of Reserve Management jointly with the BIS Banking Department (Lucerne)
11–13 Jul	ASBA: Operational Risk in Basel II (Mexico City)
24–26 Jul	SEACEN: The Role of Market Discipline (Pillar 3) in the Basel II Framework & Issues in International Auditing (Kota Kinabalu)

07–11 Aug	2nd International Insurance Supervision Seminar (Beatenberg)
07–11 Aug	Advanced Risk Management for Reserve Managers jointly with the BIS Banking and Risk Control Departments (Lucerne)
28 Aug–01 Sep	Advanced Risk Management for Reserve Managers jointly with the BIS Banking and Risk Control Departments (Beatenberg)
04–06 Sep	BSCEE: Basel II and its Implementation (Warsaw)
05–07 Sep	Reinsurance (Basel)
18–21 Sep	Regional Seminar on Prudential Supervision and Market Conduct (Almaty)
22–29 Sep	23rd International Banking Supervision Seminar (Beatenberg)
02 Oct	FSI event at the International Conference on Banking Supervision (Merida)
09–13 Oct	Risk Management Practices in the Insurance Industry (Beatenberg)
11–12 Oct	Conference on Promoting Inclusive Financial Systems (Basel)
17–19 Oct	Asset-Liability Management for Insurance Companies and Banks (Basel)
17–19 Oct	EMEAP: Credit Risk Transfer (Singapore)
24–26 Oct	Practical Techniques for the Management and Measurement of Operational Risk (Basel)
07–08 Nov	Conference on Risk Management (Basel)
07–08 Nov	IOSCO: The Application of Basel II to Trading Activities and the Treatment of Double Default Effects (Madrid)
07–09 Nov	BSWCA: Fundamentals of Risk Management with Special Focus on Risk-Based Supervision (Dakar)
13–16 Nov	Regional Seminar on Capital Adequacy and Risk Assessment (Johannesburg)
14–16 Nov	SEANZA: Credit Risk in Basel II (Manila)
21–23 Nov	Using the Core Principles as a Road Map to Basel II Implementation (Basel)
27–28 Nov	SEACEN: Meeting on the Role of Banking Supervision in Financial Stability (Kuala Lumpur)
28–30 Nov	Pillar 2 and its Implementation (Basel)
28–30 Nov	CBSG: Pillar 2 and its Implementation (Jamaica)
04–06 Dec	Regional Seminar on Group-wide Supervision, Cross-border Challenges and Market Conduct (Mumbai)
05–06 Dec	High-Level Meeting on the Practical Application of Basel II (Hong Kong)
04–06 Dec	CEMLA: Validating an Internal Ratings-Based Approach (Rio de Janeiro)
tbd	High-Level Meetings on the Practical Application of Basel II (Africa)

FSI Connect Tutorials

Capital and Basel II	
Fundamental	Bank Capital
	Basel I
	Basel I Case Study
	Basel II An Overview
	Basel II Pillar 3 Market Discipline Part 1
	Basel II Pillar 3 Market Discipline Part 2
	Basel II Operational Risk BIA & SA *
	Regulation of Market Risk An Introduction *
	External Credit Risk Assessments *
	Basel II – SA – External Credit Risk Assessments
Intermediate	Basel II Scope of Application
	Basel II Pillar 2 Supervisory Review Process
	Basel II – An Introduction to Cross-Border Implementation
	Basel II Practical Considerations - Implementation
	Credit Risk Components *
	Basel II – SA – Risk Weight Framework
	Basel II – Simplified Standardized Approach
	Basel II – Overview of Credit Risk Mitigation *
	Basel II – IRB – An Introduction
	Basel II – Interest Rate Risk in the Banking Book
Basel II – CRM – Guarantees & Credit Derivatives	
Basel II – CRM – Collateral & Netting	
Basel II – Introduction to Supervisory Validation	
Regulation of Market Risk – Standardized Approach *	
Advanced	Basel II – Stress Testing
	Basel II – IRB – Overview of Minimum Requirements
	Basel II – IRB for Corporates, Banks & Sovereigns
	Basel II – IRB for Retail
	Basel II – IRB for Specialized Lending
	Basel II – IRB for Equity Exposures
	Basel II – IRB for Purchased Receivables
	Basel II – IRB – Underlying Math & Theory
	Basel II – Securitization – Operational Requirements
	Basel II – Securitization Framework
	Basel II – Securitization – Special Features
	Economic Capital & RAROC – An Introduction
	Economic Capital & RAROC – Approaches & Allocation
Basel II – Operational Risk – AMA*	
Banks' Internal Rating Systems	
Regulation of Market Risk – Internal Models Approach*	

Credit Risk	
Fundamental	Credit Risk in the Loan Portfolio – An Introduction
	The Credit Risk Environment
	Credit Granting & Administration
	Credit Analysis
	Accounts Receivable & Inventory Financing
	Country Risk
	Claims on Sovereigns & Government Entities
	Claims on Banks & Securities Firms
	Commercial Loans
	Agricultural Loans
	Retail Credit
	Real Estate Loans
	Trade Finance
	Loan Grading
Supervisory Credit Classification	
Loan Loss Provisioning – An Introduction	
Managing Problem Loans	
External Credit Risk Assessments	
Basel II – SA – External Credit Risk Assessments	
Intermediate	Credit Risk Components
	Basel II – Overview of Credit Risk Mitigation
	Credit Derivatives – An Introduction
	Credit Derivatives – Types
	Credit Derivatives – Uses & Applications
	Credit Derivatives – Pricing Methods
	Credit Derivatives – Credit Default Swaps
	Securitization – Fundamentals
	Securitization – Asset-Backed Securities
	Securitization – Credit Card ABS
Securitization – Mortgage-Backed Securities	
Securitization – Commercial MBS	
Securitization – European MBS	
Securitization – CDOs – An Introduction	
Securitization – CDOs – Structures & Ratings	
Loan Loss Provisioning – Types	
Loan Loss Provisioning – Methodology	
Advanced	Credit Risk Modeling – An Introduction
	Credit Risk Modeling – CreditMetrics
	Credit Risk Modeling – CreditRisk+
	Credit Risk Modeling – KMV & Comparison of Models
	Credit Derivatives – Synthetic CDOs

■ also available in French and Spanish

□ planned for development

* also included in the Credit Risk, Market Risk or Operational Risk modules

For more information, visit our website at www.fsiconnect.org
to fsiconnect@bis.org

or send an email

Market Risk		Operational Risk	
Fundamental	Bonds – An Introduction	Fundamental	Operational Risk – An Introduction
	Equities – An Introduction		Operational Risk Management – Sound Practices
	Commodities – An Introduction		Operational Risk – Case Study
	Interest Calculations & Compounding	Advanced	Basel II – Operational Risk – BIA & SA
	Present Value, Future Value & Discount Factor		
	Math – Differentiation & Integration		
	NPV, IRR & Reinvestment Risk		
	Bond Price & Yield to Maturity		
	Duration & Convexity		
	Forwards – An Introduction		
	Futures – An Introduction		
	Options – An Introduction		
	Swaps – An Introduction		
	VAR – An Introduction		
	Regulation of Market Risk – An Introduction		
	Intermediate	Probability & Expected Return	
Distributions & Confidence Level			
Volatility			
Bond Strategies – Fundamentals			
Forwards – Pricing & Contract Valuation			
Futures – Hedging			
Futures – Examples of Hedges			
Futures – Trading			
Futures – Arbitrage			
Options – Introduction to Option Valuation			
Options – Pricing Models			
Options – The Binomial Option Pricing Model			
Swaps – Applications			
Swaps – Pricing & Valuation (Part I)			
Swaps – Pricing & Valuation (Part II)			
Swaps – Currency Swap Pricing & Valuation			
Regulation of Market Risk – Standardized Approach			
Advanced	Options – Trading Strategies		
	Options – Exotic Options		
	VAR – Variance-Covariance Approach		
	VAR – Historical Simulation & Other Issues		
	VAR – Monte Carlo Simulation		
	Regulation of Market Risk – Internal Models Approach		
		Other Topics	
			Banks & Bank Risks
			Anti-Money Laundering
			Bank Accounting – An Introduction
			Bank Licensing
			Core Principles for Effective Banking Supervision
			Corporate Governance
			IT Supervision
			Internal Audit
			Liquidity Risk
			Off-site Supervision
			On-site Supervision
			Problem Banks – An Introduction
			Problem Banks – A Case Study
			Problem Banks – Supervisory Response
			Problem Banks – Resolution
			Stress Testing – An Introduction
			Supervision of Financial Groups
			Supervisory Approaches

Español: Capital y Basilea II

Fundamental	<p>Capital bancario Basilea I Basilea I. Estudio de un caso Basilea II. Visión general Basilea II. Pilar 3. Disciplina de mercado. Parte 1 Basilea II. Pilar 3. Disciplina de mercado. Parte 2 Basilea II. Riesgo operativo. BIA y SA Regulación del riesgo de mercado. Introducción Evaluaciones externas de riesgo de crédito Basilea II. SA. Evaluaciones externas de crédito</p>
Intermediate	<p>Basilea II. Ámbito de aplicación Basilea II. Pilar 2. Proceso de revisión supervisora Basilea II. Introducción a la implantación transfronteriza Basilea II. Aspectos práctico Componentes del riesgo de crédito Basilea II. SA. Esquema de ponderaciones de riesgo Basilea II. Método estándar simplificado Basilea II. Visión general sobre la mitigación del riesgo de crédito Basilea II. IRB. Introducción Basilea II. Mitigación del riesgo de crédito. Garantías y derivados de crédito Regulación del riesgo de mercado. Método estándar</p>

Français: Fonds propres et Bâle II

Fundamental	<p>Fonds propres des banques Bâle I Bâle I – Étude de cas Bâle II – Présentation Bâle II – Troisième pilier - Discipline de marché - Partie 1 Bâle II – Troisième pilier - Discipline de marché - Partie 2 Bâle II – Risque opérationnel - Approche indicateur de base et approche standard Réglementation du risque de marché – Introduction Évaluations externes du risque de crédit Bâle II – AS – Évaluations externes du crédit</p>
Intermediate	<p>Bâle II – Champ d'application Bâle II – Pilier 2 – Processus de surveillance Prudentielle Bâle II – Introduction à la mise en œuvre transfrontière Bâle II – Considérations pratiques Composantes du risque de crédit Bâle II – AS – Pondérations Bâle II – Approche standard simplifiée Bâle II – Présentation des techniques de réduction du risque de crédit Bâle II – Approche NI – Introduction Bâle II – Techniques de réduction du risque de crédit – garanties et dérivés de crédit Réglementation du risque de marché – Approche standard</p>

Chapter VI

Work of other international groups of supervisors

Association of Financial Supervisors of Pacific Countries (AFSPC)

Background

The Association of Financial Supervisors of Pacific Countries (AFSPC) was created in late 2002 by eight Heads of Supervision in the Pacific region and endorsed by the Governors of Central Banks and Ministers of Finance. Inaugural members are the Federated States of Micronesia, Fiji, Papua New Guinea, the Republic of Marshall Islands, Samoa, Solomon Islands, Tonga and Vanuatu. The Cook Islands and Palau became members in 2003. Australia, New Zealand and the State of Hawaii are observers. The Pacific Financial Technical Assistance Centre (PFTAC)⁹ acts as Secretariat, with administrative backing from the Reserve Bank of Fiji.

The AFSPC was formed to, amongst other things, facilitate the sharing and coordination of matters relating to supervision and regulation of financial institutions within the region, strengthen regional cooperation in the area of financial regulation and supervision, and facilitate the development of a common set of prudential indicators for each of its members consistent with work being done by the International Monetary Fund in relation to Financial Soundness Indicators. PFTAC arranges annual and ad-hoc training seminars for member countries and also attends the annual Heads of Supervision meeting.

Training initiatives

To assist the AFSPC with its training initiatives, the AFSPC has been fortunate to be able to draw on resources from international agencies such as the Financial Stability Institute, the Office of the Superintendent of Financial Institutions (OSFI), the International Monetary Fund and the Australian Prudential Regulation Authority (APRA).

Since the creation in 2002 of the AFSPC, the main focus of training programs organised for the AFSPC have focused almost entirely on bank supervision related topics¹⁰. The following table provides further information on the scope of training initiatives sponsored by the AFSPC.

9 The Pacific Financial Technical Assistance Centre (PFTAC) in Suva, Fiji is a multi-donor financed institution offering technical assistance in economic and financial management to governments, central banks, and similar official government agencies in 15 Pacific island countries (PICs). The Center's objective is to assist its member countries with the enhancement of skills and establishment of institutional capacity for the effective management of their economies.

10 Since its inception in 1993 to 2002, PFTAC organised three other training seminars which focused on banking supervision related topics. In addition, PFTAC provides assistance to enable officers from regional supervisory agencies to participate in other training seminars and secondments with other supervisory agencies.

Date	Topic(s) covered	Venue
Nov 2002	Regional Workshop on the Regulation and Supervision of Banks and Non-banks	Suva, Fiji
Nov 2003	Regional Workshop on the New Basel Capital Accord, Corporate Governance and Credit Risk Management	Suva, Fiji
Mar 2004	Regional Banking Supervision Workshop	Sydney, Australia
Oct 2004	Regional Seminar on Economic Capital Issues, the Supervisory Review Process of Basel II and Problem Bank Resolution	Port Vila, Vanuatu
Oct 2005	Regional Seminar on Insurance and Pension Fund Supervision and Risk Management in Banks	Port Moresby, Papua New Guinea
June 2006	Regional Insurance Supervision Workshop	Sydney, Australia
October 2006	Regional Seminar on Banking Supervision Focusing on Basel II and the Directions Being Taken by Australian Banks with a Presence in the Pacific	Honiara, Solomon Islands

Reflecting changing needs in the Pacific, members endorsed the need for the AFSPC to expand the coverage of its training program to include not only bank supervision but also insurance and pension fund supervision at the annual Heads of Supervision meeting in October 2005.

Developments in bank supervision

The membership of the AFSPC is drawn from a number of small Pacific Island Countries which face a number of capacity constraints in performing their supervisory responsibilities. Despite resource constraints, supervisors in the region are committed to ensuring that supervisory practices and standards in the region are consistent with international standards and expectations. In this regard, the members of the AFSPC endorse the work of the Basel Committee of Banking Supervision in revising the Basel Core Principles for Effective Banking Supervision.

Members are also assessing the implications of the revised Capital Adequacy Accord, 'Basel II' as supervisors in the region are concerned about what impact implementation will have in terms of resources and their capacity to deal with issues associated to Basel II. To this end, the AFSPC Secretariat, on behalf of its members, has been liaising with APRA, as the home country supervisor for a number of banks operating in the Pacific, to ensure that they are kept informed of plans by Australian banks to implement Basel II in their respective Pacific operations.

At the forthcoming October 2006, AFSPC training workshop, it is proposed that representatives of Australian banks will address participants on their plans to implement Basel II in the Pacific.

Changes in international accounting standards and the impact on banks' prudential reporting is also an issue confronting members of the AFSPC. In smaller jurisdictions it will take some time for the changes to be fully understood, by banks, accountants and supervisors alike, and the AFSPC is planning to hold some workshops which will address some of the implementation issues arising from the new International Financial Reporting Standards (IFRS).

The Association of Supervisors of Banks of the Americas

The Association of Supervisors' of Banks of the Americas (the Association) has continued to make progress over the last two years based on its 2004-2008 Strategic Plan. The Association's activities have concentrated on the promotion of regulatory and supervisory policies, procedures, and programs in line with international standards and the facilitation of regular information exchange and coordination among bank supervisors in the region. In addition, the Association has created working groups to develop best practices documents on different subjects. The most important activity the Association has undertaken over the last two years has been the organisation of public-private sector discussions on the implementation of the New Capital Accord and the challenges that the revisions to the Basel Core Principles for Effective Bank Supervision may present to regulators and supervisors and the industry.

Below is a summary of the Association's primary activities in 2004 and 2005. The activities are divided into three categories, namely (1) Training and Technical Cooperation and Analysis; (2) International Dialogue Promotion; and (3) Institutional Strengthening.

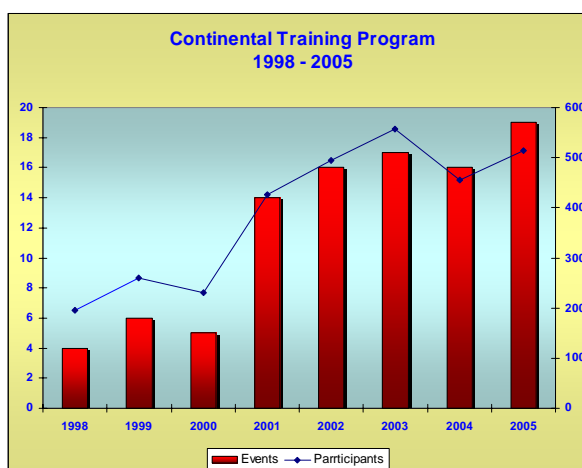
Training and technical cooperation and analysis

ASBA's Strategic Plan outlines the Association's four primary goals, namely the promotion and implementation of regulatory and legal frameworks; the advancement of bank supervisory policies and procedures; the development of sufficient skilled and capable supervisory resources; and the construction of an internal and external network. The first three goals concentrate on technical activities to develop documents, organise working groups, implement surveys or carry out activities that will help promote and implement banking regulations and supervisory practices in line with international standards. In addition, ASBA's goals require the Association to support regional efforts to develop supervisory resources and capabilities necessary to effectively meet the challenges presented by ongoing changes in financial sector practices, regulations, and supervision.

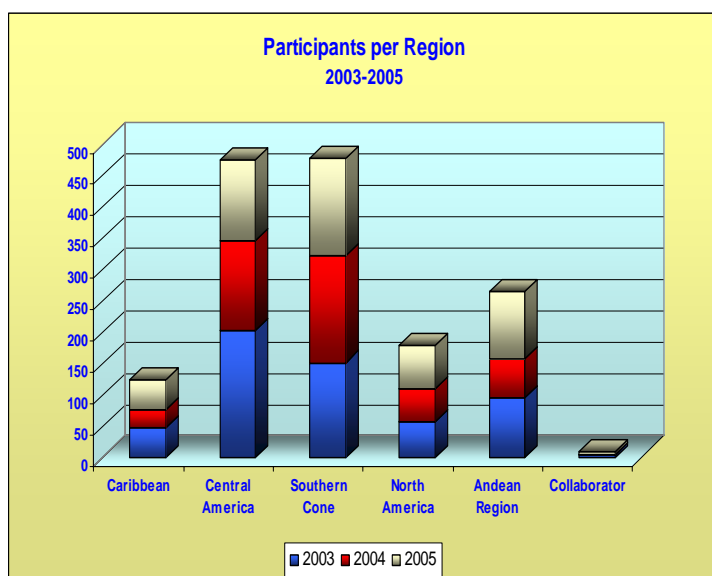
Training

Between 2004 and 2005, ASBA's Continental Training Program (CTP) facilitated 35 training events, including 969 supervisors from 28 countries in the Americas. The CTP's structure is based on a partnership between technical training agencies, host members, and ASBA's General Secretariat. The CTP's structure and coordination efforts enable ASBA to extend its training support across most of the region, reaching 82% of the Association's member countries last year.

The Association's Training Program continues to evolve since its inception in 1998. Initially from 1998-2001, courses were designed to broadly cover topics that supported the adoption of sound supervisory practices in the region. From 2001-2005, the program was revised to cover more detailed topics. Core and specialised courses were offered in addition to seminars and workshops. Regional participation in these forums was also increased. During the latter part of 2005, the program was revised so that the agencies that currently



support the CTP, as well as academic institutions and industry representatives, could conduct core and specialised courses under the CTP.



All five regions that are part of ASBA have been supported by the Association's training program. The chart at the left shows the number of participants per region during 2003-2005. As indicated in the table, the Southern Cone and Central American regions have been the most active participants, followed by the Andean and North America regions. Although the Caribbean region had a relatively lower participation rate during this period, this is likely to change as the region continues to progress with the implementation of the Core Principles for Effective Banking Supervision and the adoption of the

New Capital Framework.

The different agencies that provide technical expertise and support to the CTP are a key element in the successful implementation of the Association's training program. In particular, the CTP has benefited from the significant support of the Financial Stability Institute, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of the Superintendent of Financial Institutions of Canada and the Office of the Comptroller of the Currency.

In response to requests made by the Association's members, the training program is currently in the process of being revised to include a set of advanced courses on risk management. In addition, academic institutions and the industry will be consulted to elicit feedback on how to further the specialisation and the quality of the program.

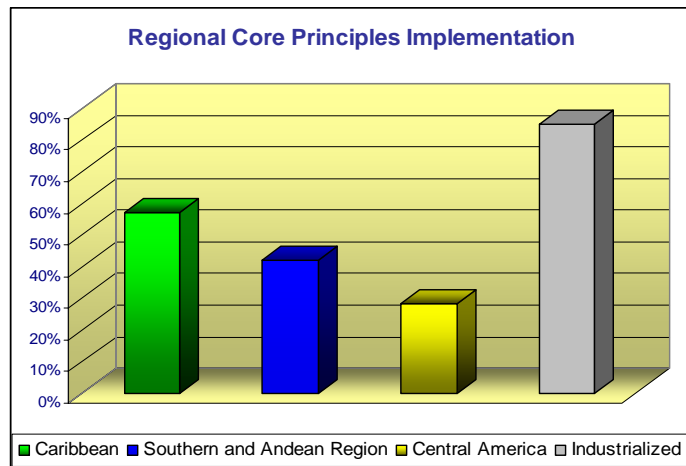
Technical cooperation and analysis

Horizontal cooperation

During the reporting period, the Association promoted cooperation activities between its members by facilitating support from agencies with recognised expertise on special issues to peers in need of specific support. This form of cooperation can accelerate the implementation of sound practices in the region and is expected to increase in the near term with the availability of additional technical cooperation resources.

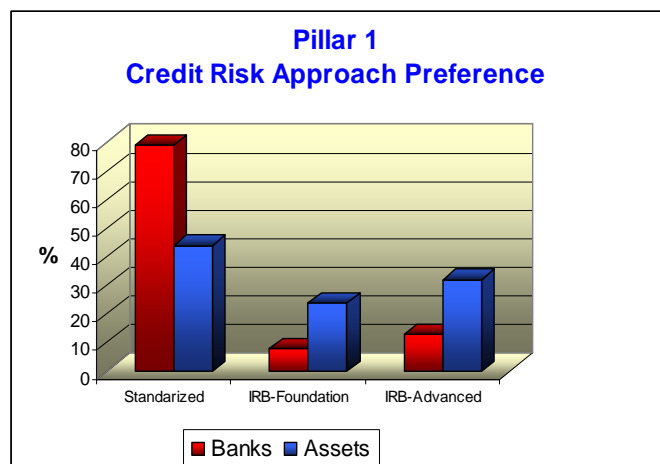
Information collection and reporting

In 2004, the Association organised a Research and Implementation unit (RIU) to support its analytical activities and to promote structured discussions on regional topics. The RIU recently drafted a preliminary assessment of the region's degree of compliance with the Basel Core Principles (BCP) and developed an instrument to help supervisors follow up on their progress with BCP compliance. The document, which is based on third-party information and is expected to be released in the near term, provides details on the degree of implementation of the BCP in the region and, more importantly, the region's state of readiness for the implementation of the New Capital Accord. The preliminary results of the report indicate that the region needs to make greater efforts to increase its level of compliance with the BCP, especially in the areas of risk assessment, consolidated supervision, and independence of bank supervisory authorities. In addition, the document provides details on the region's expectations with respect to implementing the three approaches for calculating regulatory capital requirements for credit risk. For example, the report indicates that most small and medium sized banks may adopt the standardised approach, while the most sophisticated banks, which manage more than half the assets in the region, may prefer to adopt the internal ratings-based approaches. The data also provide some details on the level of supervisory resources in the region and the need for training and international discussion groups to identify best practices in the region.



In addition, the Association is in the process of developing an electronic survey that seeks to collect relevant public information across individual countries in the region. The objective of this initiative is to build a database that may facilitate the standardisation of regulatory and supervisory practices in the region.

The Association continues to maintain an open and proactive dialogue with multilateral organisations. For instance, the International Monetary Fund held an executive level discussion with the region's supervisors on their compliance challenges at a forum co-sponsored by ASBA. This kind of information exchange enables the Association to further strengthen its information databases on sub-regional supervisory practices in the region.



Working groups organisation and development

In late 2004, the Association's Board of Directors decided to establish regional working groups to promote issue-specific discussions on four areas that represent a challenge for many countries in the region, namely Banking Resolution and Deposit Insurance; Credit and Operational Risk; Corporate Governance in Banking Supervisory Agencies and Consolidated

Supervision. In 2005, the first two groups carried out their discussions and prepared their initial reports to be released in 2006. These reports identify some best practices in the region and take into consideration the institutional and relative market development of the region.

International dialogue promotion

During the reporting period the Association promoted intensive internal and external dialogue to increase the level of understanding of the main concepts contained in the Revised International Capital Framework issued in June 2004 by the Basel Committee on Banking Supervision. The purpose of this dialogue is to identify the current challenges and to develop a strategy for the gradual adoption of the Framework and the implementation of the sound practices contained in the BCP.

External dialogue

In July 2004, the Association, in partnership with the Center for Latin America Monetary Studies (CEMLA) and the Latin American Bankers Federation (FELABAN), held a seminar where the industry, regulatory and supervisory agencies agreed that the gradual adoption of the New Capital Accord was essential to the competitiveness of the region's financial markets. However, seminar participants also recognised that the Framework's implementation needed to consider the relative development of the financial markets in most of the region, as well as the degree of implementation of sound supervisory practices in the region. Thus, one of the key conclusions drawn from the seminar was that countries should first establish a sound supervisory framework before implementing the New Capital Framework.

To further the development of the banking sector and sound supervisory frameworks in the region, the Association partnered with the Inter American Bank of Development (IADB) and FELABAN to hold their Second and Third Annual Public-Private Sector Conferences. The second annual forum analysed the policy options for the treatment of External Credit Assessment Institutions (ECAI) under Basel II. The third annual forum concentrated on specific issues that could help the banking sector further develop in the region and analysed practical matters – such as creditor's rights protection – to improve the regulatory and supervisory frameworks in the region.

The Association also partnered with the Financial Stability Institute to carry out a high level meeting on the implementation of Basel II in Latin America and the Caribbean. These meetings were structured to allow for an open discussion with the industry and to develop an in-depth analysis of supervisory issues. The forum provided an opportunity for participants to obtain a greater understanding of banking sector developments and challenges in the region.

As part of the Association's efforts to promote a productive international dialogue concerning the adoption of sound banking practices in the region, the Association organised a high level meeting with the International Monetary Fund. The objectives of the meeting were to openly discuss the Fund's assessment process, the challenges related to adopting specific recommendations (eg legislative processes), and mechanisms for collecting up-to-date information on regional progress - in addition to a formal assessment.

Internal dialogue

During the reporting period, the Association held its annual meetings in Atlanta, Georgia and Oaxaca, Mexico, respectively. These events provided the Association's members with an opportunity to increase their working relationships and establish formal mechanisms to share

information and carry out supervisory work in a coordinated manner. In addition, these forums promoted discussions on issues such as the development of risk management and corporate governance practices in the region, the implementation of International Financial Reporting Standards, and other important topics. Participants in these meetings also included officials from multilateral organisations and industry experts.

In addition, during the reporting period, the Association called high-level meetings to discuss issues essential to the furtherance of supervisory practices in the region. In particular, the Association discussed the proposed revisions to the BCP prior to submitting the Association's comments on the proposed changes to the Basel Committee on Banking Supervision. During the discussion, four key issues were identified. The first issue pertained to the timing of implementing the revised core principles as the implementation of some principles may require some supervisors in the region to encourage their legislatures to undertake regulatory amendments. In addition, the new BCP may require supervisors to further their technical capabilities and to develop information systems. These requirements may necessitate additional resources and in some cases, may take many years to fully implement. The second issue was the language being adopted in the revised BCP. Terms such as "determine", "confirm", and others, could create some degree of ambiguity from a legal point of view. The third issue addressed the need to ensure that the revisions would increase the comparability of one assessment to another and diminish the qualitative judgments of the assessors. The fourth issue referred to the desire to make explicit in the revised BCP that it recommended the formal adoption of the risk-based supervision concept. The Association also recommended that the Committee develop a glossary providing additional information on the specific meaning of the concepts used in the proposal. The glossary would be a helpful tool for some countries to use when conducting their self-assessments and may help facilitate consistency in interpretation of the concepts in the revised BCP.

Communication

As part of its strategic objectives, the Association has been searching to reach a greater audience and to this effect created a quarterly Newsletter and is in the process of creating a Journal on Bank Supervision. These initiatives respond to the need to provide more permanent feedback to its membership, to keep the region abreast of new developments, and to allow the publication of research work being carried out to further contribute to the bank supervision knowledge-base in the region.

Strengthening of the Association

As indicated above, to assist the Association with setting priorities, the board of directors adopted a four-year strategic planning process for the 2004-2008 period. The development of the strategic plan was participatory and inclusive, involving input from both associate members and the board of directors. The plan reaffirms the Association's mission, values, and goals and includes strategies for achieving the Association's goals over the planning period.

As part of the strategies to be implemented, the Association developed a project to seek funding for multilateral cooperation. The project is based on three pillars: to support the dialogue promotion and development of sound practices; to increase the expertise on risk management assessment in the region; and to increase technical support to associate members in their attempt to improve their compliance levels with the BCP. As of the reporting period, the project received initial approval for development from the donor agency.

Concluding remarks

2004 and 2005 were years of important development and strengthening of the Association. ASBA's concentration on technical challenges in the region and international participation (e.g. the promotion of more action oriented dialogues, where bankers and supervisors may agree to work together in support of their market's growth and stability) are taking the Association to a new level of development. In addition, the improvement of the organisation's training program and analysis of more effective delivery methods should help the Association continue to deliver a strong and subject-oriented program. All of these activities will help the Association achieve its objectives and become a contact point for regional supervisors and the international bank supervisory community on issues related to bank supervision and regulation in the Americas.

The Banking Supervision Committee of the ESCB

The Banking Supervision Committee (BSC) of the European System of Central Banks (ESCB) was established in 1998. The BSC is composed of high-level representatives from the EU banking supervisory authorities and national central banks and also from the European Central Bank (ECB). The central banks of Bulgaria and Romania, as well as the European Commission and the Committee of European Banking Supervisors (CEBS) are observers of the BSC. The Committee is currently chaired by Mr Edgar Meister from Deutsche Bundesbank and the Secretariat is provided by the European Central Bank. The member authorities are listed in the attached table.

Mandate of the BSC

The main function of the BSC is to assist the ESCB and the ECB in the fulfilment of their statutory tasks relating to financial stability and prudential supervision. In accordance with the Treaty establishing the Economic and Monetary Union, the ESCB is to contribute to the *“smooth conduct of policies pursued by competent authorities relating to the prudential supervision of credit institutions and the stability of the financial system”* (Article 105(5) of the Treaty).

Since its inception, the BSC has focused its contribution to analysing topics, which are at the crossroads between banking supervision and central banking, taking mainly a macro-prudential perspective. It has also focused on developing effective interplay between banking supervisory and central banking functions in the EU.

According to its mandate, the first and primary task of the BSC is the contribution to monitoring and assessing developments in the euro-area and EU banking and financial sector from a financial stability perspective. This includes both conjunctural and structural developments and entails expanding the scope of the activity beyond banking to other sectors of the financial system. A second task is the contribution to the design of financial regulation and supervisory tools from a macro-prudential perspective. This basically entails analysing the possible effects of regulatory or supervisory requirements on, for example, the financing of the economy, banking and financial structures and financial stability. In this context, the BSC assists in the preparation of the ECB's advice on draft community and national legislation. The third task of the BSC continues to be the promotion of cooperation between central banks and banking supervisors on issues of common interest. This refers mainly to the development and maintenance of cooperation arrangements between central bank and supervisory functions, for instance, in the fields of central bank operations, payment systems and crisis management.

In the development of its activities, the BSC works in close cooperation with the Committee of European Banking Supervisors (CEBS) and, where appropriate, also with the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) and the Committee of European Securities Regulators (CESR).

The following reviews the main activities of the BSC over the last two years in these three areas, and its current engagements.

Financial stability monitoring

The BSC contributes to the production of regular reviews of financial stability conditions and prospects within the euro area/EU. These include the regular annual BSC reports on EU banking stability and structural developments in the EU banking sector. The BSC is also

closely involved in the production of the ECB's Financial Stability Review, which is published semi-annually in June and December. In addition to these regular reports, the BSC also contributes to the preparation of reports on specific conjunctural and structural topics. In the past two years this has included the publication of a Report on the New Member States' Banking Structures and of a Report on Large EU Banks' Exposures to Hedge Funds.

Development and refinement of methodologies for macro-prudential analysis also forms part of the BSC's contribution to financial stability monitoring. In this context, the BSC is engaged in developing methodologies for macro stress testing. It has also been engaged in adjustments to the framework for data collection on the banking sector, taking into account changes stemming from the new accounting standards and plans to revise the whole reporting scheme soon, also on account of Basel II.

In terms of the analysis of the impact of regulatory and supervisory requirements on financial system stability and structure, the output of the BSC in this area included the analysis of the implications of increasing cross-border banking activities within the EU, the implications of accounting standards, and other specific financial stability and supervisory topics such as relating to the operation of payment institutions in the EU. The BSC also continued to assist in the preparation of the ECB's advice on draft community and national legislation on the regulation and supervision of credit institutions and on financial stability.

Promotion of cooperation and exchange of information between central banks and supervisory authorities

The BSC is committed to devising and maintaining arrangements for cooperation and exchange of information between banking supervisors and central banks for the prevention and effective handling of financial crises. In this area, the BSC established jointly with CEBS a Joint Task Force on Crisis Management, which is working on developing specific recommendations for the enhancement of banking supervisory and central banking arrangements. The BSC also supported the preparation and adoption of a Memorandum of Understanding on cooperation between the EU banking supervisors, central banks and finance ministries, which was adopted in 2005 under the aegis of the Economic and Financial Committee.

The BSC also contributed to specific areas of cooperation between banking supervisors and central banks, such as those relating to the framework for monetary policy operations, oversight of securities settlement systems and the cross-border data exchange among central credit registers operated by EU national central banks.

Contribution to the activities of EU and international fora and institutions

As the committee responsible for financial stability analysis in the context of the ESCB, the BSC contributes to the Financial Stability Table of the Economic and Financial Committee, which takes place twice a year. The BSC contributions included analysis on banking and financial system stability and structural developments, input to the refinement of the EU institutional framework in regulation and supervision, and on crisis management arrangements.

The BSC maintains close working arrangements with the activities of CEBS with the aim of cooperating in matters of common concern, and complementing and contributing to each committee's work while avoiding overlaps. The Joint Task Force on Crisis Management was one of the initiatives in this context. The BSC also cooperates with CESR and CEIOPS,

particularly in terms of expanding the analyses relevant for financial sector stability and developing common projects.

The BSC also contributes to the activities of the European Commission, which is an observer at the meetings of the committee. The BSC contributions included work on structural developments, payment institutions, hedge funds, and deposit insurance schemes.

The output of the BSC's activities is also conveyed to international fora, including the Basel Committee on Banking Supervision and the Financial Stability Forum, which are recipients of the BSC's reports. The BSC contributed as well to the international discussion on Financial Soundness Indicators, which are being developed by the IMF.

Member institutions and observers of the ESCB Banking Supervision Committee

Belgium:	Banque Nationale de Belgique Commission bancaire, financière et des Assurances
Czech Republic:	Ceská národní banka
Cyprus:	Central Bank of Cyprus
Denmark:	Danmark Nationalbank Finanstilsynet
Germany:	Deutsche Bundesbank Bundesanstalt für Finanzdienstleistungsaufsicht
Estonia:	Eesti Pank Finantsinspeksioon
Greece:	Bank of Greece
Spain:	Banco de Espana
France:	Commission Bancaire et Banque de France
Ireland:	Central Bank and Financial Services Authority of Ireland
Italy:	Banca d'Italia
Latvia:	Latvijas Banka Latvian Financial and Capital Market Commission
Lithuania:	Lietuvos Banka
Luxembourg:	Banque centrale du Luxembourg Commission de Surveillance du Secteur Financier
Malta:	Central Bank of Malta Malta Financial Services Authority
Hungary:	Magyar Nemzeti Bank Hungarian Financial Supervisory Authority
Netherlands:	De Nederlandsche Bank
Austria:	Oesterreichische Nationalbank Finanzmarktaufsicht
Poland:	Narodowy Bank Polski Polish General Inspectorate of Banking Supervision
Portugal:	Banco de Portugal

Slovenia:	Banka Slovenije
Slovakia:	Národná banka Slovenska
Finland:	Suomen Pankki Rahoitustarkastus
Sweden:	Sveriges Riksbank Finansinspektionen
United Kingdom:	Bank of England Financial Services Authority European Central Bank
<i>Observers</i>	
Bulgaria	Bulgarian National Bank
Romania	Banca Nationala Romaniei European Commission Committee of European Banking Supervisors

Caribbean Group of Banking Supervisors

Introduction

Membership

The Caribbean Group of Banking Supervisors (CGBS) was established in 1983 under the aegis of the Central Bank Governors of member countries of the Caribbean Community (CARICOM), with the specific mandate to coordinate the enhancement of bank supervisory practices in the English speaking Caribbean, consistent with internationally accepted standards. The CGBS was later extended to banking supervisors from non-CARICOM Caribbean territories and now comprises membership from 14 regional jurisdictions, nine of which are presently core members of CARICOM. The detailed list of members is as follows: Aruba, Bahamas, Barbados, Belize, British Virgin Islands, Cayman Islands, Eastern Caribbean Central Bank,¹¹ Guyana, Haiti, Jamaica, Netherlands Antilles, Suriname, Trinidad and Tobago, Turks and Caicos Islands.

Administrative arrangements

The Chairmanship of the Group rotates among the different CARICOM central banks, to allow each jurisdiction the opportunity to assume the lead role of the Group. The Chairmanship now resides with the Central Bank of Trinidad and Tobago, which will relinquish this position at the end of a two-year cycle in January 2007.

Since January 2003 the Secretariat has been administered by the Financial Institutions Supervisory Division of the Bank of Jamaica, with the decision having been taken by the CARICOM Governors that in the interest of maintaining continuity this would be the permanent home of the Secretariat going forward. Activities undertaken by the Secretariat include planning and coordinating regional training programmes; negotiating and maintaining interfaces with international and other regional supervisory bodies; organising technical work-groups to discuss, research and strategise on regional approaches to supervisory developments; follow-up and monitoring of recommendations for changes to legislation, supervisory methodologies, etc; maintaining a comprehensive database and record of the Group's activities and generally coordinating the activities of the Group.

Update on recent activities

Specific initiatives that the Group has been involved in during the two year review period are summarised below.

Annual conferences and meetings

At a minimum, two plenary administrative sessions are held each year as well as an annual conference at which members present discussion papers on identified issues of supervisory import and strategise on practical approaches to address the areas of concern. During the period under review, four plenary sessions were held and two annual conferences. In addition to the CGBS membership, the annual conferences saw representation from several international organisations including the Basel Committee on Banking Supervision, the

¹¹ The Eastern Caribbean Central Bank represents the eight jurisdictions comprising the Organisation of Eastern Caribbean States, viz Anguilla, Antigua & Barbuda, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines

Federal Reserve Board (USA), OSFI (Canada), OCC (USA), the Financial Services Authority (UK), the Bundesbank (Germany) and the IMF, to name some. Areas that were the subject of official presentations and deliberations included the following:

- Consolidated Supervision – Ownership Issues
- International Cooperation
- Disaster Recovery and Operational Risk
- Basel II – Pillar II and Pillar III
- Legitimate Use vs. Misuse of Corporate Vehicles: A Case Study on Trust Companies and Corporate Service Providers
- The Emerging Role of Stress Testing
- The Implications of Mergers and Acquisitions in the Context of Conglomerate/Consolidated Supervision
- A Road Map for Regional Implementation of Market Risk

Basel II

Arising from the CGBS' careful review of the issues related to implementation of the New Capital Accord, and also the later timeline of end 2007 now being adopted by the BCBS for its member countries with internationally active banks, CGBS members have generally agreed that the region must first be fully compliant with the Basel Core Principles (BCPs). In particular, the issues of consolidated supervision and capital adequacy, inclusive of the 1996 Market Risk Amendment, need to be addressed before moving on to the implementation of Basel II. It has therefore been decided by several members to place emphasis on complying with the principles of Pillar II and Pillar III in the near and medium term, with a later transitioning to Pillar I by 2009/2010. This approach is also consistent with recommendations arising from recently concluded FSAPs cautioning emerging economies against attempting to implement Basel II before attaining critical fundamental conditions for success. As a consequence of this decision, work which a CGBS Technical Working Group began in 2004 on a Quantitative Impact Study to be deployed in each jurisdiction to assess the potential impact of Basel II on supervised institutions, is being rescheduled.

There are, however, a number of members working with different timelines influenced by the exigencies of financial systems dominated by international banking groups particularly in their offshore sectors.

Market risk

Work continues in individual jurisdictions towards full implementation of market risk capital charges addressed by the 1996 Amendment of the Basel Capital Accord. Although only two jurisdictions, Trinidad and Tobago, and Jamaica, have to date implemented any aspect of these requirements, most members currently have this on the agenda of their supervisory programmes for 2006 and are proposing to implement all components (ie foreign exchange risk, interest rate risk and commodities and equities price risks) by 2007.

Consolidated supervision

The issue of adopting a comprehensive and effective framework for consolidated supervision across the region is one that remains high on the agenda of the CGBS. This is particularly significant against the background of continued cross-border expansion of the region's

financial institutions and growth in mixed conglomerates arising from mergers and acquisitions. Although much has been accomplished regionally in providing a framework for the sharing of information with the signing of a regional MOU and the establishment of regulatory policy councils in some jurisdictions (see below) much remains to be done to achieve a comprehensive framework that ensures that financial groups:

- Consistently adhere to legal and regulatory requirements which govern financial group activities;
- Comply with established prudential norms such as group capital adequacy and large exposure limits; and
- Evaluate and control all risks incurred by the group on a global basis.

Arising from the deliberations at its May 2006 Assembly, a Technical Working Group has been commissioned to examine the policy and technical issues relevant to implementation of effective consolidated supervision both from a domestic and cross-border perspective. It is expected that the recommendations of the Group will be presented to the CARICOM Governors' at their December 2006 meeting, for their review and endorsement/commitment to the recommended actions necessary in individual jurisdictions, to achieve implementation of effective consolidated supervision across the region.

Formal information sharing agreements (MOUs)

Arising initially from the need for more structured cross-border supervision of a recently established Caribbean bank holding company and its subsidiaries spanning eight member jurisdictions, a Memorandum of Understanding (MOU) for the sharing of information was drafted and signed initially by the eight affected CGBS¹² members. However, in light of the possible wider applicability of this MOU, the document was crafted in a generic manner as to be applicable for the general sharing of information among all CGBS members. At the CGBS May 2006 Members' Assembly, five members (Aruba, the Eastern Caribbean Central Bank, Guyana, Suriname, and Trinidad and Tobago) who were not signatories to the MOU again expressed the desire to participate in the MOU and preparations are now in train for the adding of the other signatories, subject to the relevant legislative amendments being effected in local laws to allow for formal information sharing with external supervisory bodies, where necessary.

Regional Regulatory Policy Council

Against the background of a marked growth in the number of cross border mergers and acquisitions in the region, there is inter alia, the need for strengthening of the supervisory framework governing these entities through the sharing of information, the coordination of the regulation of the financial sector and the harmonisation of practices among regulators.

The CGBS is therefore promoting among those jurisdictions with multi-regulatory structures, that where one does not already exist, they should pursue the establishment of a domestic regulatory policy council, which would provide a forum for collaboration between the different local supervisory authorities. This would pave the way for further consideration of the establishment of a Regulatory Policy Council on a regional basis. Currently, three

¹² Initial signatories to the Regional MOU are The Bahamas, Barbados, Belize, British Virgin Islands, The Cayman Islands, Jamaica, Netherlands Antilles, and the Turks and Caicos Islands.

jurisdictions¹³ have confirmed having such regulatory policy councils in place, while another jurisdiction (the Eastern Caribbean Central Bank) is in the process of establishing one.

CARICOM Draft Financial Institutions Act

In keeping with a mandate from the CARICOM Group of Central Bank Governors, a Technical Working Group (TWG) was established during 2005 to address issues arising from the introduction of the CARICOM Single Market and Economy (CSME). In particular, the TWG was mandated to review the draft CARICOM Financial Services Agreement (FSA), the model Banks and Financial Institutions Act (FIA) prepared by the CARICOM Drafting Facility, and to assess their implications for regional supervisory arrangements.

The report of the TWG concluded that a standardised financial services statute applicable to all the jurisdictions in the region was not feasible in the short to medium-term. The factors influencing this determination included, inter alia:

- the fact that countries are already engaged in their own reform agendas inclusive of legislative changes, based on their own self-assessments and importantly, the assessments of the IMF/World Bank under the Financial Sector Assessment Programmes (FSAPs); and
- the fact that a number of key supervisory issues relating to the design of financial sector frameworks are still to be settled regionally and, in fact, globally.

The TWG nonetheless took the view that harmonisation in financial services supervision is critical to ensuring proper coordination in approaches and avoiding the harmful effects of regulatory arbitrage across the region. The recommendation of the TWG was that harmonisation would be more effectively achieved through the establishment of regional machinery for the issue of Directives, similar to those issued by the European Union, that will indicate the broad parameters and objectives for banking supervision reform, but which will leave the specific design and implementation issues to the national supervisory agencies.

The CARICOM Governors were in general agreement with the approach proposed and the recommendations are being further discussed with the authorities in the respective jurisdictions.

Interaction with the Basel Committee on Banking Supervision

The CGBS was represented at the January 2006 'Special Meeting of the Basel Committee on Banking Supervision with Regional Heads and Secretariats' and made use of the opportunity to raise some important issues for the region with the Basel Committee. These included:

1. The need for a widening of the membership of the formal Basel Working Groups to provide for broader regional group representation.
2. The need for more specific guidance in the Core Principles as regards conglomerate supervision. Of concern here are the unique challenges faced by the region in the matter of consolidated and conglomerate supervision because of the sometimes

¹³ Jamaica (2000), The Bahamas (2001) and Trinidad and Tobago (2005) have now established regulatory policy councils designed broadly to facilitate greater coordination and information sharing between the local regulatory bodies, particularly as regards financial institutions which are dually licensed.

complex structure of the region's financial groups and the practical difficulties flowing from this.

3. The need for greater coordination between the Basel Committee and other standard setting bodies (eg the International Accounting Standards Board). A specific area of concern relates to the IFRS requirements relating to income accrual on non-performing loans which are in direct conflict with fundamental prudential requirements. Another relates to the measurement and assessment of market risk (CP13) in the context of the Caribbean region's fairly immature capital market (a problem not unique to the Caribbean), as well as the specific problem posed by the absence of uniform valuation models used by financial entities when market price information is non-existent.
4. The fact that the region is currently suffering from 'feedback fatigue', operating with stretched resources and having to contend with a growing number of requests for comments on various policy documents and questionnaires sent out by Basel, and international agencies such as the IMF, World Bank, IDB, FATF etc. While it is acknowledged that it might not always be possible for Basel to take on board all issues raised by Caribbean and other jurisdictions, it would be of value if some feedback were provided as to why certain recommendations were not accepted.
5. The need for information flows to go both ways between home and host authorities. The issue of confidentiality of information shared with home authorities was also raised in relation to similar levels of confidentiality being accorded to such information by all relevant parties.

CGBS Extranet

During 2004, the CGBS launched a restricted Internet website which allows members to share information and is a repository for the documents and reports of the Caribbean Group of Banking Supervisors. The Extranet site incorporates among other features, a record of members' legal and supervisory structures (eg methodologies, procedures and practices, prudential data reporting arrangements etc.); copies of research papers, speeches, conference papers; links to related web pages (eg BIS, CFATF, ASBA, regional central banks etc.); and a 'discussion forum' that allows members to collaborate/comment on documents, research issues and general matters of concern. It also posts the annual regional training calendar and allows for on-line registration for regional programmes.

The site is currently being upgraded to enhance navigability and layout, in keeping with feedback from members, and it is proposed to target dual access on the site by the May 2007 CGBS Annual Conference. The proposal would see the Extranet comprising a restricted area for members, where confidential information would reside, as well as an open area, accessible to the general public, containing non-sensitive information on the operations of the member jurisdictions of the CGBS.

Training initiatives

The CGBS Secretariat continues to coordinate training programmes for member jurisdictions. This approach has served to optimise, from a regional perspective, the benefits to be gained from technical assistance available from international organisations (including the FSI, the Federal Reserve System, ASBA, OSFI, OCC, the OTA/US Treasury, the CFATF and CARTAC). Training needs of individual member jurisdictions are assessed annually, priorities determined and approaches made by the Secretariat to relevant organisations/persons as necessary. In this regard, six programmes were successfully completed in 2005 and another

six are scheduled for 2006. These are in addition to the several country-specific training exercises held by the various supervisory authorities.

Since 2005, the CGBS has invited the participation of representatives from the offshore Financial Regulatory Authorities of the eight members of the Organisation of Eastern Caribbean States (OECS)³ in CGBS-organised regional training programmes, as well as observers to the CGBS annual conferences.

Outlook for 2006/2007

For the remainder of 2006 and continuing into 2007, the CGBS will continue to provide a united voice for its member regulators at international fora and facilitate the organisation of necessary training and technical cooperation, as far as possible. In addition to, and as an integral part of the requisite preparations for the adoption of Basel II, renewed focus will be given to:

- Advancing the work of implementing effective consolidated and conglomerate supervision across the region;
- Developing and enhancing stress testing capabilities among members;
- Expanding the scope of the Memorandum of Understanding that has already been signed by eight member jurisdictions to facilitate home-host supervisory cooperation;
- Promoting the establishment of Regulatory Policy Councils in jurisdictions which have dual/multi regulatory frameworks
- Full implementation of market risk capital charges;
- Furthering supervisory review processes in keeping with Pillar 2 of Basel II principles; and
- Promoting increased disclosures and transparency among supervised constituents in accordance with Pillar III standards.

³ Note that the regulation of the domestic financial sectors of the OECS fall totally under the jurisdiction of the Eastern Caribbean Central Bank (ECCB), while the regulation of the offshore/international financial sectors of those territories fall under the jurisdiction of the individual governments. The ECCB is the official representative of the OECS in the membership of the CGBS.

Committee of Banking Supervisors of West and Central Africa

The Committee of Banking Supervisors of West and Central Africa (CBSWCA) was established in April 1994 in Accra (Ghana). It is composed of Heads of Banking Supervision of Central Banks of 11 countries (Burundi, DR Congo, Cape Verde, Ghana, Guinea, The Gambia, Nigeria, Sierra Leone, Sudan and Rwanda) and three Banking Commissions from Central Africa (COBAC), Madagascar (CSBF) and West African Monetary Union (WAMU).

During these years, the Committee has remained focused and committed to the principles and objectives establishing it, which include:

- To provide a forum for regular contact and cooperation among member countries on matters of banking supervision.
- To coordinate efforts among members with the view to evolving minimum standards to address peculiar supervisory difficulties.
- To work closely with the Basel Committee on Supervision, and maintain contacts and cooperation with other supervisory authorities.
- To facilitate training of banking supervisors and make available training facilities in member countries to the supervisory staff of group members.

Outcome of the 11th Assembly, held in Dakar (24-26 August 2005)

The WAMU Banking Commission hosted the 11th Annual Meeting of the Committee of Banking Supervisors of West and Central Africa from August 24 to 26, 2005 at the headquarters of the Central Bank of West African States (BCEAO) in Dakar.

The delegates welcomed the announcement of the opening, before the end of 2005, of the CBSWCA permanent Secretariat which will be housed by the Central African Banking Commission.

In accordance with the ideals of the Committee, the institutions represented shared experiences, through a tour de table on recent developments in their financial environment, more specifically in the area of banking regulation and supervision.

Encouraging results were noted in monetary stabilisation efforts, notwithstanding the persistent impact of exogenous shocks. Furthermore, banking activity has been expanding in most member countries, in addition to a diversification of participants and capital providers.

In this context, supervisors pursued an updating of their supervision framework to reflect regulatory progress made in the struggle against money laundering and the financing of terrorism. Member countries have also embarked on a process of improving compliance with their regulatory frameworks and monitoring the 25 Core Principles for Effective Banking Supervision, which constitute the main prerequisite for migration to Basel II.

The representatives of member institutions also admitted the importance that must be attached to financial stability in a context of globalisation and vulnerability of their economies to external shocks.

Regarding the harmonisation of rules, the participants agreed on the need to work on a broader perspective while refining the objectives, which might be focused on practice harmonisation, in addition to the actions of International Financial Institutions in terms of convergence to international standards and codes.

Regarding migration to Basel II, the delegates admitted that it required thorough preparatory work, pragmatism in approach, active participation of banks and exchange of information with home supervisors of foreign banks. Adoption of Pillars 2 and 3 on prudential supervision and market discipline was considered a priority, compared to the implementation of more sophisticated risk and capital adequacy assessments, defined under Pillar 1.

Implementing the New Accord therefore requires adequate skills both in banks and supervisory agencies, as well as granting full powers to supervisors to enforce regulatory norms; which will be the result of a dynamic cooperation process between banks and supervisors.

Besides, participants were fully informed of the objectives and the assessment process of financial sectors by the IMF and the World Bank, which take part in the definition, by national authorities, of policies to reinforce financial stability. This exercise contributes to identifying the strengths and weaknesses of their financial systems and lays the groundwork for greater compliance with international standards.

On the actions that need to be undertaken, the meeting mandated the Chairperson to perform the following duties:

- Clarifying objectives and missions of the permanent Secretariat;
- Pursuing reflection on the content and harmonisation of rules and practices. In this regard, the meeting agreed on the establishment of a think-tank expected to make recommendations based on the collection and dissemination of data on regulation and supervision of member countries' banking activities;
- Implementation of training by organising two seminars on "Credit risk and Pillar 2 of the New Capital Accord" and "Fundamentals of risk management and risk-based supervision", in conjunction with the Financial Stability Institute ;
- Revision of the texts governing the activities of the Committee based on the agreement which was concluded on its establishment.

Main recent developments in some members' jurisdictions

In **Guinea**, since 1999, prudential rules and standards consistent with the 25 Basel Core Principles have been promulgated (new banking law issued in 2005, review of the legal and regulatory framework, strengthening of on-site and off-site functions, new provisions on anti-money laundering, and higher capital requirements for banks). Besides, the supervisory system has been assessed by the IMF and World Bank on the one hand, and by WAMI (West Africa Monetary Institute) as part of the process of supervision harmonisation within the countries of the second West African monetary zone with a view to creating the West African Financial Supervisory Authority (ASFAO), on the other.

Concerning migration to Basel II, reflection is going on within credit institutions and the central bank in order to capture the stakes involved in carrying out the approaches proposed in Basel II. Executives of the central bank are already participating in relevant meetings and fora in order to define working guidelines and an implementation process.

Furthermore, accounting standards and risk analysis procedures are in the process of being revised within institutions, most of which are subsidiaries of major international banks.

In **CEMAC** countries (Cameron, Congo, Gabon, Equatorial Guinea, Central Africa Republic, Chad), banking regulation has undergone a few major changes during the past two years. One directive has been published regarding the compatibility of some activities with the

mandate of external auditors. New provisions have also been issued on anti-money laundering issues and electronic money. Furthermore, a draft of rules on corporate governance is being discussed, before consultation with the banking industry.

The implementation of Basel II had been addressed by the Banking Commission (COBAC) at its 25 October 2003 meeting. On this occasion, a timetable was adopted. The successful implementation of this timetable will depend on the implementation of a series of prior actions.

The Banking Commission also thought that making the CEMAC banking supervision framework conform to the 25 Core Principles for Effective Banking Supervision, constituted a prerequisite to the implementation of Basel II.

The timetable adopted provides for two important dates:

- 1 January 2008: implementation of the simplified standardised approach to Pillar 1 (minimum equity capital requirements) and to all the prescriptions of Pillars 2 (prudential supervision process) and 3 (market discipline) ;
- 1 January 2013: credit risk assessment according to the internal ratings-based approach.

Following the adoption of this timetable, the COBAC General Secretariat set up a Technical Committee on the implementation of Basel II and a Validating Committee chaired by the Secretary General. The terms of reference of this reform have been drafted and adopted by these committees which have met several times since their establishment.

Furthermore and in accordance with the timetable, training actions under the various themes of this reform have started and have intensified in 2005. They are expected to be pursued during the coming years and extended to the banking profession. An information campaign of the profession will thus be undertaken to explain the requirements and prospects for application of Basel II within the CEMAC.

In **Madagascar**, the Banking Commission General Secretariat is concentrating its immediate efforts on the development of fundamental infrastructure. Similarly, the banks are not technically prepared to operate under the Basel II regime. This is the reason behind the choice of still operating under Basel I for capital requirements, while adopting Pillars 2 and 3 of Basel II.

The Banking Commission plans to set new requirements for capital charges that will modify the calculation of the solvency ratio. This project will include, for example, the cancellation of OECD criteria and the introduction of the simplified standardised approach for the measurement of exposures on sovereigns and banks. The risks on corporates will remain risk-weighted at 100 per cent. Furthermore, capital charges will apply to operational risk, whereas market risk will not be charged. The Banking Commission will also have the power to require higher capital ratios for some banks, depending on their risk profile.

For Pillar II, new directives on liquidity risks and interest rate risk have been issued. The new rules on provisioning of risk are also being completed. Principles of Pillar 2 have been partially applied since 2005, thanks to the implementation of a rating system (similar to CAMEL), the need for banks to require prior supervisory approval, before paying dividends, and also the strengthening of cooperation with home supervisors of foreign banks. Some prompt corrective actions are also being developed for banks whose situations are worsening.

Regarding Pillar III, an accounting system consistent with IFRS standards was completed in 2005.

The challenges identified for a thorough transition to Basle II consist of compliance with the 25 Basel Core Principles, enhancing skills, preparing the local environment, and making the trade-off between achieving better security for depositors and requiring substantial additional capital from stakeholders.

In the **West African Monetary Union (WAMU)**, which comprises 8 countries (Benin, Burkina Faso, Côte d'Ivoire, Guinea Bissau, Mali, Niger, Senegal and Togo), the Banking Commission General Secretariat is pursuing the modernisation of its supervisory framework, in order to achieve better compliance with the Basel Core Principles, after gaining experience from two FSAPs in the region.

While fully implementing a bank rating system developed in 2004, the WAMU Banking Commission has engaged in modernising its supervisory information systems. To achieve this, it was deemed relevant to organise a visit to experienced foreign partners. This mission includes a project on global and integrated automation of banking supervision activities, so as to benefit from the supervisory and other databases now available at the BCEAO (the central bank).

Some subsidiaries of foreign groups, are already working on the internal plans for transition to Basel II, as part of their parent company's strategy. In this regard, the WAMU Banking Commission is seeking more information exchanges and better collaboration with home supervisors.

Committee of European Banking Supervisors

Introduction

Since the last report from the Committee of European Banking Supervisors (CEBS) in 2004 there have been significant developments in the area of financial regulation and supervision in the EU. The introduction of International Accounting and Financial Reporting Standards (IAS/IFRS) as well as the adoption of the new Capital Requirements Directive (CRD) in the EU provided CEBS with a window of opportunity to make progress in the convergence of supervisory practices and consistent implementation of rules and guidance.

CEBS has grasped this opportunity and introduced implementation guidelines covering several areas of the CRD. During 2005 and 2006 CEBS published 11 consultation papers and achieved final guidelines:

- on the implementation, validation and assessment of the risk management and risk measurement systems;
- on cooperation between supervisors of EU banking groups and investment firms;
- on the application of the Supervisory Review Process under Pillar 2;
- for a common approach to the recognition of External Credit Assessment Institutions (ECAIs);
- on a common reporting framework (COREP);
- on a standardised financial reporting framework (FINREP); and
- on increased transparency and public disclosure.

CEBS also developed prudential filters for regulatory capital and published guidelines for their use in late 2004 in order to neutralise the negative impact that IAS/IFRS were observed to have on credit institutions' regulatory own funds at transition.

CEBS guidelines to foster convergence

The issuance of CEBS guidelines represents a step forward towards convergence. The first internal assessment of the intention of its members to apply the guidelines at the national level shows that only in a few cases national supervisors do not intend to thoroughly implement the guidelines into their supervisory practices. However, CEBS is developing an objective self-assessment criteria and methodology to monitor progress and implementation in the future.

CEBS has contributed to improved cost efficiency of EU supervisory systems by developing common frameworks for reporting that will allow institutions to use a common set of templates and data formats when transmitting financial and prudential data to supervisors. CEBS final guidelines on the recognition of External Credit Assessment Institutions (ECAIs) envisage criteria and procedures for coming to a joint assessment that is expected to streamline an otherwise fragmented recognition process.

The challenges of cross-border supervision are mainly addressed by the guidelines on cooperation between consolidating and host supervisors. These guidelines set the general framework, within which cooperation and exchange of information between the authorities involved in the supervision of cross-border groups should be enhanced. CEBS has now set in place the structures that should allow enhanced operational networking between supervisors, with appropriate mechanisms to highlight and address issues emerging in the

supervision of cross-border groups. In the first stage, these arrangements for operational networking will be tested with reference to a rather narrow sample of cross-border groups.

Common training of staff and short-term exchanges of experts between authorities will enhance understanding of CEBS' work and objectives and contribute to creating a common European supervisory culture. The first two training initiatives aimed at promoting a common culture have already taken place, with the support of the Financial Stability Institute and one further programme will be pursued in 2006. The first tests of staff exchanges have been started, but they remain limited in number, due to a number of administrative complications. CEBS is currently discussing how to overcome obstacles to staff exchanges.

CEBS has worked closely with its sister committees in the field of securities (CESR) and insurance (CEIOPS) to promote convergence of practices across financial sectors. The main focus has been on financial conglomerates and on requirements related to outsourcing and internal governance.

Further information about CEBS and its work is available on the CEBS website (www.cebs.org).

EMEAP Working Group on Banking Supervision

Overview

Upon assuming the chairmanship of the Working Group on Banking Supervision (WGBS) in July 2004, the Monetary Authority of Singapore (MAS) conducted a series of consultation visits to WGBS members to garner feedback on the future direction for the WGBS. Members agreed that the WGBS should play an important role in strengthening the quality of banking supervision and financial stability work in Asia. Specifically, the WGBS decided to focus on three key objectives:

- Leveraging on mutual experiences and enhancing cooperation among members;
- Facilitating the adoption of international standards for banking supervision and financial system stability in the region; and
- Contributing to the development of international banking supervision standards.

With this confirmation of the desired focus and future direction of WGBS in mid-2004, the following two years saw focused cooperation among EMEAP central banks and bank supervisors under WGBS.

Review of achievements of WGBS

Leveraging off mutual experiences and enhancing cooperation among members

In view of the broad spectrum of banking supervisory issues, members agreed on two key areas of focus, namely, Basel II implementation¹⁴ and macro-surveillance¹⁵. The Group discussed possible approaches and guidance in these two areas, where relevant, from a regional perspective. In addition, other areas¹⁶ were identified for the Group to take stock of regional approaches over a longer term horizon, so as to raise awareness of sound practices and to identify any need for additional guidance. These helped to steer the contents and discussions at WGBS meetings to meet the needs of WGBS members.

To take the discussions further, five interest groups were established in April 2005:

- External Credit Assessment Institutions (ECAIs);
- Operational risk;
- Macro-surveillance framework;
- Stress testing of financial institutions; and
- Basel II home-host issues.

The interest groups focused on sharing experiences and explored ways of cooperation among members in dealing with these issues, with the possibility of developing practical guidance for members where needed.

¹⁴ This included Pillar 2 issues, home-host supervisory issues and guidance on practical implementation.

¹⁵ Emphasis was placed on promoting effective cooperation between macro-surveillance and banking supervision functions, and sharing early warning systems for identifying sources of system vulnerabilities and contagion risks.

¹⁶ These areas were identified to be other Basel II issues, IAS 39, consolidated supervision, deposit insurance, etc.

As the momentum of Basel II implementation intensified, there was a desire among members for more sharing of experiences and policy thinking on various aspects of Basel II. In this regard, the Basel II Home-Host Interest Group conducted surveys among EMEAP countries on the exercise of Basel II national discretions, implementation timelines and transitional approaches. The surveys were useful in facilitating discussions among members on cross-border implementation issues for their banks. The interest group also developed a “toolkit” paper on Basel II supervisory colleges to share the general considerations and useful lessons learnt from actual home-host working arrangements and approaches in the region and practical application of some of the Accord Implementation Group principles in this respect. To facilitate members in developing their own policies and frameworks, the ECAI Interest Group prepared a paper on the supervisory process for recognition of ECAIs for purposes of Basel II implementation. In addition, members also shared their respective approaches to Pillar 2 implementation in a survey and subsequent presentations. In response to keen interest among members, the WGBS also established a Basel II contact list to promote communication and sharing among relevant experts from member countries.

Apart from Basel II, surveys on macro-surveillance frameworks and FSAP stress testing processes have also been conducted to leverage on members’ mutual experiences. In addition, recognising that financial crisis is a subject of importance to banking supervisors and central bankers alike, the Working Group members shared their experiences in developing a Financial Crisis Management (FCM) framework and challenges of inter-agency coordination. Following the discussions, members agreed that it would be useful to carry out further work in this area, beginning with a study into existing FCM practices among members, such as options available for bank resolution, possible measures and legal powers available in different jurisdictions. A high-level FCM personal contact list was also developed among EMEAP countries to facilitate cross-border communication and cooperation in the event of a financial crisis in the region.

Facilitating the adoption of international standards and best practices

The following activities were carried out to facilitate practical implementation of international standards for banking supervision and financial stability in this region:

a. Regular updates on evolving international standards and best practices

In late 2004, the Working Group initiated the practice where member agencies who were represented on the Basel Committee and its working groups (eg Accord Implementation Group, Accounting Task Force and Core Principles Review) would provide regular updates on recent working group discussions at each WGBS meeting. Members shared their views on specific issues and evaluated the need for WGBS to carry out further studies or to provide collective feedback to the various BCBS working groups.

b. Interactions with international banking supervision fora

The Working Group, together with the Financial Stability Institute (FSI), co-hosted meetings on the Practical Implementation of Basel II on 5-6 July 2004 and 21-22 November 2005. The 2005 meeting was attended by the key members of the Basel Committee, the Institute of International Finance (IIF) and Regional Heads of Supervision. Apart from EMEAP WGBS members, other Asian regulators were also invited to the wider group meeting. Following the FSI-EMEAP meeting, the Working Group held a closed-door interaction session with key members of the Basel Committee. Participants recognised that regional groupings such as EMEAP play an important role in exchanging information, identifying issues from regional perspectives and working towards common solutions where possible.

c. *Training initiatives*

Members consider training to be important to facilitate the adoption of international standards and best practices. In this regard, the Working Group has been working closely with the Financial Stability Institute to organise seminars on specialised areas of interest, as follows:

- Internal Ratings-Based (IRB) Approach on 26-28 October 2004;
- The Supervisory Review Process of Basel II on 25-27 May 2005;
- IRB Validation on 17-18 May 2006; and
- Credit Risk Transfers to be held on 17-19 Oct 2006.

In view of the significant implications arising from the implementation of International Accounting Standard (IAS) 39, MAS organised a seminar on this subject on 14 September 2005 in Singapore. The seminar invited practising accountants, international bankers, and key members of the Accounting Task Force to share experiences and challenges in the implementation of IAS 39.

Contributing to the development of international standards

Members recognise that it is also important for WGBS to contribute to the development of international standards by sharing the region's perspectives. To this end, the Working Group held a closed-door interaction session with key members of the Basel Committee on 22 November 2005 to discuss the Basel Committee's recent work and developments, including the review of the *Core Principles for Effective Banking Supervision* and the Basel Committee's key future initiatives. WGBS members found the interactions and frank exchange of views to be useful and enriching, and look forward to similar dialogues with the Basel Committee in the future.

Following the meetings in November 2005, WGBS was invited to the BCBS meeting with Regional Groups of Banking Supervisors in Basel, on 10 January 2006. At the meeting, BCBS was briefed on WGBS members' comments on the draft revision of the Basel Core Principles (BCP) and other BCBS work, as well as the supervisory developments and challenges within EMEAP jurisdictions. WGBS also provided copies of the Basel II surveys on national discretions and implementation timelines, as well as the toolkit paper on Basel II Supervisory Colleges, to the Basel Committee. The Basel Committee Secretariat subsequently circulated the documents to other regional supervisory groupings.

Group of French-Speaking Banking Supervisors

Membership

The Group of French-Speaking Banking Supervisors (Groupe des Superviseurs Bancaires Francophones - GSBF) was established during the International Conference of Banking Supervisors (ICBS) in 2004 in Madrid, Spain.

The group consists of 21 member institutions representing: Algeria, the Banking Commission of the Central Africa Monetary Union, the Banking Commission of the West African Monetary Union, Belgium, Burundi, Canada, Comores, Congo, Djibouti, France, Guinea, Haïti, Lebanon, Luxembourg, Madagascar, Morocco, Mauritania, Romania, Rwanda, Switzerland and Tunisia.

To date, the GSBF has formally met twice, in Morocco and in Paris. The group plans to meet formally at least annually but more frequent meetings are possible.

The GSBF is currently chaired by the Governor of the Central Bank of Morocco. The French Banking Commission is in charge of the General Secretariat of the Group.

Objectives

The key objectives of the GSBF are as follows :

- To develop a new level of cooperation among members using the French language in order to facilitate the exchange of information with special focus on the convergence of best practices with regard to common challenges.
- To evaluate, discuss and coordinate members' comments on various Basel documents.
- To reinforce contacts and information exchanges with regional supervisory groups.

The ultimate aim of the group is to facilitate the harmonisation of new banking regulations which would enhance financial stability.

Recent key initiatives of the GSBF

1. *Pillar II Working Group*

A GSBF working group was formed in 2005 and produced a report on Pillar II. The report focused on the key issues for implementation in less developed economies, especially with regard to individual methods of supervisory oversight.

In March, 2006 the Basel Committee's Financial Stability Institute kindly organised a seminar on Pillar II for GSBF members. The purpose of the meeting was as follows:

- To present the main concepts and objectives of Pillar II,
- To provide the insight of practitioners, both industry and regulators, on Pillar II and its implementation,
- To facilitate enhanced understanding of economic capital as computed by credit institutions and their group-wide allocation.

2. *Basel II implementation: current status*

As Basel II will come into force at the beginning of 2007 for many countries, the GSBF considered it timely to gather data and information related to how and when members intend to move to the new prudential framework.

Based on the responses to a GSBF questionnaire, followed up by discussions on the issue at the meeting of 7 March 2006, three main - tentative - conclusions could be drawn:

- For certain countries, the implementation of Basel II is not a near term objective, as the current priority is implementation and compliance with the Basel Core Principles.
- For others, they intend to adopt the New Framework but at a later stage than the Basel timeframe and to a limited number of banks.
- For many, a key question is how to deal with Basel II and non-Basel II banks in the same country.

These issues will continue to be followed by the Group so as to more precisely define the problems as they arise, to organise more extensive discussions in order to solve them or define possible ways forwards.

3. *Translation of key documents into French*

One of the goals of the Group has been to have key banking supervision documents translated into French. One accomplishment to date has been the translation into French of the draft version of the revised Basel Core Principles for Effective Banking Supervision and its related Methodology. This enabled members to better understand the direction of the changes which were being proposed, which in turn, allowed them to submit comments to the Basel Core Principles Reference Group, which oversaw the redrafting process.

The group also translated into French the recent Basel papers on “Home-host information sharing for effective Basel II implementation” and “High-level principles for business continuity”.

4. *Website*

In order to have a centralised location for key documents in French, a website was created for the Group. Now there is a unique site for useful texts in French regarding banking supervision as well as for documentation relating to the seminars organised by the Group and other current work. The site also facilitates the exchange of information among Group members.

This site is divided in two parts:

- A public part, where main information related to the Group is disclosed (charter, members, etc.). The site will have the work of the Group, such as that related to Pillar II, available so as to enable French speaking stakeholders to have access to key information in the area of banking supervision. It is also planned that the members disclose their national laws and regulations related to Basel II and more broadly to prudential regulation, on the website.
- A part for the members only, which will publish working documents and general data concerning the group (documents of last meetings, coming sessions).

Next steps

Over the next few months the Group will focus on two key issues:

1. Accounting

There has been a tendency towards convergence in this area with the publication of IFRS. The group will gather data and information so as to have a broad picture of the current framework applied in GSBF member countries and also of national objectives in terms of convergence (which framework, which timeline, which national adaptations). A questionnaire was recently sent to the members and based on the answers received, a synopsis will be prepared in the fall 2006.

2. Microfinance

Initially, the objective is to organise an exchange of information based on the experience of members, both in terms of member's needs, existing regulation and supervisory practices, where they exist and relative importance of microfinance within each jurisdiction. Subsequently, the Group will look to disseminate best practices among members and conduct a dialogue with other supervisory groups, including regional groups. The ultimate goal is to enhance the role and performance of microfinance institutions in countries where it plays a role in addressing issues of access to finance.

The Islamic Financial Services Board

Background

The Islamic Financial Services Board (IFSB), which is based in Kuala Lumpur, was officially inaugurated on 3 November 2002 and started operations on 10 March 2003. It serves as an international standard-setting body of regulatory and supervisory agencies that have a vested interest in ensuring the soundness and stability of the Islamic financial services industry, which is defined broadly to include banking, capital markets and insurance. In advancing this mission, the IFSB promotes the development of a prudent and transparent Islamic financial services industry through introducing new, or adapting existing international standards consistent with Islamic Shari'ah principles, and recommend them for adoption. To this end, the work of the IFSB complements that of the Basel Committee on Banking Supervision, International Organisation of Securities Commissions and the International Association of Insurance Supervisors.

As at 31 March 2006, the 88 members of the IFSB include 21 regulatory and supervisory authorities as well as the International Monetary Fund, the World Bank, Bank for International Settlements, the Islamic Development Bank, the Asian Development Bank, and 62 financial institutions from 16 countries.

Malaysia, the host country of the IFSB, has enacted a law known as the Islamic Financial Services Board Act 2002, which gives the IFSB the immunities and privileges that are usually granted to international organisations and diplomatic missions.

Activities 2005-2006

(a) Council and annual meetings

Council meetings are held twice a year and are hosted by one of the member countries. The 2006 Annual Meeting was held in Kuwait City in March 2006

(b) Development of standards

The standards prepared by the IFSB follow a lengthy due process as outlined in its Guidelines and Procedures for the Preparation of Standards/Guidelines which involve, among others, the issuance of an exposure draft and, where necessary, the holding of a public hearing.

Standards

Capital Adequacy Standard for Institutions (other than insurance institutions) offering only Islamic Financial Services.

Guiding Principles of Risk Management Standard for Institutions (other than insurance institutions) offering only Islamic Financial Services.

Exposure draft

Corporate Governance Standard for Institutions (other than insurance institutions) offering only Islamic Financial Services (*already closed for public comment and expected to be adopted by November 2006*).

Working groups and task forces

The IFSB Secretariat organised 19 meetings among the working groups and task forces in the year 2006.

Five Working Groups have been established towards the development of new standards on:

1. Transparency and Market Discipline (*First Meeting April 2005*)
2. Supervisory Review Process (*First Meeting April 2005*)
3. Special Issues in Capital Adequacy (*First Meeting March 2006*)
4. Governance of Investment Funds (*First Meeting March 2006*)
5. Corporate Governance in Takaful Operations (*First Meeting September 2006*)

Four Task Forces have been established with specific focus on:

1. Prudential Statistics (*First Meeting May 2005*)
2. Human Resource Issues (*First Meeting July 2005*)
3. Islamic Money Market (*First Meeting February 2006*)
4. 10-Year Master Plan Framework for the Islamic Financial Services Industry (*in cooperation with the Islamic Development Bank*)

(c) Awareness promotion

The IFSB is actively involved in the promotion of awareness of issues that are relevant or have an impact on the regulation and supervision of the Islamic financial services industry. This mainly takes the form of international conferences, seminars, workshops, training, meetings and dialogues staged in many countries.

Programmes held in the year 2006

February 2006

- Second International Conference on Islamic Banking: Risk Management, Regulation and Supervision organised by Bank Negara Malaysia, the Islamic Development Bank, Islamic Research and Training Institute, Jeddah and IFSB
- Workshop on Rating Assessment Issues for Institutions Offering Islamic Financial Services (IIFS)
- 2nd Seminar on Regulation of Takaful (Islamic Insurance) hosted by Bank Negara Malaysia

March 2006

- Workshop on Exposure Draft 3: Guiding Principles on Corporate Governance for Institutions Offering Only Islamic Financial Services (Excluding Islamic Insurance (Takaful) Institutions and Islamic Mutual Funds)
- 2nd IFSB Seminar On Legal Issues In Islamic Financial Services Industry
- Interactive Session: "Developing Master Plan for the Islamic Financial Services Industry"
- The 3rd International Seminar on Challenges Facing the Islamic Financial Services Industry

April 2006

- Workshop on Consolidated Supervision for Institutions Offering Islamic Financial Services (IIFS)
- Workshop on Home-Host Issues Relating to Institutions Offering Islamic Financial Services (IIFS)
- Seminar on Challenges and Opportunities in Islamic Finance jointly organised with The World Bank

May 2006

- 3rd Islamic Financial Services Board Summit: "Aligning the Architecture of Islamic Finance to the Evolving Industry Needs" hosted by Banque du Liban
- Workshop on Exposure Draft 3: Guiding Principles on Corporate Governance for Institutions Offering Only Islamic Financial (Excluding Islamic Insurance (Takaful) Institutions and Islamic Mutual Funds)

June 2006

- Public Hearing on Exposure Draft 3: Guiding Principles on Corporate Governance for Institutions Offering Only Islamic Financial Services (Excluding Islamic Insurance (Takaful) Institutions and Islamic Mutual Funds)

September 2006

- Brunei Islamic Financial Services Forum

December 2006

- Roundtable Discussion on Debatable Shari'ah Risk Mitigation Techniques

Offshore Group of Banking Supervisors (OGBS)

OGBS was formed in 1980 at the instigation of the Basel Committee and remains an association of offshore financial centres, currently 19 in number¹⁷, with the following objectives

- to encourage members to identify and discuss issues of mutual interest, establish an identity of purpose and share knowledge and experiences;
- to participate with relevant international organisations in setting, promoting, and implementing international standards for the regulation of cross-border banking supervision, and for combating money laundering/terrorist financing (AML/CFT);
- to encourage members to apply high standards of financial regulation and AML/CFT compliance based on internationally accepted principles;
- to encourage a general raising of financial regulatory and AML/CFT standards among member jurisdictions through a peer group approach;
- to encourage and conduct independent mutual evaluations of compliance with international standards of financial regulation as applied to cross-border banking supervision and AML/CFT;
- to encourage and conduct a positive, constructive and coordinated response to requests for assistance in securing effective consolidated supervision of international banks and AML/CFT;
- to promote and encourage the adoption of the Group's Statement of Best Practice for trust and company service providers.

Since the last Biennial Report in 2004 OGBS has engaged in the following activities which fall into two main categories. One has been the action concerned with compliance with international standards of financial regulation and AML/CFT. The other has been the action concerned with facilitating international cooperation and effective exchange of information.

- the Chairman of OGBS co-chairs the Basel Committee Cross-Border Banking Working Group on which other OGBS members also sit. At the time of writing this report consideration was being given by the Working Group to whether the Customer Due Diligence (CDD) for Banks paper that was drafted by the Working Group, and issued by the Basel Committee in 2001, should be updated, with particular reference being made to the greater emphasis now being given to the risk-based approach to CDD;
- OGBS continues to work closely with the Financial Action Task Force on Money Laundering through participation in both Plenary and Working Group meetings. At the time of writing this report the Chairman of OGBS is co-leading an FATF Typologies project on the misuse of corporate vehicles with particular focus on the importance of identifying the ultimate beneficial owners of corporate vehicles when seeking to control their misuse;

¹⁷ Aruba, Bahamas, Bahrain, Barbados, Bermuda, Cayman Islands, Cyprus, Gibraltar, Guernsey, Hong Kong, China, Isle of Man, Jersey, Labuan, Macao, China, Mauritius, Netherlands Antilles, Panama, Singapore, and Vanuatu

- OGBS has been invited to attend meetings of the G7 Financial Stability Forum Offshore Review Group in an observer capacity, and attended a meeting of the Group in February 2006;
- OGBS is a member of the Interpol Working Group on Money Laundering and Terrorism Financing, and the Chairman leads a Sub-Group on facilitating and enhancing international cooperation and information exchange;
- OGBS has been represented at meetings of the UN Commission on Crime Prevention and Criminal Justice and also has provided the UN Counter-Terrorism Committee with information on the activities of members in seeking to combat terrorist financing. OGBS was represented at a conference on the financing of terrorism organised by the Netherlands authorities in March 2006 which called for the need for enhanced financial investigation as a standard component of investigations into terrorist activity;
- OGBS members are participating in the IMF OFC assessment programme and the IMF information framework initiative. OGBS also has participated in IMF round tables for onshore and offshore supervisors and standard setters which have focused on the need for continued attention to international cooperation and information sharing, risk-based supervision and appropriate sequencing of standards implementation as the means to address increasingly complex cross-border issues. At the November 2005 round table OGBS joined with other participants in agreeing that supervisors and standard setters should consider disseminating good practices in information sharing; providing website guides to jurisdictions' information sharing arrangements; and assigning priority and resources to information exchange issues;
- at meetings of OGBS held in June 2005 in Grand Cayman and March 2006 in London the following matters were considered:
 - the application of a risk-based approach to banking supervision;
 - home-host issues;
 - international cooperation;
 - e-money;
 - corporate governance;
 - the recognition of equivalence in the application of international standards;
 - Core Principles;
 - Basel II.
- OGBS is committed to the conduct of mutual evaluations of its members compliance with international standards of financial regulation and AML/CFT. Mutual evaluation reports prepared for OGBS members have been published on IMF and national websites;
- OGBS has responded to consultation papers issued by the Basel Committee. OGBS submitted views on the draft revised Core Principles and on Basel II implementation issues.

OGBS members are actively engaged in Basel II implementation, and consideration has been given by OGBS to issues surrounding home-host information sharing for effective Basel II implementation. However OGBS considers that there are wider home-host information sharing issues than simply those relating to effective Basel II implementation. OGBS is of the opinion that an exercise should be undertaken at an early date to review the Basel

Committee's 1996 report on "The Supervision of Cross-Border Banking", and for consideration to be given to the need for amendments to take account of the many developments that have occurred since 1996 that have a relevance for the relationship between supervisors cross-border.

In considering home-host issues OGBS is of the view that attention should be focussed on what may be significant for a host authority as well as what may be significant for a home authority. It is important for supervisors to communicate on the issue of significance and develop mutual understanding on the appropriate scope and frequency of information sharing. Different views of materiality between the home and host authorities can be reflected in the view taken by home authorities of the priority to attach to negotiating a bilateral memorandum of understanding, or to including host supervisors in a supervisory college. While it is reasonable that there should be a degree of prioritisation with countries focussing on relationships with those jurisdictions that are most significant to them, this will be to the disadvantage of the host authority that finds itself as a result excluded from supervisory colleges or low down in the list of jurisdictions with whom a Memorandum of Understanding is to be negotiated. OGBS has suggested that the Basel Committee should seek to ensure consistency in the way in which supervisory colleges are set up and conducted with particular regard for the position of smaller host authorities.

OGBS has also drawn the attention of the Basel Committee to the fact that OGBS members who are largely responsible for supervising subsidiaries/branches of parent banks can be faced with problems in implementing Basel II when different approaches are being adopted by the parent banks towards their subsidiaries which in turn reflect a different approach being adopted by home regulators to both the timing and nature of the implementation of Basel II.

In submitting comments on the revised Basel Core Principles, OGBS has suggested that the Basel Committee should:

- work with other standard setters such as the FATF to ensure consistency in the application of common requirements (eg customer due diligence);
- give early thought to what guidance could be given on the application of a risk-based approach;
- consider what steps could be taken to assess the effectiveness of compliance with the Core Principles.

The overall view of OGBS however is that the revised Core Principles are well structured, contain further treatment of "other risks" and eliminate the previous overlap of the principles dealing with consolidated supervision and cross-border banking.

Since its formation OGBS has met at least once a year but it is now usual to meet twice a year. OGBS invites to its meetings officials and experts drawn from international organisations such as FATF, the Basel Committee and the Financial Stability Forum.

OGBS members complete each year a summary statement of progress in implementing international standards, and future action. This statement is seen as a very valuable way of sharing experiences between member jurisdictions and also of conveying the progress being made by members to the international organisations with whom the OGBS has an ongoing relationship.

Individual members of OGBS play an active role in supporting the training of financial regulators from jurisdictions offering or intending to offer a similar range of financial services. Members of OGBS also have assisted other jurisdictions in their training efforts and have

participated as lecturers in FSI led training seminars in Basel particularly on AML / Know Your Customer (KYC) topics.

OGBS members engage in full and effective consultations with the private sector in their own jurisdictions on matters relating to financial regulation and AML/CFT. OGBS paralleled an FATF consultation with the banking and securities sectors which took place in Brussels in December 2005. The main points arising from the OGBS consultations were:

- a more risk-based approach was welcomed but it was considered that to be effective such an approach must be supported through the use of appropriate commentary and guidance to ensure consistency of interpretation, implementation and evaluation;
- there is a need for more assistance/guidance from regulators on what is required for effective compliance with international standards;
- greater account should be taken of when funds used to open an account or a relationship are sourced from a bank account in another adequately regulated entity;
- KYC/CDD checks carried out on a customer should be valid throughout a financial group;
- greater emphasis should be directed towards monitoring ongoing business relationships rather than the initial identification and verification procedures;
- international organisations should participate in the publication of a world wide list of Politically Exposed Persons (PEPs);
- international organisations should issue and maintain a list of jurisdictions that are “equivalent” in the application of international standards.

OGBS members continue to take action to seek to ensure that those foreign authorities that are looking for international cooperation are properly advised on how that cooperation can best be enjoyed – for example, who to approach in respect of particular matters. A number of OGBS jurisdictions have included information on international cooperation on their website.

OGBS is in discussion with a number of jurisdictions who are interested in applying for membership. New membership is based on a review of a jurisdiction’s compliance with core elements of the Basel and FATF standards, with this assessment being assisted by the findings of the IMF or other independent assessors.

In 2007 OGBS will be meeting in March in London and in October in Macau China.

Further information regarding the OGBS can be found on the OGBS website – www.ogbs.net

Regional Group on Banking Supervision of Transcaucasia, Central Asia and the Russian Federation

Introduction

The Regional Group on Banking Supervision of Transcaucasia, Central Asia and the Russian Federation includes Armenia, Azerbaijan, Georgia, Republic of Kazakhstan, Republic of Kyrgyzstan, Russian Federation, Tajikistan, Turkmenistan and Uzbekistan.

The Central Bank of Armenia accepted the role of the Secretariat of the Regional Group on Banking Supervision of Transcaucasia, Central Asia and the Russian Federation in 2005.

Main events

The major tasks of the Regional Group on Banking Supervision of Transcaucasia, Central Asia and the Russian Federation are:

- maintenance of effective interaction and cooperation in the field of banking regulation and supervision,
- information exchange among supervising authorities,
- design of early warning systems,
- development of banking supervision policies and practices in member countries in accordance with the principles of the Basel Committee on Banking Supervision.

In 2005 two conferences were held within the activities of the Regional Group.

The Regional Group's XVth conference took place on February 2-4 2005 in Yerevan, Armenia. The following topics were addressed during the conference:

- recent developments in each member country's banking system,
- prevention of the use of the banking system for money laundering purposes,
- features of non-bank financial institutions supervision,
- implementation of the Core Principles for Effective Banking Supervision.

The XVIth Conference of the Regional Group on Banking Supervision of Transcaucasia took place on 12-14 October 2005 in Tsaghkadzor, Armenia.

The main topics discussed at the Conference were:

1. *Regulation of corporate affairs in commercial banks of Regional Group member countries*

Lack of corporate governance hinders the development of banking systems in the member countries and creates additional risks for commercial banks. Supervisory authorities of many countries have taken actions to implement corporate governance principles in the banking industry, eg by improving laws and regulations.

During the conference participants discussed this issue and the implementation practices of the Central Bank of Armenia, Central Bank of Russian Federation, Financial Market and Financial Organisations Regulation and Supervision Agency of the Republic of Kazakhstan, National Bank of Tajikistan and the Central Bank of the Republic of Uzbekistan, which were suggested as good practice for other member countries to consider.

The participants agreed that implementation of corporate governance principles in commercial banks of member countries would:

- stimulate the increase of financial intermediation and attraction of foreign investors to member countries' financial markets,
- create necessary bases for effective risk management practices in banks and would facilitate gradual implementation of Basel II.

2. *Risk-based banking supervision*

Deliberation about risk-based supervision took place. Supervisory authorities of regional group member countries are in the process of reforming the field of banking supervision aimed at adoption of risk-based supervisory practices. Member countries decided to continue work in this field.

3. *Consolidated supervision*

The participants pointed out that the transparency of the ownership structure of credit and financial organisations is one of the most important issues supervisory agencies should pay attention to. Special attention should be paid to risks that arise on consolidated bases, as well as to consolidation of financial reports in accordance with IFRS requirements and formation of obligatory standards for disclosing and regulating consolidated risks.

4. *New capital accord on capital adequacy assessment – Basel II*

Basel II was considered to determine the vector of the further development of the banking sector and banking regulation. The participants of the Conference decided to facilitate the process of gradual adoption of the New Capital Framework taking into account the development level of member countries' banking systems and economic conditions. It was mentioned that transition to Basel II is possible only after effective adoption of corporate governance practices in member countries' banking systems.

5. *Formation of a single financial market supervising authority*

The next issue discussed was the need for a unified supervisory body for the whole financial system in member countries. The member countries stressed the necessity of tight cooperation among supervisory agencies in all financial sectors. The best practices of the countries that have already founded such bodies were addressed and the formation of a single supervisory agency in small countries was considered to be appropriate.

6. *Enhancement of cooperation of regional groups with the Basel Committee on Banking Supervision, as well as interactions within regional groups.*

The participants pointed out the need for tightening the cooperation between the Regional Group and other regional groups, particularly with the Regional Group of the Central and Eastern European Countries. It was suggested to create an efficient mechanism for information exchange. The participants also noted the lack of communication with the Basel Committee on Banking Supervision, thus it was recommended to the Secretariat:

- to make it a topic of discussion for the upcoming conferences and seminars,

- for the Chairman of the Regional Group to attend the meetings organised by the Basel Committee on Banking Supervision and share the outcomes with the other members of the Regional Group.

The next Conference of the Regional Group on Banking Supervision of Transcaucasia, Central Asia and the Russian Federation is to be held in October 2006. The country where it will be organised is not yet determined.

SADC Subcommittee of Bank Supervisors (SSBS)

Introduction

The Eastern and Southern African Banking Supervisors Group (ESAF) was dissolved in November 2004 following a decision taken by the Committee of the Central Bank Governors (CCBG) of the Southern African Development Community (SADC) in April 2003.

In essence, it was resolved that the CCBG should have its own sub-committee on banking supervision in line with the SADC regional integration processes. In this respect, the Governors directed that the CCBG Secretariat should engage in a process of consultation with non-SADC members of ESAF for the purposes of ensuring a smooth transition to the SADC Subcommittee of Bank Supervisors (SSBS).

The SSBS comprises members from: Republic of Angola; Republic of Botswana; Democratic Republic of Congo; Kingdom of Lesotho; Republic of Madagascar; Republic of Malawi; Republic of Mauritius; Republic of Mozambique; Republic of Namibia; Republic of South Africa; Kingdom of Swaziland; United Republic of Tanzania; Republic of Zambia; and Republic of Zimbabwe.

The SSBS continued to undertake various activities in accordance with the guidelines and objectives enshrined in the Memorandum of Understanding, which would be concluded between the central banks of SADC member states on cooperation and coordination in the area of banking regulation and supervisory matters.

These would ensure the establishment of a framework in order to:

- promote in each SADC Member State an efficient and effective system of banking regulation and supervision based on internationally accepted principles;
- establish a regional banking regulation and supervisory strategy;
- promote the identification, measurement and management of banking risks, including systemic risks; and
- promote harmonisation of banking regulation and supervisory matters, policies, practices, rules and procedures across the SADC region.

Regional Cooperation

On a regional basis, the SADC central banks, through the SSBS, recognise that they would have to:

- define and implement a regional banking regulation and supervisory strategy, based on international standards;
- identify and measure regional banking regulation and supervisory risks and establish appropriate procedures for the management of such risks;
- establish and maintain mutually beneficial relationships with non-SADC central banks, as well as international bodies such as the Bank for International Settlements, World Bank, International Monetary Fund (IMF) and Financial Action Task Force (FATF);
- keep abreast with modern practices in banking regulation and supervisory matters, including depositor protection, anti-money laundering compliance and combating the financing of terrorism; and

- share information regarding banking regulation and supervisory matters, including information on other non-bank deposit taking institutions, as permitted by legislation of the member countries.

From the foregoing it is clear that SSBS has a wide range of responsibilities in ensuring that, as a regional body, initiatives are taken in the development of supervisory capabilities in the region. At the same time it also adopts and adapts international best practice as formulated by the Basel Committee. Members have made concerted efforts to achieve these responsibilities.

SSBS Training Programmes

The SSBS has recognised the need to enhance human capacity in banking supervision at inception. This has led to the development of training courses at intermediate and advanced levels, which are conducted annually. The Financial Stability Institute (FSI) is a continuous source of support to capacity-building efforts.

The SSBS held its annual workshop for Heads of Supervision in Lesotho in November 2005 to discuss topical issues in bank supervision, namely Basel II and International Financial Reporting Standards.

In May 2006, the FSI presented a seminar entitled 'Basel II and its implementation' in South Africa to provide SADC participants with a comprehensive view of the various methodologies for assessment of regulatory capital.

The Heads of Supervision Workshop is scheduled to take place in August 2006 in Namibia and the following topics will be discussed: consolidated supervision, problem-bank resolution, and risk-based supervision.

The SSBS intermediate course in bank supervision is scheduled for September 2006 in South Africa.

SSBS activities and their status

Current projects

- Memorandum of Understanding (MOU) for inclusion in the SADC Finance and Investment Sector Protocol

A draft MOU on cooperation in the areas of banking regulation and supervisory matters, to be concluded between the SADC central banks was drawn up. After a number of SSBS meetings, it was finalised and accepted by SSBS members in February 2006. The draft MOU was submitted to the CCBG for approval and onward submission to the SADC Legal Committee to ensure compliance with all the legal requirements.

- Financial Soundness Indicators and development of a regional database

The project on financial soundness indicators and development of a regional database is now underway. The IMF's publication on the Financial Soundness Indicators is used as the reference source and members have been requested to submit the required information commencing from December 2003. The frequency and format of the report which will be submitted to the CCBG will be discussed at the next Steering Committee meeting.

- Training programme on risk-based supervision

A project to develop and implement a training programme on risk-based supervision for regional supervisors will commence at the Heads of Supervision Workshop in 2006.

- Anti-money laundering issues and combating terrorist financing

The Governments of the SADC member countries in general and the central banks in particular recognise the negative impact of money laundering on the financial sector and the economy as a whole. Fighting money laundering and recently combating financing of terrorism have been major areas of focus. These issues span across borders and therefore joint effort at regional and international levels are crucial.

At a recent SSBS meeting, it was resolved that a working agreement would be formulated between the SSBS and the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), as there is a need for collaboration and consultation to avoid duplication of efforts.

- Implementation of International Accountancy Standards in the banking sector

This project will commence once the above have been finalised.

Future projects under consideration

- Implementation and compliance with the Core Principles

SADC members adopted the (old) Basel Core Principles for Effective Banking Supervision and have taken the initiative to implement them through a consultative framework within the SADC membership. In the past, there was a requirement for member countries to submit their self-assessments in September each year. It has been agreed that the submission date of the self-assessments in terms of the revised Core Principles be changed to March each year to align it with the calendar year. These self-assessments are meant to be a precursor of the Financial Sector Assessment Programmes (FSAPs) conducted by the IMF and the World Bank. Some SSBS members have already been subjected to FSAPs. This is an on-going exercise that will eventually see all SSBS members undergoing an FSAP.

- Monitoring of the BSA Project

The objective of the project is the harmonisation of banking supervision business processes based on a standard information technology and communication system. The roll-out programme is progressing smoothly. At the Bank of Mozambique the system is up and running and the problems of the RAAS System (the analytical module on the application) previously reported have been eventually sorted out. In the initial programme it was planned that after the roll-out in Zambia, the next country would be Angola. However, the latter has indicated that it is not yet ready and Malawi accepted to be the next country.

- Implementation of Basel II subject to fulfilment of prerequisites

The SSBS has agreed to develop a common approach and to draw up a programme to ensure that the implementation of the New Capital Accord is harmonised in the region. The issue has been discussed previously at various meetings at length and the observation that different countries were at different levels of development was underlined. It was therefore agreed that the best way forward was to develop a general and basic plan of what is required for the implementation of the Framework. Work is in progress and once the document is ready it would be circulated to all members and would serve as a road map to guide members.

- Micro-finance project;
- Harmonisation of banking supervision legal and regulatory reforms;
- Implementation of consolidated supervision; and
- Corporate governance;
- Credit Information Bureau.

SEANZA Forum of Banking Supervisors

On 21 September 2004, members of the SEANZA Forum of Banking Supervisors held a meeting in Madrid, Spain, back-to-back with the XIIIth International Conference of Banking Supervisors as hosted by the Banco de España from 22-23 September 2004.

Discussions were mainly focused on supervisory issues and initiatives related to the following:

- *Accounting and Regulatory Capital (IAS 39)* as presented by Mr. Lee Boon Ngiap, Executive Director, The Monetary Authority of Singapore (MAS) and Ms. Teo Swee Lian, Assistant Managing Director, MAS and Mr. Charles Littrell, Executive General Manager, Policy Research and Statistics Division, Australian Prudential Regulation Authority (APRA); and
- *Banking Supervision and External Audits* as presented by Dr. Tarisa Watanagase, Deputy Governor, Financial Institutions Stability, Bank of Thailand and Mr. William Ryback, Deputy Chief Executive, Banking Department, Hong Kong Monetary Authority (HKMA).

Each SEANZA member gave an update on recent supervisory developments and other regulatory and/or policy initiatives being undertaken in their respective jurisdictions to comply with: the Basel Core Principles for Effective Banking Supervision; the International Accounting Standards (IAS; and International Financial Reporting Standards (IFRS); and the revised document on the International Convergence of Capital Measurement and Capital Standards: A Revised Framework, now commonly known as Basel II.

Representatives of the Financial Stability Institute were in attendance in relation to the training event to be organised for SEANZA Forum members in 2005. Subsequently, the Bangko Sentral ng Pilipinas hosted the SEANZA-FSI Seminar on Risk Modelling and Basel II in Manila on 24-26 May 2005.

Appendix

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