

**BASEL COMMITTEE ON BANKING SUPERVISION**BANK FOR INTERNATIONAL SETTLEMENTS  
CH-4002 BASEL, SWITZERLAND**Update on work on a  
New Capital Adequacy Framework**

Issue 1

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The purpose of this update is to inform the banking industry, the supervisory community and other interested parties about the work under way in the Basel Committee on Banking Supervision (Basel Committee) on the New Capital Adequacy Framework, consistent with the proposals set forth in the consultative paper released last June. The Basel Committee plans to issue updates at appropriate junctures during the consultative process.

**Focus: key initiatives****Risk Management Group holds workshops on interest rate risk in the banking book and operational risk**

The Risk Management Group (Chairman: Mr Roger Cole, Associate Director, Board of Governors of the Federal Reserve System, United States) is developing a framework for applying capital charges to interest rate risk in the banking book for banks where such risks are significantly above average (so-called "outliers") and to operational risk. As part of its continuing dialogue with the industry, in October the Group held two one-day workshops with banks and other industry participants. The objective of these workshops was to discuss the various issues involved in defining and quantifying interest rate risk in the banking book and operational risk.

**Models Task Force hosts presentations on internal rating systems**

The Models Task Force (Chairwoman: Mrs Danièle Nouy, Secretary General, Basel Committee) is responsible for developing the internal ratings-based approach for credit risk capital charges. During the spring and summer, the Task Force conducted a survey of internal rating systems and processes at over 30 banks in the member countries of the Basel Committee. To supplement the knowledge gleaned from this survey, the Task Force recently hosted a series of presentations by banks and other institutions in New York and Rome. The Basel Committee plans to release the findings of the survey on the range of practice for industry comment in the coming months. The Task Force will also continue to work to develop sound practice standards for key elements in internal rating systems and processes, and to analyse ways of linking capital charges to internal ratings and other asset characteristics.

**Capital Group conducts survey on credit risk mitigation techniques**

In the consultative paper released in June, the Basel Committee expressed its desire to develop a sound and consistent approach for the capital treatment of credit risk mitigation techniques, such as credit derivatives, collateral, guarantees and on-balance sheet netting. The Capital Group (Chairman: Mr Oliver Page, Director of Complex Groups Division, Financial Services Authority, United

Kingdom) is working on this issue, and recently produced an issues paper intended to serve as the basis for discussions between banks and national supervisors. The Capital Group plans to release a summary of the responses it has received from the industry on the contents of the issues paper. The Group also plans to develop specific proposals for the treatment of credit risk mitigation techniques based on information obtained through these discussions.

### **Basel Committee meets with chairpersons of regional supervisory groups**

The Basel Committee remains committed to strengthening its relationship with other international groups of banking supervisors, and it will continue to work to enhance this cooperation through various avenues. With respect to the proposed framework for capital adequacy, the Basel Committee has formed a working group (the non-G10 Working Group on Capital, chaired by Mr Huw Evans, Special Advisor, Central Policy Unit, Financial Services Authority, United Kingdom) to specifically focus on this issue. This Group will seek the views of the non-G10 countries on the proposals, and on the implications for their supervisory and banking systems. To further this effort, the Basel Committee will also host a meeting with the chairpersons of regional supervisory groups to discuss the proposed new framework, among other items. More broadly, members of the Basel Committee and the Secretariat will continue to attend regional and international gatherings of bank supervisors to share views and seek input on issues of mutual interest. The Basel Committee will also continue to pursue joint efforts aimed at strengthening banking supervision globally – these include seminars, conferences, and training programmes.

### **Basel Committee receives comments on Credit Risk Models Paper**

The official consultation period for the report *Credit Risk Models – Current Practices and Applications* (April 1999) ended on 1 October 1999. The report drew substantial feedback from the industry, academia and other interested parties. The Basel Committee's Models Task Force is in the process of reviewing these comments, and will seek to publicly communicate the key points gleaned from the consultative process. The Models Task Force also recognises that some parties may address issues related to credit risk modelling and regulatory capital as part of their overall comments on the proposed capital framework. The Task Force of course welcomes any such additional comments and will incorporate them into its analysis going forward.