

Jaime Caruana: Announcement of Basel II

Opening remarks of Mr Jaime Caruana, Governor of the Bank of Spain and Chairman of the Basel Committee on Banking Supervision, at the press conference announcing the publication of Basel II, Bank for International Settlements, Basel, 26 June 2004.

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I would like to thank President Trichet for his kind words, which I will certainly share with my colleagues. On behalf of the Basel Committee on Banking Supervision, I am honoured to join him in announcing the publication of the revised framework for bank capital adequacy, a document that we have officially entitled, the "International Convergence of Capital Measurement and Capital Standards: a Revised Framework."

I will not go into details about the document in my opening remarks, although of course I will be delighted to answer questions afterwards. What I would like to say is that the new framework represents a significant step towards achieving a more comprehensive and risk sensitive supervisory approach. It also represents an unparalleled opportunity for banks to improve their capital strategies and risk management systems. And finally, it provides supervisors with an opportunity to improve their ability to identify banking risks and to enhance the dialogue with the industry and among banking supervisors.

This new approach can be expected to play a significant role in reinforcing the soundness of individual banks and thereby enhancing financial stability. Our objective is also to ensure a consistent application across jurisdictions.

As you know, many individuals inside our member agencies devoted substantial efforts to the Basel II process. We are indebted particularly to the leadership of Bill McDonough, our prior chairman and the former President of the Federal Reserve Bank of New York, who championed this new approach to capital supervision. We appreciate as well the leadership and excellent work of Danièle Nouy, the former Secretary General of the Committee's highly professional Secretariat, and that of her successor, Ryozo Himino.

Given that the capital framework serves as a cornerstone to the safe and sound operation of the banking system, we sought to conduct our discussions in a highly transparent process. We engaged in extensive discussions with many interested parties on the domestic and international levels, and I would like to thank in particular two groups of external organisations and individuals who supported our efforts.

First, I should mention the countless representatives of banking organisations, industry associations, and other private sector bodies who devoted time and energy to sharing their views. They offered hundreds of comment letters, as well as data to test the quality of the rules, and they engaged in exhaustive hours of discussion with the Committee, its working groups and member authorities. Above all, banks and other private sector bodies helped us to ensure that supervision would be more closely aligned to sound industry practices.

A second group would be those supervisory agencies, central banks, multilateral financial institutions, and other public authorities around the world who shared with us the perspectives and needs of banking systems that are based in many different markets, economies, and legal systems. Thanks to discussions with these colleagues, such as through joint working groups like the Core Principles Liaison Group and through regional consultations and meetings, the Committee was better able to ensure that the new framework would be relevant to many different kinds of banks and economies that are in various stages of growth and development. The cooperation of so many public authorities worldwide has helped to make Basel II a truly global product. The Committee will continue to seek opportunities to deepen its relationships, and its opportunities for discussion, with other supervisors and central banks in the months and years ahead.

Of course, this work would have been impossible without the sponsorship of the Bank for International Settlements. I would like to offer my sincere thanks to Malcolm Knight, the General Manager of the BIS, for his institution's support of our work on Basel II. The BIS has been a staunch ally and advocate for our work over the entire thirty-year history of the Committee. With regard to Basel II itself, the BIS is fostering a greater understanding of the new framework among central bankers and supervisors

worldwide through programs organised by its Financial Stability Institute, the “FSI”. The Committee looks forward to continued collaboration with the BIS on matters related to financial stability.

Basel II represents a genuine success story in international cooperation. And we know that our need to cooperate and to collaborate does not end when we release this framework. Indeed, under Basel II, supervisors and central bankers will need to work even more closely together in the future, especially in view of the evolutionary nature of Basel II.

And the Committee has a full agenda ahead of it. We must, of course, continue to work on the specifics related to the implementation of the framework and its calibration. We must also ensure that the new framework keeps pace with market developments and advances in risk management practices. As we carry out this work, the Committee intends to continue its discussions with the industry and other supervisors in the same open and transparent manner as we have to date.

It has been an honour for me to participate in and help to lead this process, and I look forward to the next phase of the Basel II project as we turn toward national adoption and implementation.

Thank you.