Belize Comments on Basel II – The New Capital Adequacy Framework

1. The new capital adequacy framework has been geared in favor of sophisticated financial systems. It is discriminatory for developing countries in, such as Belize, that do not have external credit assessment. In addition, in Belize there are no capital market, and strictly traditional banking is still being done.

2. There is no external credit assessment (rating system) of companies in Belize. The use of a rating system will discriminate against countries that do not have a rating system, as the risk weight required for these countries without a rating system will be higher than countries with a rating system. We must bear in mind that in every country there will be companies that are very sound financially, such as, private utility companies, etc. Therefore, a risk weight can be used in accordance with the financial soundness of the company.

3. The rating of countries will also discriminate against developing countries, as the capital requirement for banks in developing countries will be higher than those in developed countries. In addition, this will cause an uneven playing field between branches of international banks and locally incorporated banks.

4. Developing countries with ratings less than BBB will be at a disadvantage since the banks/companies that are not rated will be required to carry the same rating as the country although some of these banks/companies are financially sound.

5. Development will be curtailed in the region since the international banks will not want to lend to countries, banks and private companies whose risk weight are 100% or more.

6. It will also deter international banks from operating in our region, since the capital requirements will be more than in developed countries.

7. The 100% risk weight for companies/countries rated BB- is too high. This may be unfair since the companies that are not rated will only carry 100%

risk. Perhaps some discretion can be given to supervisors in risk weighting countries.

8. The monitoring of this new capital framework will require more expertise/resources and some of the countries in the our region are already experiencing staffing problems.

9. Internal rating modules are expensive for small banks. In addition, supervisors will need to familiarize themselves with these modules to ensure that they are appropriate.

10. It is difficult to place a risk weight or figure to operational risk.

11. Perhaps a non-discriminatory framework could be developed for the less developed countries.