31 July 2003

Mrs. Daniele Nouy
Secretary General
Basel Committee on Banking Supervision
Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel
Switzerland

Dear Mrs. Nouy

CONSULTATIVE DOCUMENT : THE NEW BASEL CAPITAL ACCORD

We are pleased to forward our comments on the above document as requested.

Kind Regards.

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S. Gwasira
Director, Supervision & Surveillance

RESERVE BANK OF ZIMBABWE, HARARE

COMMENTS ON THE NEW BASEL CAPITAL ACCORD – Consultative Document, April 2003

1. The usefulness of the New Basel Capital Accord cannot be over emphasized, as it will go a long way in addressing the shortcomings of the current system.
2. The more flexible implementation arrangements for developing countries are appreciated. A program aimed at implementing the New Capital Accord is already underway and is focusing on :-
   (i) Consultations with banking institutions, audit firms and other stakeholders,
   (ii) Participating in training workshops at local and regional levels as well as those organized by the Basel Committee and the Financial Stability Institute.
3. In implementing the New Capital Accord, the following challenges will need to be addressed :
   - External Credit Assessments : Most developing countries including Zimbabwe face a shortage of internationally recognized credit rating institutions (that would meet the specified criteria relating to objectivity, independence, transparency, disclosure, resources and credibility), making it difficult for them to access the advantages of using such institutions. Furthermore, international credit rating agencies would present a huge cost for rating small borrowers.
   - Under the New Accord, the external credit assessment institutions must be recognized by the supervisors. However, the necessary expertise to evaluate the institutions is still to be developed in most countries.
   - The new Accord envisages risk weights that are more sensitive to inherent risks in banking operations, including environmental factors. This is a big challenge to the developing world as far as adequately and accurately capturing all the inherent risks.

- The New Capital Accord will be applied on a consolidated basis. However, most developing nations including Zimbabwe, have not yet adopted the consolidated supervision approach.
- Most emerging markets are not ready for the use of sophisticated techniques such as the recognition of asset securitisation for regulatory capital purposes, and use of complex derivatives as credit risk mitigation techniques. Most supervisors are not competent to supervise complex derivative activities.
- Most African countries have not yet implemented the 1996 Amendment to the 1988 Capital Accord to incorporate market risk. This shows that Basel II is a real challenge to such nations.

S. GWASIRA
DIRECTOR, SUPERVISION & SURVEILLANCE 31 JULY 2003